Financial Section

Financial Review

Business environment

The global business environment in fiscal 2012 (January 1–December 31) was generally adverse, as the financial crisis dragged on in Europe, as economic growth slowed in emerging economies, and as a territorial dispute occasioned Chinese boycotts of Japanese products. Business conditions were formidable in Japan, too, as evidenced by corporate travails in the electronics sector. Sales were generally strong, however, in the tire sector, where early snows stimulated demand for winter category tires. Yokohama Rubber and its subsidiaries undertook vigorous marketing and other measures in pursuit of sustainable business expansion.

Sales, expenses, and earnings

As noted elsewhere in this report, Yokohama shifted in 2011 to calendar-year fiscal accounting, from April-to-March fiscal accounting. That resulted in a one-time-only nine-month fiscal period ended December 31, 2011. Year-on-year comparisons of operating results are therefore impossible, and this report dispenses with any such comparisons.

Currency exchange rates are an influential factor in Yokohama's fiscal performance. The average yen/dollar exchange rate in 2012 was ¥80, compared with ¥80 in the nine-month fiscal term ended December 31, 2011, and the average yen/euro exchange rate was ¥103, compared with ¥111 in the previous fiscal term.

Net sales totaled ¥559.7 billion in fiscal 2012. In the Tire Group, Yokohama posted strong sales in original equipment tires in Japan, and its business in winter category tires was strong in the Japanese market for replacement tires. In the Multiple Business (diversified products) Group, the Company posted strong sales in automotive hoses and in marine hoses. Sales in the Tire Group and in the Multiple Business Group benefited from Yokohama's success in gaining market acceptance for price increases.

Cost of sales totaled ¥377.6 billion as prices for natural rubber and other raw materials trended downward, and the gross profit margin was 32.5%. Selling, general and administrative expenses totaled ¥132.4 billion, equivalent to 23.7% of net sales.

Operating income totaled ¥49.7 billion, reflecting Yokohama's success in implementing price increases, the Company's progress in reducing costs, and the downward trend in raw material costs. Operating return on sales was 8.9%.

Other income, net of other expenses, totaled ¥2.1 billion. That figure consists principally of an exchange gain associated with the weakening of the yen against the US dollar.

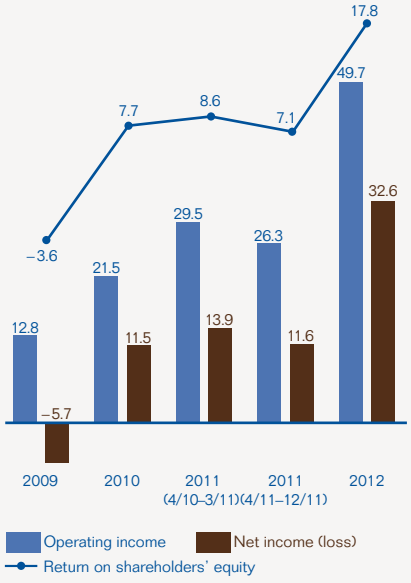
Income before income taxes and minority interests totaled ¥51.8 billion, and net income totaled ¥32.6 billion. Net return on sales was 5.8%.

Results by Segment

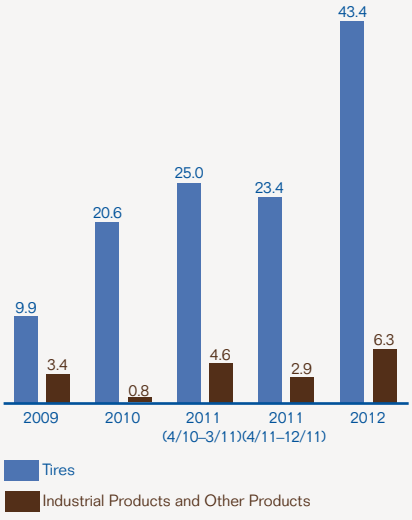
By business

Sales totaled ¥444.6 billion in tires, and operating income totaled ¥43.4 billion. Sales of original equipment tires were strong in unit volume and in yen value. They rebounded from the previous fiscal term, when vehicle sales declined in the wake of the Great East Japan Earthquake. Business in original equipment tires also benefited from government incentives for purchases of fuel-saving, low-emission vehicles. In the replacement tire market, Yokohama posted strong sales in winter category tires. Overseas,

Operating Income, Net Income (Loss), and Return on Shareholders' Equity
Billions of Yen, Percent



Operating Income by Business Segment
Billions of Yen



business in replacement tires was weak in North America, in Europe, and in China, but Yokohama posted strong sales in original equipment tires as the Company won fitments on new models.

Sales totaled ¥91.9 billion in industrial products, including high-pressure hoses, sealants and adhesives, conveyor belts, antiseismic products, marine hoses, and marine fenders, and operating income totaled ¥5.1 billion. In high-pressure hoses, business was weak in China on account of slumping demand but was strong in automotive hoses in Thailand and in the United States. Business was strong in industrial materials, led by vigorous sales of marine hoses and conveyor belts. In sealants and adhesives, business was strong in automotive adhesives.

Sales totaled ¥23.3 billion in other products, including aircraft fixtures and components and golf equipment, and operating income totaled ¥1.3 billion. Business in aircraft fixtures and components was weak overall despite strong sales of replacement lavatory modules for commercial airliners. Sales of golf equipment declined on account of weak demand and escalating price competition.

By region

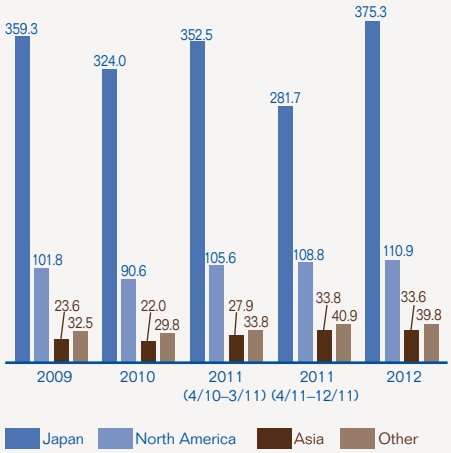
Sales in Japan totaled ¥375.3 billion, and operating income totaled ¥42.5 billion. Yokohama posted strong sales in original equipment tires, and its business in winter category tires was robust in the replacement market.

Sales in North America totaled ¥110.9 billion, and operating income totaled ¥5.7 billion. Yokohama's North American business was strong in original equipment tires and in automotive hoses, though its sales of replacement tires were weak amid softening demand.

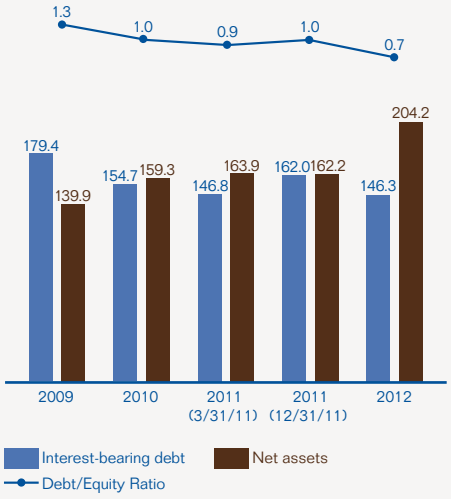
Sales in Asian nations other than Japan totaled ¥33.6 billion, and operating income totaled ¥3.6 billion. Weakening demand in China diminished Yokohama's sales in that nation, but the Company posted strong sales in automotive hoses in Thailand amid growth in vehicle production.

Sales in other regions, principally Europe and Oceania, totaled ¥39.8 billion, and Yokohama posted an operating deficit of ¥600 million. The operating deficit reflected slackening demand in Europe and start-up costs at Yokohama's Russian tire plant.

Net Sales by Region
Billions of Yen



Interest-Bearing Debt, Net Assets*, and Debt/Equity Ratio**
Billions of Yen, Times



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

Financial Position

Total assets at fiscal year-end increased ¥42.0 billion over the previous fiscal year-end, to ¥543.8 billion. Current assets increased ¥11.4 billion, to ¥268.8 billion. That increase reflected the weakening of the yen against the US dollar toward the fiscal year-end, which amplified the yen-denominated value of foreign currency sales receivables and overseas inventories.

Total fixed assets increased ¥30.7 billion, to ¥275.0 billion at fiscal year-end. That increase resulted principally from the weakening of the yen against the US dollar, which amplified the value of overseas fixed assets, and rising equity prices, which increased the value of Yokohama's holdings of investment securities.

Total liabilities declined ¥1.0 billion, to ¥332.5 billion at fiscal year-end. That decline reflected a decline of ¥15.7 billion in interest-bearing debt, which offset an increase in accrued income taxes that resulted from the Company's increased profitability.

Total net assets increased ¥43.1 billion, to ¥211.3 billion at fiscal year-end. That increase resulted as Yokohama posted ¥32.6 billion in net income, as rising equity prices increased the value of the Company's

holdings of investment securities and as the weakening of the yen against the US dollar resulted in a gain on foreign currency translation adjustments.

Interest-bearing debt declined ¥15.7 billion, to ¥146.3 billion at fiscal year-end. The ratio of interest-bearing debt to total net assets declined from 1.0 at the previous fiscal year-end to 0.7, which was within management's stated ceiling of 1.0.

Cash Flow

Net cash provided by operations in fiscal 2012 totaled ¥59.2 billion. That total consisted principally of ¥51.8 billion in income before income taxes and minority interests. Net cash used in investing activities totaled ¥30.5 billion. That total consisted principally of purchases of fixed assets in connection with fortifying production capacity in Japan and overseas. Free cash flow totaled ¥28.6 billion. Yokohama employed its free cash flow principally for repayments of interest-bearing debt, for payments of dividends, and for repurchases of shares. Net cash used in financing activities totaled ¥30.7 billion. Cash and cash equivalents at fiscal year-end totaled ¥21.1 billion.

Net Cash Provided by Operating Activities and Free Cash Flow*
Billions of Yen

*Free cash flow = net cash provided by operating activities less net cash used in investing activities

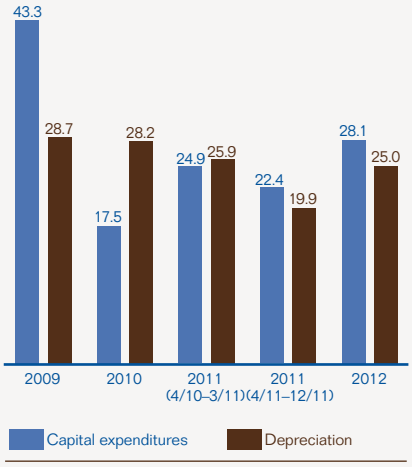
Capital Expenditures

Capital expenditures totaled ¥28.1 billion in fiscal 2012, and depreciation totaled ¥25.0 billion. The total for capital expenditures included ¥25.0 billion of investment in tire operations, principally for expanding production capacity overseas, and ¥1.8 billion of investment in industrial products, principally for expanding production capacity for high-pressure hoses. Capital expenditures totaled less than the ¥55.1 billion that Yokohama had allocated for those expenditures because the Company deferred some planned investment on account of deteriorating business conditions overseas. Yokohama funded its capital expenditures with a combination of internally generated funds and borrowings. The Company did not record any significant disposals or sales of equipment in fiscal 2012.

R&D Expenditures

Expenditures on R&D in fiscal 2012 totaled ¥12.8 billion. That total included ¥1.6 billion in work on basic technologies, ¥7.8 billion in applied development in tires, ¥2.4 billion in applied development in industrial products, and ¥1.0 billion in applied development in other products.

Capital Expenditures and Depreciation
Billions of Yen



Dividends

Yokohama abides by a policy of maintaining stable dividends while retaining sufficient liquidity to fortify its financial position and fund investment in growth. The Company paid annual dividends of ¥20 per share for fiscal 2012—an interim dividend of ¥8 and a year-end dividend of ¥12. Yokohama will use retained earnings to fund investment and R&D.

Fiscal 2013 Outlook

Economic recovery is gaining momentum in Japan in 2013, spurred by the rapid weakening of the yen against the US dollar and rising equity prices. Still clouding the business outlook, however, are the continuing economic crisis in Europe and sluggish growth in emerging economies. Yokohama's fiscal projections for 2013 call for net sales of ¥630.0 billion, operating income of ¥59.0 billion, and net income of ¥36.0 billion. The Company has predicated those projections on average exchange rates of ¥90 to the US dollar and ¥120 to the euro.

Risk

Below is a partial listing of risks that could adversely affect the Company's business performance, financial position, or share price. All references to possible future events and to other subjects are from the standpoint of the fiscal year ended December 31, 2012.

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.

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 hedging cannot fully offset the effect of fluctuations in currency exchange rates on the Company's business performance and financial position.

Seasonal Factors

Historically, the Company's sales and earnings performance has tended to be strongest in the winter months. That is mainly because sales of winter category 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 category tires and thereby adversely affect the Company's business performance and financial position.

Raw Material Prices

Yokohama's principal raw materials are natural rubber and petrochemical products, including synthetic rubber and carbon black. Sharp increases in prices for crude oil could adversely affect the Company's business performance and financial position.

Access to Funding

Instability in any of the world's principal financial markets could affect the Company's access to funding 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 December 31, 2012, the Company's interest-bearing debt was equivalent to 27.5% 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 position.

Retirement Benefit Obligations

The Company calculates retirement benefit obligations and retirement benefit expenses according to predetermined criteria, including expected returns on pension assets. If actual return on the Company's pension assets declined substantially below the expected return, that could adversely affect the Company's financial performance and financial position. Similarly, if the Company revised its retirement plan in a manner that increased future payment obligations or resulted in the occurrence of unforeseen service liabilities, 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
For the year ended December 31, 2012, the nine months ended December 31, 2011, and the years ended March 31, 2003—2011

	2012/12	2011/12	2011/3	2010
Net sales	**¥ 559,700**	¥ 465,134	¥ 519,742	¥ 466,358
Operating income	**49,696**	26,291	29,491	21,455
Income before income taxes and minority interests	**51,768**	16,604	21,880	18,969
Net income (loss)	**32,611**	11,619	13,924	11,487
Depreciation	**25,007**	19,871	25,885	28,184
Capital expenditures	**28,070**	22,433	24,944	17,471
R&D expenditures	**12,825**	9,307	12,748	13,280
Interest-bearing debt	**146,285**	161,998	146,773	154,675
Total net assets	**211,350**	168,286	170,872	163,382
Total assets	**543,829**	501,786	478,916	466,973
Per share (yen):				
Net income (loss): Basic	**¥ 97.87**	¥ 34.68	¥ 41.55	¥ 34.27
Net assets	**631.64**	484.04	489.27	475.26
Cash dividends	**20.00**	7.00	10.00	10.00
Key financial ratios:				
Operating return on sales (%)	**8.9**	5.7	5.7	4.6
Return on shareholders' equity (%)	**17.8**	7.1	8.6	7.7
Capital turnover (times)	**1.1**	0.9	1.1	1.0
Interest-bearing debt to shareholders' equity (times)	**0.7**	1.0	0.9	1.0
Interest coverage (times)	**20.7**	14.3	13.4	8.0
Number of employees	**19,412**	19,272	18,465	17,566

Millions of Yen

2009	2008	2007	2006	2005	2004	2003
¥517,263	¥551,431	¥497,396	¥451,911	¥419,789	¥401,718	¥400,448
12,808	33,119	21,070	21,947	20,955	21,073	23,184
(3,166)	20,478	26,038	22,673	16,337	16,931	18,778
(5,654)	21,060	16,363	21,447	11,322	10,331	10,144
28,684	27,238	22,166	20,491	19,616	19,199	19,040
43,341	27,292	40,638	29,067	27,533	23,735	22,708
15,277	15,289	14,649	14,557	14,265	13,818	12,520
179,379	165,614	167,474	163,022	151,758	159,700	167,832
144,159	181,538	186,528	174,609	139,534	130,622	114,719
473,376	526,192	536,322	502,014	432,717	429,350	412,626
¥ (16.87)	¥ 62.81	¥ 48.79	¥ 62.75	¥ 32.95	¥ 29.95	¥ 29.38
417.45	525.96	542.10	508.64	398.24	373.23	327.61
10.00	13.00	12.00	10.00	8.00	8.00	8.00
2.5	6.0	4.2	4.9	5.0	5.2	5.8
(3.6)	11.8	9.3	14.0	8.6	8.6	8.9
1.0	1.0	1.0	1.0	1.0	1.0	0.9
1.3	0.9	0.9	1.0	1.1	1.2	1.5
4.3	9.0	7.0	10.1	11.2	9.2	7.9
16,772	16,099	15,423	14,617	13,464	13,264	12,979

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	**2012 (12.31.12)**	2011 (12.31.11)	**2012 (12.31.12)**
Current Assets:			
Cash and deposits	**¥ 21,400**	¥ 21,751	**$ 247,170**
Trade receivables:			
Notes and accounts (Note 6)	**148,098**	142,132	**1,710,531**
Inventories (Note 3)	**78,991**	75,801	**912,350**
Deferred income taxes (Note 17)	**10,355**	8,182	**119,600**
Other current assets	**11,214**	10,772	**129,518**
Allowance for doubtful receivables	**(1,225)**	(1,160)	**(14,147)**
Total current assets	**268,833**	257,478	**3,105,022**
Property, Plant and Equipment, at Cost (Notes 4, 5 and 11):			
Land	**34,733**	34,606	**401,168**
Buildings and structures	**145,834**	140,897	**1,684,382**
Machinery and equipment	**427,081**	401,973	**4,932,786**
Leased assets	**2,892**	2,873	**33,408**
Construction in progress	**16,790**	11,661	**193,927**
	627,330	592,010	**7,245,671**
Less accumulated depreciation	**(441,297)**	(417,401)	**(5,096,987)**
Total property, plant and equipment, net	**186,033**	174,609	**2,148,684**
Investments and Other Assets:			
Investment securities (Note 14)	**67,310**	50,871	**777,436**
Deferred income taxes (Note 17)	**6,190**	5,394	**71,492**
Other investments and other assets	**16,161**	14,175	**186,662**
Allowance for doubtful receivables	**(698)**	(741)	**(8,063)**
Total investments and other assets	**88,963**	69,699	**1,027,527**
Total assets	**¥ 543,829**	¥ 501,786	**$ 6,281,233**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of Yen 2012 (12.31.12)	Millions of Yen 2011 (12.31.11)	Thousands of U.S. Dollars (Note 1) 2012 (12.31.12)
Current Liabilities:			
Bank loans	¥ 73,738	¥ 82,239	$ 851,676
Current maturities of long-term debt (Note 4)	19,205	7,147	221,812
Commercial paper	—	9,000	—
Trade notes and accounts payable (Note 6)	77,601	86,962	896,288
Electronically recorded obligations—operating	2,800	—	32,337
Accrued income taxes	16,375	4,776	189,126
Accrued expenses	28,543	26,330	329,667
Allowance for loss on disaster	—	89	—
Allowance for sales returns	799	702	9,231
Other current liabilities (Notes 6 and 17)	15,545	14,799	179,563
Total current liabilities	234,606	232,044	2,709,700
Long-Term Liabilities:			
Long-term debt (Note 4)	53,342	63,613	616,105
Deferred income taxes (Note 17)	8,806	3,800	101,711
Reserve for pension and severance payments (Note 16)	18,701	18,402	215,996
Other long-term liabilities	17,024	15,641	196,632
Total long-term liabilities	97,873	101,456	1,130,444
Total liabilities	332,479	333,500	3,840,144
Contingent liabilities (Note 7)			
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 700,000,000 shares as of December 31, 2012 and 2011			
Issued: 342,598,162 shares as of December 31, 2012 and 2011:	38,909	38,909	449,401
Capital surplus	31,953	31,953	369,057
Retained earnings (Note 9)	145,607	117,016	1,681,761
Treasury stock, at cost: 19,377,418 shares as of December 31, 2012, and 7,548,581 shares as of December 31, 2011	(11,294)	(4,753)	(130,449)
Total shareholders' equity	205,175	183,125	2,369,770
Accumulated Other Comprehensive Income (Loss):			
Unrealized gains on securities	20,331	11,322	234,818
Foreign currency translation adjustments	(14,938)	(26,389)	(172,537)
Adjustments related to pension obligations of consolidated overseas subsidiaries	(6,409)	(5,882)	(74,021)
Total accumulated other comprehensive income (loss)	(1,016)	(20,949)	(11,740)
Minority Interests	7,191	6,110	83,059
Total net assets	211,350	168,286	2,441,089
Total liabilities and net assets	¥ 543,829	¥ 501,786	$ 6,281,233

Consolidated Statements of Income

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the year ended December 31, 2012, and the nine months ended December 31, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Net sales	**¥ 559,700**	¥ 465,134	**$ 6,464,544**
Cost of sales (Notes 5 and 8)	**377,632**	327,271	**4,361,654**
Gross profit	**182,068**	137,863	**2,102,890**
Selling, general and administrative expenses (Notes 5 and 8)	**132,372**	111,572	**1,528,897**
Operating income	**49,696**	26,291	**573,993**
Other income (expenses)			
Interest and dividend income	**1,926**	1,317	**22,245**
Interest expense	**(2,494)**	(1,937)	**(28,808)**
Exchange gain (loss)	**3,955**	(5,252)	**45,680**
Gain on sale of fixed assets	**—**	264	**—**
Loss on sale and disposal of fixed assets	**(598)**	(881)	**(6,901)**
Pension and severance costs (Notes 2 and 16)	**—**	(3,019)	**—**
Other, net	**(717)**	(179)	**(8,286)**
	2,072	(9,687)	**23,930**
Income before income taxes and minority interests	**51,768**	16,604	**597,923**
Income taxes (Notes 2 and 17):			
Current	**20,725**	6,634	**239,380**
Deferred	**(2,119)**	(2,306)	**(24,480)**
	18,606	4,328	**214,900**
Income before minority interests	**33,162**	12,276	**383,023**
Minority interests in net income of consolidated subsidiaries	**(551)**	(657)	**(6,365)**
Net income	**¥ 32,611**	¥ 11,619	**$ 376,658**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the year ended December 31, 2012, and the nine months ended December 31, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Income before minority interests	**¥ 33,162**	¥ 12,276	**$ 383,023**
Other comprehensive income (loss) (Note 13)			
Unrealized gains on securities	**9,012**	(5,104)	**104,094**
Foreign currency translation adjustments	**12,093**	(4,897)	**139,667**
Adjustment related to pension obligations of consolidated overseas subsidiaries	**(527)**	(1,022)	**(6,088)**
Share of other comprehensive income of associates accounted for by the equity method	**149**	(50)	**1,722**
Total other comprehensive income (loss)	**¥ 20,727**	¥ (11,073)	**$ 239,395**
Comprehensive income	**¥ 53,889**	¥ 1,203	**$ 622,418**
Comprehensive income attributable to owners of the Company	**52,544**	933	**606,880**
Comprehensive income attributable to minority interests	**1,345**	270	**15,538**

Per Share Amounts:

For the year ended December 31, 2012, and the nine months ended December 31, 2011

	Yen		U.S. Dollars (Note 1)
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Net income: Basic	**¥ 97.87**	¥ 34.68	**$ 1.13**
Net income: Diluted	**—**	—	**—**
Cash dividends	**¥ 20.00**	¥ 7.00	**$ 0.23**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the year ended December 31, 2012, and the nine months ended December 31, 2011

		Millions of Yen							
	Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Total Accumulated Other Comprehensive Income (Loss)	Minority Interests	Total Net Assets
Balance at April 1, 2011	342,598,162	¥ 38,909	¥ 31,953	¥ 108,083	¥ (4,746)	¥ 174,199	¥ (10,263)	¥ 6,936	¥ 170,872
Net income	—	—	—	11,619	—	11,619	—	—	11,619
Cash dividends paid	—	—	—	(3,016)	—	(3,016)	—	—	(3,016)
Increase in retained earnings due to inclusion of a consolidated subsidiary	—	—	—	330	—	330	—	—	330
Repurchase of treasury stock, net	—	—	—	(0)	(7)	(7)	—	—	(7)
Accumulated other comprehensive income (loss)									
Net unrealized gains and losses on securities	—	—	—	—	—	—	(5,104)	—	(5,104)
Foreign currency translation adjustments	—	—	—	—	—	—	(4,560)	—	(4,560)
Adjustments related to pension obligations of consolidated overseas subsidiaries	—	—	—	—	—	—	(1,022)	—	(1,022)
Increase in minority interests	—	—	—	—	—	—	—	(826)	(826)
Balance at January 1, 2012	342,598,162	38,909	31,953	117,016	(4,753)	183,125	(20,949)	6,110	168,286
Net income	—	—	—	32,611	—	32,611	—	—	32,611
Cash dividends paid	—	—	—	(4,020)	—	(4,020)	—	—	(4,020)
Repurchase of treasury stock, net	—	—	—	—	(6,541)	(6,541)	—	—	(6,541)
Accumulated other comprehensive income (loss)									
Net unrealized gains and losses on securities	—	—	—	—	—	—	9,009	—	9,009
Foreign currency translation adjustments	—	—	—	—	—	—	11,451	—	11,451
Adjustments related to pension obligations of consolidated overseas subsidiaries	—	—	—	—	—	—	(527)	—	(527)
Increase in minority interests	—	—	—	—	—	—	—	1,081	1,081
Balance at December 31, 2012	342,598,162	¥ 38,909	¥ 31,953	¥ 145,607	¥ (11,294)	¥ 205,175	¥ (1,016)	¥ 7,191	¥ 211,350

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Total Accumulated Other Comprehensive Income (Loss)	Minority Interests	Total Net Assets
Balance at January 1, 2012	$ 449,401	$ 369,057	$ 1,351,540	$ (54,898)	$ 2,115,100	$(241,962)	$ 70,574	$ 1,943,712
Net income	—	—	376,658	—	376,658	—	—	376,658
Cash dividends paid	—	—	(46,437)	—	(46,437)	—	—	(46,437)
Repurchase of treasury stock, net	—	—	—	(75,551)	(75,551)	—	—	(75,551)
Accumulated other comprehensive income (loss)								
Net unrealized gains and losses on securities	—	—	—	—	—	104,049	—	104,049
Foreign currency translation adjustments	—	—	—	—	—	132,261	—	132,261
Adjustments related to pension obligations of consolidated overseas subsidiaries	—	—	—	—	—	(6,088)	—	(6,088)
Increase in minority interests	—	—	—	—	—	—	12,485	12,485
Balance at December 31, 2012	$ 449,401	$ 369,057	$ 1,681,761	$ (130,449)	$ 2,369,770	$ (11,740)	$ 83,059	$ 2,441,089

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the year ended December 31, 2012, and the nine months ended December 31, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Operating Activities:			
Income before income taxes and minority interests	**¥ 51,768**	¥ 16,604	**$ 597,923**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization (Notes 2 and 5)	**25,007**	19,871	**288,835**
Increase (decrease) in reserve for pension and severance payments	**302**	2,128	**3,484**
Other, net	**(397)**	2,469	**(4,604)**
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	**(654)**	(31,092)	**(7,550)**
Inventories	**1,971**	(7,929)	**22,764**
Notes and accounts payable	**(9,251)**	7,541	**(106,845)**
Other, net	**200**	1,890	**2,316**
Interest and dividends received	**1,924**	1,335	**22,217**
Interest paid	**(2,518)**	(1,887)	**(29,084)**
Income taxes paid	**(9,176)**	(2,806)	**(105,978)**
Net cash provided by operating activities	**59,176**	8,124	**683,478**
Investing Activities:			
Purchases of property, plant and equipment	**(26,055)**	(23,206)	**(300,938)**
Purchases of marketable securities and investment securities	**(2,281)**	(1,729)	**(26,346)**
Proceeds from sales of marketable securities, investment securities and property	**184**	441	**2,122**
Other, net	**(2,393)**	(2,161)	**(27,633)**
Net cash used in investing activities	**(30,545)**	(26,655)	**(352,795)**
Financing Activities:			
Increase (decrease) in short-term bank loans	**(10,609)**	12,187	**(122,528)**
Increase (decrease) in commercial paper	**(9,000)**	6,000	**(103,950)**
Proceeds from long-term debt	**8,267**	5,306	**95,481**
Decrease in long-term debt	**(7,936)**	(7,111)	**(91,664)**
Payment of cash dividends	**(4,021)**	(3,015)	**(46,445)**
Other, net	**(7,366)**	(525)	**(85,075)**
Net cash provided by (used in) financing activities	**(30,665)**	12,842	**(354,181)**
Effect of exchange rate changes on cash and cash equivalents	**1,582**	(977)	**18,275**
Increase (decrease) in cash and cash equivalents	**(452)**	(6,666)	**(5,223)**
Cash and cash equivalents at beginning of year	**21,567**	28,161	**249,098**
Effect of changes in consolidation scope on cash and cash equivalents	**—**	72	**—**
Cash and cash equivalents at end of year	**¥ 21,115**	¥ 21,567	**$ 243,875**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries

1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company"), and its 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 Financial Instruments 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 to present these statements in a form that is more familiar to readers outside Japan. In addition, the accompanying notes include information that 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 ¥86.58 = US$1.00, the approximate exchange rate prevailing on December 31, 2012.

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 was 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 and 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 of the Company and its domestic subsidiaries are stated at cost, determined by the moving-average method, and inventories of certain foreign subsidiaries are valued at the lower of cost based on the first-in first-out method or market. The book value of inventories of the Company and its domestic consolidated subsidiaries reflects a write-down due to declines in profitability.

g. Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus an amount based on 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 noncontributory 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.

Unapplied Accounting Standards

·Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012)

·Implementation Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

Actuarial gains and losses and prior service costs are required to be recognized in net assets at net of tax effects. Funded status is fully recognized as a liability or asset on the balance sheet. With respect to the amortization method of the expected benefit, the benefit formula basis is newly allowed as an option, in addition to the straight-line basis. In addition, the method for determining the discount rate is amended.

(2) Planned date of application

The Company and its consolidated subsidiaries will adopt the accounting standards from the end of the fiscal year ending December 31, 2014. But, the amortization method of the expected benefit will be adopted from the beginning of the fiscal year ending December 31, 2015. The standard and guidance will not be applied retrospectively to financial statements in the prior years.

(3) Effect of the application of the above accounting standards on consolidated financial statements

The effects on the consolidated financial statements of the Company in adopting these accounting standards are under evaluation.

j. Allowance for Sales Returns

An allowance for sales returns is provided for losses incurred on the return of snow tires sold during the fiscal year but returned subsequent to the balance sheet date. The allowance is based on an estimate using the average rate of such returns in prior years.

k. Income Taxes

Income taxes in Japan comprise a corporate tax, an 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.

l. Revenue Recognition

Sales of products are recognized upon product shipments to customers.

m. Research and Development Costs

Research and development costs are charged to income as incurred.

n. 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 in the year ended December 31, 2012, and the nine months ended December 31, 2011.

3. Inventories

Inventories at December 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Finished products	**¥ 52,757**	¥ 49,358	**$ 609,345**
Work in process	**7,110**	7,311	**82,118**
Raw materials and supplies	**19,124**	19,132	**220,887**
	¥ 78,991	¥ 75,801	**$ 912,350**

4. Long-Term Debt

Long-term debt at December 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
1.688% straight bonds due 2013	**¥ 10,000**	¥ 10,000	**$ 115,500**
1.68% straight bonds due 2014	**10,000**	10,000	**115,500**
Loans, principally from banks and insurance companies	**52,547**	50,760	**606,917**
	72,547	70,760	**837,917**
Less current maturities	**19,205**	7,147	**221,812**
	¥ 53,342	¥ 63,613	**$ 616,105**

Assets pledged to secure bank loans and long-term debt at December 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Property, plant and equipment	**¥ 43,442**	¥ 44,430	**$ 501,753**

5. Depreciation and Amortization

Depreciation and amortization expenses for the year ended December 31, 2012, and the nine months ended December 31, 2011, were allocated as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Selling, general and administrative expenses	**¥ 2,741**	¥ 2,125	**$ 31,663**
Manufacturing costs	**22,266**	17,746	**257,172**

6. Notes Maturing on December 31, 2012 and 2011

Because December 31, 2012 and 2011, which was the account closing date, was a nonbusiness day for financial institutions, notes receivable and payable maturing on that date were settled on the following business day. However, the Company recognized notes receivable and payable that matured on the date as being settled. Information on notes receivable and payable treated as settled was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Notes receivable	**¥ 1,253**	¥ 1,124	**$ 14,470**
Notes payable	**1,375**	1,676	**15,878**
Other current liabilities (notes payable—facilities)	**132**	225	**1,525**

7. Contingent Liabilities

Contingent liabilities at December 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Guarantees	**¥ 2,941**	¥ 3,470	**$ 33,973**

8. Research and Development Expenses

Research and development expenses charged to manufacturing costs and to selling, general and administrative expenses for the year ended December 31, 2012, and the nine months ended December 31, 2011, were ¥12,825 million ($148,124 thousand) and ¥9,307 million, respectively.

9. Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Corporate Law of Japan is based on the amount stated in the unconsolidated financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year for which the dividends are applicable.

10. Supplementary Cash Flow Information

A reconciliation of cash and deposits presented in the consolidated balance sheets as of December 31, 2012 and 2011, and cash and cash equivalents reported in the consolidated statements of cash flows for the year ended December 31, 2012, and the nine months ended December 31, 2011, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Cash and deposits	**¥ 21,400**	¥ 21,751	**$ 247,170**
Time deposits with maturities of more than three months	**(285)**	(184)	**(3,296)**
Cash and cash equivalents	**¥ 21,115**	¥ 21,567	**$ 243,875**

11. Leases

Leased assets under finance lease agreements include molds and warehouse equipment. The depreciation of leased assets is computed by the straight-line method over the term of the leases.

Future lease obligations under noncancelable operating leases subsequent to December 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Within one year	**¥ 897**	¥ 750	**$ 10,358**
After one year	**2,424**	2,204	**27,995**
	¥ 3,321	¥ 2,954	**$ 38,353**

12. Financial Instruments

a. Policies for Financial Instruments

The Companies raise funds through bank loans and the issuance of corporate bonds, mainly in accordance with their capital investment plans for manufacturing and selling tires, and raise short-term working capital through commercial paper.

Derivative transactions are carried out to reduce risks, as mentioned below, and not for speculative trading.

b. Information and Risks Related to Financial Instruments

Trade receivables, which are notes and accounts receivable, are subject to customer credit risk. Also, some trade receivables denominated in foreign currencies as a result of global business are subject to exchange rate fluctuation risk. Therefore, the Companies use forward exchange contracts for hedging purposes.

Securities, principally corporate equities, are subject to market price fluctuation risk.

Trade liabilities, which are notes and accounts payable, are mostly due within one year. Some trade liabilities denominated in foreign currencies in relation to imported raw materials are subject to exchange rate fluctuation risk.

Bank loans and corporate bonds are for the purpose of capital investment. The longest maturity is four years after December 31, 2012. Some of the bank loans and corporate bonds have floating interest rates and are subject to interest rate fluctuation risk.

Derivative transactions are forward exchange contracts and currency swaps for the purpose of hedging against exchange rate fluctuation risk in relation to trade receivables and trade liabilities denominated in foreign currencies and interest rate swaps for the purpose of hedging against interest rate fluctuation risk in relation to bank loans.

c. Risk Management of Financial Instruments

(1) Credit Risk Management (Customer Credit Default)

Under credit management standards, the Companies manage due dates and balances of trade receivables for customers to assess and reduce collection risks.

Derivative transactions are only carried out with highly rated financial institutions to reduce credit risks.

The amounts of the largest credit risks as of December 31, 2012 and 2011 are indicated in the balance sheets as part of allowance for doubtful receivables.

(2) Market Risk Management (Fluctuation Risk of Foreign Currency Exchange Rates and Interest Rates and Others)

The Company and some of its consolidated subsidiaries use forward exchange contracts and currency swaps to hedge against exchange rate fluctuation risk in connection with trade receivables and trade liabilities denominated in foreign currencies.

They assess the amount of risk monthly by currency. Some consolidated subsidiaries also use interest swaps to hedge against interest rate fluctuation risk in connection with bank loans.

The Companies regularly assess the fair market value of their holdings of securities issued by entities with which they have business relationships. They also assess the financial condition of the issuers of those securities and review the holdings in light of the status of their business relationships with the issuers.

Derivative transactions are carried out under internal regulations that specify trading authority and limits, and details of transactions are reported to the responsible executive officers. Consolidated subsidiaries also manage their derivative transactions in accordance with the regulations.

(3) Liquidity Risk in Fund-Raising Management (Risk of Being Unable to Make Payment at Due Date)

Based on reports from each department, the corporate finance and accounting department prepares a cash flow plan and revises as appropriate to reduce liquidity risk.

d. Supplementary Information about the Fair Value of Financial Instruments

The fair value of financial instruments is the market price or, for instruments that do not have a market price, a value calculated by appropriate means. The calculation of fair values incorporates variables, and the values are therefore subject to change, depending on diverse factors. The contract amounts for derivative transactions cited in "15. Derivative Instruments" do not indicate the market risk related to derivative transactions.

e. Fair Value of Financial Instruments

The book value and fair value of financial instruments and the differences between them as of December 31, 2012 and 2011, were as follows.

However, financial instruments whose fair value is extremely difficult to ascertain are not included in the table below (see Note 2 to the table).

	Millions of Yen					
	2012 (12.31.12)			2011 (12.31.11)		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
(1) Cash and deposits	**¥ 21,400**	**¥ 21,400**	**¥ —**	¥ 21,751	¥ 21,751	¥ —
(2) Trade receivables: Notes and accounts	**148,098**	**148,098**	**—**	142,132	142,132	—
(3) Investment securities	**60,098**	**60,098**	**—**	45,550	45,550	—
Total assets	**229,596**	**229,596**	**—**	209,433	209,433	—
(1) Trade notes and accounts payable	**77,601**	**77,601**	**—**	86,962	86,962	—
(2) Electronically recorded obligations—operating	**2,800**	**2,800**	**—**	—	—	—
(3) Short-term loans payable	**73,738**	**73,738**	**—**	82,239	82,239	—
(4) Accrued expenses	**28,543**	**28,543**	**—**	26,330	26,330	—
(5) Commercial paper	**—**	**—**	**—**	9,000	9,000	—
(6) Bonds	**20,000**	**20,202**	**202**	20,000	20,309	309
(7) Long-term loans payable	**52,547**	**52,949**	**402**	50,760	51,240	480
(8) Long-term deposits received	**3,194**	**3,565**	**371**	3,194	3,511	317
Total liabilities	**258,423**	**259,398**	**975**	278,485	279,591	1,106
Derivative transactions*	**(969)**	**(969)**	**—**	338	338	—

	Thousands of U.S. Dollars		
	2012 (12.31.12)		
	Book Value	Fair Value	Difference
(1) Cash and deposits	**$ 247,170**	**$ 247,170**	**$ —**
(2) Trade receivables: Notes and accounts	**1,710,531**	**1,710,531**	**—**
(3) Investment securities	**694,130**	**694,130**	**—**
Total assets	**2,651,831**	**2,651,831**	**—**
(1) Trade notes and accounts payable	**896,288**	**896,288**	**—**
(2) Electronically recorded obligations—operating	**32,337**	**32,337**	**—**
(3) Short-term loans payable	**851,676**	**851,676**	**—**
(4) Accrued expenses	**329,667**	**329,667**	**—**
(5) Commercial paper	**—**	**—**	**—**
(6) Bonds	**231,000**	**233,331**	**2,331**
(7) Long-term loans payable	**606,917**	**611,565**	**4,648**
(8) Long-term deposits received	**36,892**	**41,181**	**4,289**
Total liabilities	**2,984,777**	**2,996,045**	**11,268**
Derivative transactions*	**(11,190)**	**(11,190)**	**—**

*The net amount of the assets and liabilities arising from derivatives is shown. If the net amount is a liability, it is presented in parenthesis.

Note 1. Method of determining the fair value of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) trade receivables: Notes and accounts

The fair value of these assets is approximately equivalent to their book values because of short-term settlement, so the book values are indicated.

(3) Investment securities

The fair value of securities is based on the market price on stock exchanges.

See "14. Securities" regarding the differences between the amounts booked on the consolidated balance sheets and the acquisition costs.

Liabilities

(1) Trade notes and accounts payable, (2) Electronically recorded obligations—operating, (3) short-term loans payable, (4) accrued expenses, and (5) commercial paper

The fair value of these liabilities is approximately equivalent to their book values because of short-term settlement, so the book values are indicated.

(6) Bonds

The fair value of bonds is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and credit risk.

(7) Long-term loans payable

The fair value of long-term loans payable is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each loan and credit risk.

(8) Long-term deposits received

The fair value of long-term deposits received is calculated based on the present value of the sum of principal and interest, which are handled together with currency swaps, discounted by an interest rate determined taking into account the remaining period of each deposit and credit risk, because long-term deposits received are subject to the allocation method of currency swaps.

Derivative transactions

See "15. Derivative Instruments."

Note 2. Financial instruments whose fair value is extremely difficult to ascertain were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
	Book Value	Book Value	Book Value
Unlisted stock and others	**¥ 7,213**	¥ 5,320	**$ 83,306**

Note: These financial instruments are not included in "(3) Investment securities." It is extremely difficult to ascertain the fair values because they do not have market prices.

Note 3. The amount of monetary claims and securities with maturities to be redeemed after the consolidated closing date was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
	Within One Year	Within One Year	Within One Year
Deposits	**¥ 19,916**	¥ 21,164	**$ 230,033**
Trade receivables: Notes and accounts	**148,098**	142,132	**1,710,531**
Total	**¥ 168,014**	¥ 163,296	**$ 1,940,564**

Note 4. The amount of bonds, long-term loans payable and other liabilities with interest to be repaid after the consolidated closing date was as follows:

	Millions of Yen					
	2012 (12.31.12)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	**¥ 10,000**	**¥ 10,000**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long–term loans payable	**9,205**	**24,226**	**11,701**	**7,380**	**12**	**24**
Other liabilities with interest	**73,738**	**—**	**3,194**	**—**	**—**	**—**
Total	**¥ 92,943**	**¥ 34,226**	**¥ 14,895**	**¥ 7,380**	**¥ 12**	**¥ 24**

	Millions of Yen					
	2011 (12.31.11)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	¥ —	¥ 10,000	¥ 10,000	¥ —	¥ —	¥ —
Long-term loans payable	7,147	8,792	18,848	10,270	5,665	38
Other liabilities with interest	91,239	—	—	3,194	—	—
Total	¥ 98,385	¥ 18,792	¥ 28,848	¥ 13,464	¥ 5,665	¥ 38

	Thousands of U.S. Dollars					
	2012 (12.31.12)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	**$ 115,500**	**$ 115,500**	**$ —**	**$ —**	**$ —**	**$ —**
Long-term loans payable	**106,312**	**279,810**	**135,149**	**85,235**	**138**	**274**
Other liabilities with interest	**851,676**	**—**	**36,892**	**—**	**—**	**—**
Total	**$ 1,073,488**	**$ 395,310**	**$ 172,041**	**$ 85,235**	**$ 138**	**$ 274**

13. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended December 31, 2012, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012 (01.01.12–12.31.12)	**2012 (01.01.12–12.31.12)**
Unrealized gains on securities		
Arising during the year	**¥ 13,847**	**$ 159,928**
Amount of recycling	**—**	**—**
Before tax-effect adjustment	**13,847**	**159,928**
Amount of tax-effect	**4,835**	**55,834**
Unrealized gains on securities	**9,012**	**104,094**
Foreign currency translation adjustments		
Arising during the year	**12,093**	**139,667**
Adjustment related to pension obligations of consolidated overseas subsidiaries		
Arising during the year	**(1,552)**	**(17,925)**
Amount of recycling	**685**	**7,906**
Before tax-effect adjustment	**(867)**	**(10,019)**
Amount of tax-effect	**(340)**	**(3,931)**
Adjustment related to pension obligations of consolidated overseas subsidiaries	**(527)**	**(6,088)**
Share of other comprehensive income of associates accounted for by the equity method		
Arising during the year	**149**	**1,722**
Total other comprehensive income	**¥ 20,727**	**$ 239,395**

14. Securities

Cost, carrying amount and unrealized gains and losses pertaining to available-for-sale securities at December 31, 2012 and 2011, were as follows:

	Millions of Yen							
	2012 (12.31.12)				2011 (12.31.11)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities classified as available for sale:								
Stock	**¥ 28,660**	**¥ 60,098**	**¥ 32,308**	**¥(870)**	¥ 27,959	¥ 45,550	¥ 19,321	¥(1,730)

	Thousands of U.S. Dollars			
	2012 (12.31.12)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities classified as available for sale:				
Stock	**$ 331,024**	**$ 694,130**	**$ 373,149**	**$ (10,043)**

Sales of securities classified as available-for-sale securities and an aggregate gain and loss for the year ended December 31, 2012, and the nine months ended December 31, 2011, are immaterial.

Note: Unlisted stocks, whose book value as of December 31, 2012, on the consolidated balance sheet is ¥1,203 million ($13,896 thousand), are not included in the above table. It is extremely difficult to ascertain fair value for lack of market price.

15. Derivative Instruments

Fair value information of derivative instruments, for which deferral hedge accounting has not been applied, at December 31, 2012 and 2011, was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2012 (12.31.12)			2011 (12.31.11)			**2012 (12.31.12)**		
	Contract Amount	Fair Value	Unrealized Gains	Contract Amount	Fair Value	Unrealized Gains (Losses)	Contract Amount	Fair Value	Unrealized Gains
Forward exchange contracts:									
RUB	**¥ 3,905**	**¥ 436**	**¥ 436**	¥ 2,355	¥ 201	¥ 201	**$ 45,100**	**$ 5,041**	**$ 5,041**
Euro	**1,958**	**227**	**227**	1,943	142	142	**22,610**	**2,625**	**2,625**
U.S. dollar	**1,956**	**118**	**118**	2,453	(2)	(2)	**22,590**	**1,364**	**1,364**
Others	**2,596**	**188**	**188**	1,842	(4)	(4)	**29,991**	**2,172**	**2,172**
	¥ 10,415	**¥ 969**	**¥ 969**	¥ 8,593	¥ 337	¥ 337	**$ 120,291**	**$ 11,202**	**$ 11,202**

	Millions of Yen						Thousands of U.S. Dollars		
	2012 (12.31.12)			2011 (12.31.11)			**2012 (12.31.12)**		
	Contract Amount	Fair Value	Unrealized Losses	Contract Amount	Fair Value	Unrealized Losses	Contract Amount	Fair Value	Unrealized Losses
Interest rate swap agreements	**¥ 13**	**¥ 5**	**¥ (0)**	¥ 21	¥ (0)	¥ (0)	**$ 150**	**$ 58**	**$ (2)**

Fair value information of derivative instruments, for which deferral hedge accounting has been applied, at December 31, 2012, and December 31, 2011, was as follows:

	Millions of Yen					
	2012 (12.31.12)			2011 (12.31.11)		
	Contract Amount	Over One Year	Fair Value	Contract Amount	Over One Year	Fair Value
Forward exchange contracts with allocation method:						
Long-term deposits received	**¥ 3,194**	**¥ 3,194**	*	¥ 3,194	¥ 3,194	*

	Thousands of U.S. Dollars		
	2012 (12.31.12)		
	Contract Amount	Over One Year	Fair Value
Forward exchange contracts with allocation method:			
Long-term deposits received	**$ 36,892**	**$ 36,892**	*

*Amounts settled by the allocation method of currency swaps are handled together with those of the long-term deposits received, which are regarded as the hedged items. See "12. Financial Instruments" for their fair value.

16. Pension and Severance Plans

The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at December 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Projected benefit obligations	**¥ (32,419)**	¥ (32,848)	**$ (374,446)**
Fair value of plan assets	**9,884**	7,870	**114,162**
Funded status	**(22,535)**	(24,978)	**(260,284)**
Unrecognized actuarial gain and loss	**3,561**	6,203	**41,134**
Unrecognized prior service cost	**273**	373	**3,154**
Net amount recognized	**¥ (18,701)**	¥ (18,402)	**$ (215,996)**

The components of net pension and severance costs for the year ended December 31, 2012, and the nine months ended December 31, 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	**2012 (01.01.12–12.31.12)**
Service cost	**¥ 1,959**	¥ 1,382	**$ 22,622**
Interest cost	**481**	465	**5,558**
Expected return on plan assets	**—**	—	**—**
Recognized actuarial losses	**349**	253	**4,034**
Recognized prior service cost	**100**	74	**1,150**
Pension and severance cost due to change in method for calculating retirement benefit obligations	**—**	3,018	**—**
Net periodic benefit cost	**2,889**	5,192	**33,364**
Gain on change of pension and severance plan	**—**	(200)	**—**
Contribution of defined contribution benefit plan	**607**	435	**7,020**
	¥ 3,496	¥ 5,427	**$ 40,384**

Assumptions used as of December 31, 2012 and 2011, were as follows:

	2012 (12.31.12)	2011 (12.31.11)
Discount rate	**mainly 1.6%**	mainly 1.6%
Expected return rate on plan assets	**0.00%**	0.00%

17. Deferred Income Taxes

Significant components of the deferred income tax assets and liabilities at December 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Deferred tax assets:			
Liabilities for pension and severance payments	**¥ 10,966**	¥ 12,223	**$ 126,655**
Net operating loss carry forwards	**200**	389	**2,306**
Unrealized profits	**4,600**	2,600	**53,128**
Accrued expenses	**984**	1,002	**11,364**
Loss on revaluation of investment securities	**34**	58	**397**
Other	**10,494**	9,281	**121,206**
Gross deferred tax assets	**27,278**	25,553	**315,056**
Less valuation allowance	**(755)**	(924)	**(8,718)**
Total deferred tax assets	**26,523**	24,629	**306,338**
Deferred tax liabilities:			
Unrealized gains on securities	**(11,072)**	(6,155)	**(127,878)**
Liabilities for pension and severance payments	**(3,019)**	(3,446)	**(34,868)**
Gain on receipt of stock set by pension plan	**(1,842)**	(2,103)	**(21,273)**
Property, plant and equipment	**(1,272)**	(1,501)	**(14,694)**
Other	**(1,579)**	(1,704)	**(18,244)**
Total deferred tax liabilities	**(18,784)**	(14,909)	**(216,957)**
Net deferred tax assets	**¥ 7,739**	¥ 9,720	**$ 89,381**

A reconciliation of the statutory income tax rate to the effective income tax rates for the year ended December 31, 2012, and the nine months ended December 31, 2011, was as follows:

	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)
Statutory income tax rate	**40.3%**	40.3%
Permanently nondeductible expenses	**0.7**	1.6
Permanently nontaxable income	**(0.8)**	(1.5)
Tax deduction for research and development	**(2.1)**	(1.9)
Valuation allowance	**(0.2)**	(14.7)
Reversal of tax effect due to change in corporate income tax rate	**—**	3.3
Other	**(2.0)**	(1.0)
Effective income tax rates	**35.9%**	26.1%

18. Segment Information

a. Outline of Reportable Segments

The Company's reportable segments are the organizational units for which the Company is able to obtain individual financial information in order for the Board of Directors to regularly review performance to determine the distribution of management resources and evaluate its business results.

The Company classifies organizational units by products and services. Each organizational unit plans domestic or overseas general strategies for its products and services and operates its business.

Therefore, the Company is organized by business segments, and its reportable segments are "Tires" and "Industrial Products."

b. Methods of Calculating the Amount of Sales, Income (Loss), Assets and Other Items by Reportable Segments

Accounting methods for reportable segments are mostly the same as "2. Summary of Significant Accounting Policies." Profits from reportable segments are operating income, and intersegment income and transfers are based on prevailing market prices.

c. Information on Sales, Income (Loss), Assets and Other Items by Reportable Segments

Information on sales, income (loss), assets and other items by reportable segments for the year ended December 31, 2012, and the nine months ended December 31, 2011, is as follows:

	Millions of Yen						
	Tires	Industrial Products	Reportable Segment Total	Others	Total	Adjustments	Consolidated Amount
	2012 (01.01.12–12.31.12)						
Sales to third parties	**¥ 444,592**	**¥ 91,851**	**¥ 536,443**	**¥ 23,257**	**¥ 559,700**	**¥ —**	**¥ 559,700**
Intergroup sales and transfers	**1,850**	**93**	**1,943**	**4,238**	**6,181**	**(6,181)**	**—**
Total sales	**446,442**	**91,944**	**538,386**	**27,495**	**565,881**	**(6,181)**	**559,700**
Segment income	**¥ 43,369**	**¥ 5,087**	**¥ 48,456**	**¥ 1,252**	**¥ 49,708**	**¥ (12)**	**¥ 49,696**
Segment assets	**¥ 433,641**	**¥ 60,908**	**¥ 494,549**	**¥ 58,436**	**¥ 552,985**	**¥ (9,156)**	**¥ 543,829**
Other items							
Depreciation and amortization	**¥ 20,980**	**¥ 2,632**	**¥ 23,612**	**¥ 732**	**¥ 24,344**	**¥ 663**	**¥ 25,007**
Investment in equity method affiliates	**¥ 1,524**	**¥ —**	**¥ 1,524**	**¥ —**	**¥ 1,524**	**¥ —**	**¥ 1,524**
Increase of tangible and intangible fixed assets	**¥ 25,006**	**¥ 1,836**	**¥ 26,842**	**¥ 588**	**¥ 27,430**	**¥ 640**	**¥ 28,070**

	2011 (04.01.11–12.31.11)						
Sales to third parties	¥ 379,220	¥ 68,179	¥ 447,399	¥ 17,735	¥ 465,134	¥ —	¥ 465,134
Intergroup sales and transfers	1,371	71	1,442	3,074	4,516	(4,516)	—
Total sales	380,591	68,250	448,841	20,809	469,650	(4,516)	465,134
Segment income	¥ 23,366	¥ 1,686	¥ 25,052	¥ 1,245	¥ 26,297	¥ (6)	¥ 26,291
Segment assets	¥ 393,704	¥ 60,934	¥ 454,638	¥ 57,222	¥ 511,860	¥ (10,074)	¥ 501,786
Other items							
Depreciation and amortization	¥ 16,645	¥ 2,163	¥ 18,808	¥ 581	¥ 19,389	¥ 482	¥ 19,871
Amortization of goodwill	¥ 441	¥ —	¥ 441	¥ —	¥ 441	¥ —	¥ 441
Investment in equity method affiliates	¥ 1,376	¥ —	¥ 1,376	¥ —	¥ 1,376	¥ —	¥ 1,376
Increase of tangible and intangible fixed assets	¥ 19,520	¥ 2,103	¥ 21,623	¥ 461	¥ 22,084	¥ 349	¥ 22,433

	Thousands of U.S. Dollars						
	Tires	Industrial Products	Reportable Segment Total	Others	Total	Adjustments	Consolidated Amount
	2012 (01.01.12–12.31.12)						
Sales to third parties	$ 5,135,044	$ 1,060,884	$ 6,195,928	$ 268,616	$ 6,464,544	$ —	$ 6,464,544
Intergroup sales and transfers	21,368	1,075	22,443	48,952	71,395	(71,395)	—
Total sales	5,156,412	1,061,959	6,218,371	317,568	6,535,939	(71,395)	6,464,544
Segment income	$ 500,915	$ 58,760	$ 559,675	$ 14,455	$ 574,130	$ (137)	$ 573,993
Segment assets	$ 5,008,555	$ 703,495	$ 5,712,050	$ 674,931	$ 6,386,981	$ (105,748)	$ 6,281,233
Other items							
Depreciation and amortization	$ 242,317	$ 30,399	$ 272,716	$ 8,455	$ 281,171	$ 7,664	$ 288,835
Investment in equity method affiliates	$ 17,601	$ —	$ 17,601	$ —	$ 17,601	$ —	$ 17,601
Increase of tangible and intangible fixed assets	$ 288,816	$ 21,214	$ 310,030	$ 6,795	$ 316,825	$ 7,389	$ 324,214

Note 1. The "Others" category incorporates operations not included in reportable segments, including aircraft products and sports products.

Note 2. Adjustments are as follows:
(a) Segment income adjustments are the elimination of intersegment transactions.
(b) Segment asset adjustments for the year ended December 31, 2012 of ¥9,156 million ($105,748 thousand) were the elimination of intersegment transactions of ¥34,408 million ($397,413 thousand) and "corporate" assets of ¥25,252 million ($291,664 thousand). "Corporate" assets primarily consist of accumulated working capital and investments in securities.

The corresponding amounts for the nine months ended December 31, 2011, of ¥10,074 million ($116,352 thousand) were the elimination of intersegment transactions of ¥30,851 million ($356,325 thousand) and "corporate" assets of ¥20,777 million ($239,974 thousand). "Corporate" assets primarily consist of accumulated working capital and investments in securities.

Note 3. Segment income was adjusted with operating income presented in the consolidated statements of income.

Related information for the year ended December 31, 2012, and the nine months ended December 31, 2011

1. Product and service information

Information has been omitted, as the classification is the same as that for reportable segments.

2. Information about geographic areas

(a) Sales

	Millions of Yen		Thousands of U.S. Dollars
	2012 (01.01.12–12.31.12)	2011 (04.01.11–12.31.11)	2012 (01.01.12–12.31.12)
Japan	¥ 308,918	¥ 245,428	$ 3,568,002
United States of America	110,997	95,607	1,282,017
Others	139,785	124,099	1,614,525
Total	¥ 559,700	¥ 465,134	$ 6,464,544

Note: Sales are based on the location of clients and classified by country.

(b) Property, plant and equipment

	Millions of Yen		Thousands of U.S. Dollars
	2012 (12.31.12)	2011 (12.31.11)	**2012 (12.31.12)**
Japan	**¥ 104,761**	¥ 105,838	**$ 1,209,986**
Thailand	**23,495**	22,059	**271,364**
Others	**57,777**	46,712	**667,334**
Total	**¥ 186,033**	¥ 174,609	**$ 2,148,684**

3. External customer information

Disclosure of information on external customers is not required, as there were no sales to a single external customer amounting to 10% or more of the Company's net sales.

4. Impairment losses on fixed assets by reportable segment for the year ended December 31, 2012, and the nine months ended March 31, 2011

The Company omitted this information because of its immateriality for the year ended December 31, 2012.

There is no applicable item for the nine months ended December 31, 2011.

5. Amortization of goodwill and the amortization balance by reportable segment for the year ended December 31, 2012, and the nine months ended December 31, 2011

The Company omitted, this information because of its immateriality for the year ended December 31, 2012.

Information has been omitted as the classification is the same as that for reportable segments for the nine months ended December 31, 2011.

6. Gains on negative goodwill by reportable segment for the year ended December 31, 2012, and the nine months ended March 31, 2011

The Company omitted this information because of its immateriality for the year ended December 31, 2012.

There is no applicable item for the nine months ended December 31, 2011.

Report of Independent Auditors

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Independent Auditor's Report

The Board of Directors
The Yokohama Rubber Co., Ltd.

We have audited the accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Yokohama Rubber Co., Ltd. and its consolidated subsidiaries as at December 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

March 28, 2013
Tokyo, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited