

2001

Annual Report 2001

The Yokohama Rubber Co., Ltd. Year ended March 31, 2001

Paving the Road with Progress



P R O F I L E

The Yokohama Rubber Co., Ltd. (Yokohama), is one of the world's leading manufacturers of rubber products, including vehicle tires, other rubber products and adhesive products. Since its establishment in 1917, the Company has expanded its business on a global scale. Today, applying advanced technologies to rapidly reflect customer needs in innovative products, the Company has achieved an excellent reputation in the fields of automobiles, civil engineering, construction, marine engineering, aircraft components and sports products. With production bases in Japan, the United States and Asia, as well as marketing and sales bases in each of these regions and Europe, Yokohama is reinforcing its international operations to earn the trust and confidence of customers around the world.



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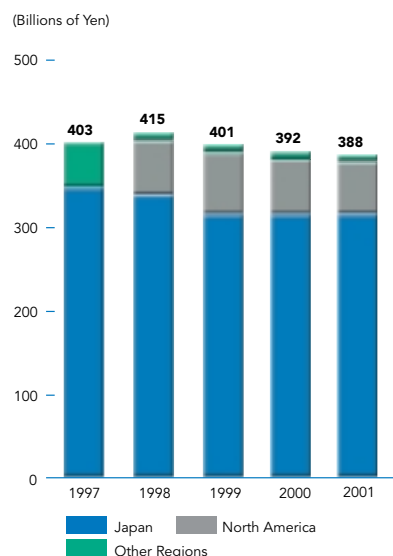
FINANCIAL HIGHLIGHTS

For the Years Ended March 31, 2001 and 2000

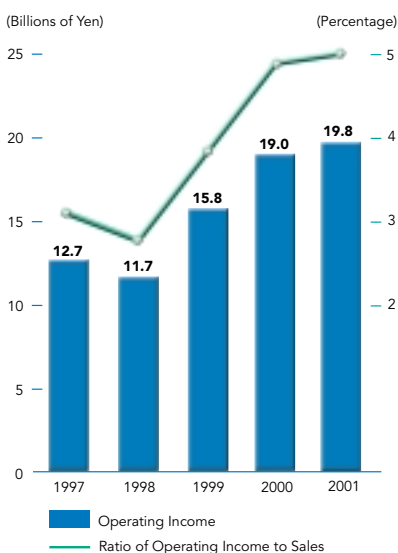
	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	Percentage change (2001/2000)	2001
Net Sales	¥ 387,855	¥ 392,193	(1.1)	\$ 3,130,387
Operating Income	19,845	19,043	4.2	160,169
Income (Loss) before Income Taxes	7,052	(13,692)		56,916
Net Income (Loss)	96	(9,009)		774
	Increase (2001-2000)			
Total Assets	¥ 448,130	¥ 416,702	31,428	\$ 3,616,868
Shareholders' Equity	112,651	85,951	26,700	909,209
	Yen			U.S. Dollars
	2001	2000		2001
Per Share:				
Net Income (Loss): Basic	¥ 0.28	¥ (26.30)		\$ 0.00
Cash Dividends	—	6.00		—

Note: Throughout this report, the United States dollar amounts have been translated from Japanese yen solely for the convenience of readers at the rate of ¥123.90=US\$1, the approximate exchange rate prevailing on March 31, 2001.

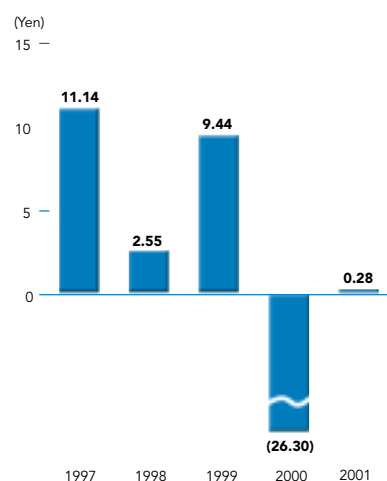
Sales by Region



Operating Income and Ratio of Operating Income to Sales



Net Income (Loss) per Share



→ T O U R S H A R E H O L D E R S

Noteworthy Improvement in Operating Income

I would like to take this opportunity to greet our shareholders and report on the performance of The Yokohama Rubber Co., Ltd., and the Yokohama Group in fiscal 2001, ended March 31, 2001.

The global economy was characterized by continued stability in Europe, but a slowdown in economic growth became evident in the United States in the second half of the year. In Japan, the environment for private-sector capital investment was strong, but consumer spending remained sluggish, leading to a harsh operating environment in general.

In this situation, the Yokohama Group increased sales in the Japanese market, but this advance was offset by the strong yen, which adversely affected export sales results, and a worsening of the market environment for tires in the United States. As a result, Yokohama's consolidated net sales decreased 1.1% in fiscal 2001, to ¥387.9 billion. On the other hand, successful cost-reduction and efficiency-enhancement activities lowered our cost of sales and general administrative expenses, leading to a 4.2% rise in operating income, to ¥19.8 billion. Consolidated net income for the year amounted to ¥96 million, owing primarily to the lump-sum write-off of the goodwill of

Yokohama Tire Corporation, our U.S. subsidiary, and the adoption of new accounting standards.

Action 21 Strengthens Corporate Foundations

With the goal of reinforcing our corporate foundations, we have implemented activities under the Action 21 reformation program since April 1999. In March 2001, the program ended on schedule two years after its commencement. Action 21 sought comprehensive structural reformation in the seven areas of business activities, finance, cash, human resources, organization, administration and management.

Business reformation activities included the cessation of tire production at the Tire Group's Hiratsuka Plant in Japan. We also strove to reduce lead times to product delivery and lower distribution costs through the full-scale implementation of integrated logistics in Japan, centered on the sharing of distribution information via our in-house information system. In addition, we began tire production using the originally developed NMS (New Manufacturing System) at our Shinshiro Plant in Japan. In the MB (Multiple Business) Group, we strengthened our core operations—aircraft

components, HAMATITE® sealants and hydraulic hoses—and continued to reorganize unprofitable operations. The result was a significant improvement in the MB Group's profitability.

Efforts to reform our financial structure led to an actual reduction of total assets of ¥30.1 billion, excluding other comprehensive income from an unrealized gain on securities and other items in line with the adoption of new accounting standards. Furthermore, we reduced interest-bearing debt by ¥23.9 billion.

In other areas, we trimmed our organization by reducing personnel by 1,191 employees and promoting the outsourcing of appropriate operations.

Turning Around an Unfavorable Legacy in Two Years

In addition to implementing structural reforms, in the past two years Yokohama has successfully relieved a number of financial burdens. First, we amortized retirement benefit obligations of ¥32.2 billion incurred through the adoption of new accounting



Yasuo Tominaga, President

standards. Also in accordance with these new standards, we wrote off ¥6.6 billion through moves including the lump-sum write-off of the goodwill of Yokohama Tire Corporation in the United States. Thirdly, we closed our Hiratsuka Plant, moving all necessary

equipment to other facilities and decommissioning the equipment that remained. Such activities removed assets worth ¥3.3 billion from our books.

Our Keywords Are Growth, Production Reformation and Globalization

With the completion of endeavors to relieve the burdens of the past, Yokohama successfully laid the foundations for future growth and prosperity. Reflecting this achievement, we have selected growth, production reformation and globalization as the three new keywords sustaining our business pursuits.

Consolidated net sales of the Yokohama Group have fallen year-on-year for the past three years. In the future, we intend to step up efforts to provide unique products and services that earn the lasting

approval of our customers, and thereby raise sales and achieve a turnaround toward growth. Production reformation is the method by which we will strengthen our competitiveness, bringing lead times as close to zero as possible throughout our product development, production, logistics and sales operations. To survive in a world in which the law of one price governs business activities, we will take a more global view in deciding procurement sources, production locations and marketing activities. Our objective is true globalization through the selection of optimal bases to purchase materials, manufacture products and pursue sales.

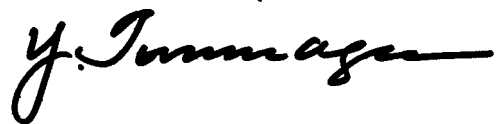
To Achieve the Most from Our Three Keywords

The Yokohama Group faces three major challenges in its pursuit of growth. The first is applying unique and innovative state-of-the-art technologies in each of our target areas to create distinctive products at competitive prices. The second is promoting the establishment of small-lot production and sales organizations, and expanding our tire business in Asia. Third, we must pioneer new businesses in our MB operations.

Other challenges we face include the strategic reorganization of both our tire and MB businesses in North America, ongoing cost reductions in our hose businesses, further promoting the integration of operations between Yokohama and Yokohama Hydrex Co., Ltd., which is successfully shortening lead times, and developing world-class human resources.

Over the past two years, Yokohama has pursued a variety of structural reformation activities under the auspices of Action 21. The result of these achievements is a solid base for favorable change. From this firm footing, everyone in the Yokohama Group is committed to attaining new growth and creating a global corporation able to sustain profitability and expansion. I would like to ask for the continued support and cooperation of you, our shareholders, as we forge ahead.

June 2001

A handwritten signature in black ink, reading 'Y. Tominaga'.

Yasuo Tominaga, President



REPORT ON THE RESULTS OF ACTION 21

The Action 21 structural reformation plan implemented in April 1999 came to a conclusion in March 2001. In the past two years, Yokohama has worked under the plan to strengthen its corporate foundations. Thanks to the efforts of everyone in the Yokohama Group, Action 21 activities generated a variety of successes throughout our operations.

RESULTS OF ACTION 21

● FINANCIAL POSITION REFORMATION

	Objective	Result
Reduce total assets	- ¥30.0 billion	- ¥30.1 billion
Reduce interest-bearing debt	- ¥20.0 billion	- ¥23.9 billion

(Excluding other comprehensive income from an unrealized gain on securities and other items in line with the adoption of new accounting standards.)

● PERSONNEL, MANAGEMENT AND ORGANIZATIONAL REFORMATION

- Reduced personnel by 1,191 employees
- Reduced numbers of directors and managers
- Began outsourcing appropriate operations, including employee compensation administration

● BUSINESS REFORMATION

Tire Group

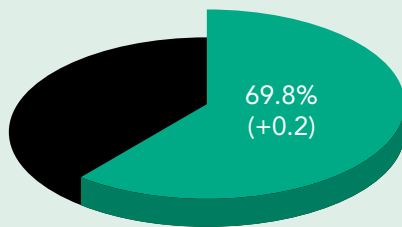
- Decided to end all tire production operations at the Hiratsuka Plant by December 2001.
- Launched an integrated logistics system in Japan to link domestic plants, distribution points and sales bases via an information network.
- Improved overall sales in Japan by introducing the DNA series of environmentally friendly tires, developed with world-first technologies.
- Began production using the NMS (New Manufacturing System) at the Shinshiro Plant.

MB Group

- Restructured to a product-specific Strategic Business Unit (SBU) organization and speeded up decision-making.
- Identified sealants and adhesives, hydraulic hoses, aircraft components and antiseismic rubber bearings as four core businesses, and concentrated management resources in these areas.
- Promoted the elimination or third-party consignment of some unprofitable businesses, generating significant improvement of profitability.
- In hydraulic hose operations, made progress on operational integration with Yokohama Hydrex, reducing lead times and costs.
- Established the MB Business Development Department to foster high-potential new businesses.

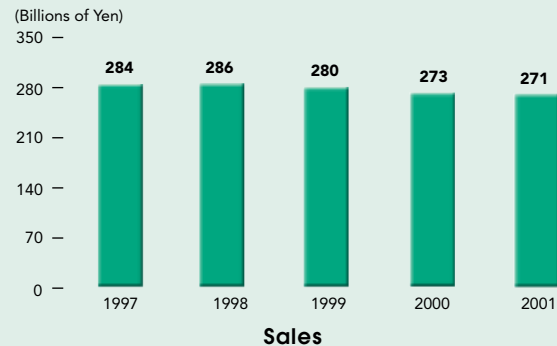
GROUP AT A GLANCE

TIRE GROUP :

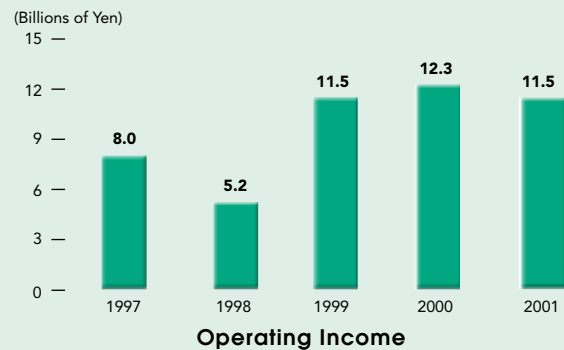


Fiscal 2001 Sales

Percentage of net sales (change from fiscal 2000)



Sales



Operating Income

Main Products

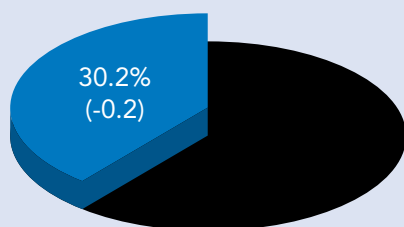
Tires for passenger cars, trucks, buses, light trucks, mining and construction equipment, industrial vehicles and aircraft, and tubes and aluminum alloy wheels

Manufacturing and Sales Organization

Yokohama manufactures and markets tires in Japan through 178 sales subsidiaries, including Yokohama Tire Tokyo Hanbai Co., Ltd. Overseas, our tires are produced and sold by Yokohama Tire Corporation (YTC) in the United States, and Yokohama Tire Philippines, Inc., and Yokohama Tyre Vietnam Company

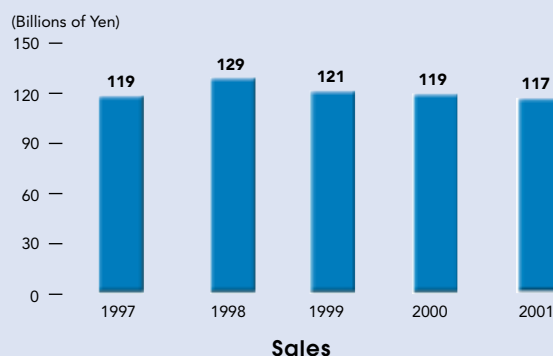
in Asia. In addition, GTY Tire Company, a joint venture with General Tire, Inc., and Toyo Tire & Rubber Co., Ltd., handles a portion of our U.S. manufacturing. In Europe, our organization of seven sales subsidiaries includes Yokohama Reifen GmbH in Germany and Yokohama HPT Ltd. in the United Kingdom.

M B G R O U P :



Fiscal 2001 Sales

Percentage of net sales (change from fiscal 2000)



Sales



Operating Income

Main Products

Hoses, marine hoses, conveyor belts, sealants, adhesives, antiseismic rubber bearings for bridges and buildings, golf products, aircraft components and other products

Manufacturing and Sales Organization

In Japan, industrial-use products are manufactured by Yokohama and Yokohama Hydrex Co., Ltd., and marketed by Yokohamagomu Multiple Business East Co., Ltd., and seven other sales subsidiaries, and by Yokohama Hydrex. In the United States, manufacturing and sales of these products are

handled by SAS Rubber Company and YH America, Inc. Yokohama produces golf products for marketing in Japan by PRGR Co., Ltd. Yokohama also manufactures aircraft components in Japan for marketing around the world.

Tire Group

REVIEW OF OPERATIONS

THE YEAR AT A GLANCE

Sales increased in Japan and the Middle East, but operations were severely influenced by slow sales in North America and the high value of the yen. As a result, sales by the Tire Group slipped 0.9%, to ¥270.6 billion.

RESULTS IN JAPAN

Favorable Demand for Low-Fuel-Consumption Tires

Sales in Japan advanced in units and value for both original equipment (OE) and replacement tires.

Our OE tire business was influenced by the sluggish Japanese economy, but domestic production of automobiles recovered 1.2%, surpassing 10 million units. Yokohama tires were adopted for several popular models.

In the market for replacement tires, we actively introduced new products developed with unique technologies. We reinforced our DNA series of environmentally friendly, low-fuel-consumption tires with the introduction of the DNA dB, providing a low-noise, comfortable ride, and the DNA ECOS, which features a comparatively long product life. We also ran a variety of promotional programs, including a successful campaign under which purchasers of our studless tires can receive insurance to cover a portion of the damage to their cars in the case of accidents caused by slipping on snowy or icy roads.



Domestic sales of DNA-series radial tires, which improve fuel consumption, were strong in fiscal 2001.

Pictured are the DNA GRANDPRIX, DNA dB and DNA ECOS.

Startup of Integrated Logistics System

Strengthening Yokohama's tire business was a central theme of activities under the Action 21 plan. Fiscal 2001 saw the full-scale implementation of the integrated logistics system under development since 1996. This system provides online logistics information to Yokohama's three tire plants, seven distribution centers and approximately 370 sales bases and dealerships throughout Japan. The integrated logistics system has contributed to reductions in inventories, delivery lead times and distribution costs.

To trim tire operations and focus on profitable businesses, we decided to suspend the production of bias tires for trucks and buses at our Hiratsuka Plant by the end of March 2002. However, we will now be able to complete this plan three months ahead of schedule, by December 2001. To improve overall production efficiency, we intend to concentrate production of radial tires for trucks and buses at the Mie Plant by May 2002.



Testing machine for studying tire characteristics during cornering.

RESULTS IN NORTH AMERICA

Three-Year Restructuring of North American Operations

Yokohama's operations in North America center on the production of tires for passenger cars, trucks and buses. In fiscal 2001, the slowdown in economic growth in the second half caused a rapid and significant drop in demand for tires for trucks and buses, and intensified price competition. As a result, Yokohama Tire Corporation (YTC) recorded a loss of US\$79.8 million



Yokohama is promoting electric vehicles (EVs) as environmentally friendly next-generation automobiles by sponsoring EV races and EV tours around Japan. Pictured is an EV made by modifying a Mercedes-Benz A-Class car.

(including US\$38.5 million in written-off goodwill). We are now planning and implementing strategies to restructure YTC. To strengthen our product lines, we plan to introduce new passenger car, light truck, truck and bus tires. In addition, we are working to improve YTC's logistics operations and revamp its management structure. Our targets are to reduce the company's loss to US\$20.0 million in 2001, and to break even in three years' time.

RESULTS IN ASIA

Sales of the High-Performance A539 Tire Begin

Yokohama's activities in Asia center on sales of passenger car tires, which are covered through exports from Japan and the Philippines. In fiscal 2001, unit-based sales advanced in the Republic of Korea (ROK), Philippines, Singapore and Thailand. However, overall sales in the region finished slightly behind the results for fiscal 2000.



Observers from Yokohama Tire Philippines meet with staff at Yokohama's Shinshiro Plant in Japan.

During the year, we launched the high-performance A539 tire to increase sales in Asia. In Southeast Asia, where awareness of Yokohama is lower than in East Asia, we promoted our brand name using ads in buses and on billboards.

Interest in Japanese tires is increasing in Asia, which is why we devised a sales strategy to introduce into countries in the region tires with a strong reputation for performance in Japan. The first step in implementing this strategy will be the fiscal 2002 release of our DNA GRANDPRIX sports tire in Asia.

Full-Scale Production in the Philippines

Operations of Yokohama Tire Philippines, Inc., our base for passenger car tire production and sales in the Philippines, center on exports to Europe, the Middle East and other countries in Asia. A portion of the company's production is sold in the Philippines. In the year under review, the company increased exports to countries expanding their road networks in Asia, the Middle East and Africa. Successful efforts to increase replacement tire sales in the Philippines resulted in a tripling of the company's domestic revenues. OE sales to overseas operations of Japanese automobile manufacturers also improved. Currently, Yokohama Tire

Philippines is operating at full capacity, producing 5,200 tires per day. In fiscal 2002, the company plans to expand its production lines to raise daily capacity to 5,900 tires.



In June 2000, a test-driving session for the A539 was held for media representatives from Asia and Oceania in Darlington Park, Australia.

RESULTS IN EUROPE AND OTHER REGIONS

Strengthening On-Site Decision Making

In Europe, Yokohama's sales activities focus on imports from Japan and the Philippines. We operate sales subsidiaries in Germany, Italy, the United Kingdom, Austria, Switzerland, Sweden and Denmark, as well as dealerships throughout the region, which mainly market tires for passenger cars, trucks and buses. In fiscal 2001, though unit-based sales remained at the same level as the previous year, the high yen caused a decrease in the value of these sales.



Yokohama's A039 was selected for standard installation on the Lotus Exige.



At the 2000 24 Hours of Le Mans, a car using Yokohama tires won in the GT class.

With the goal of capturing 3% of the European market for replacement tires by fiscal 2005, we reinforced our product lineup and sales organization. We launched the high-performance A539 tire in the region, and offered an AVS SPORT model with an increased size. As a result, combined sales of these products reached approximately 800,000 units in fiscal 2001. Moves to strengthen our sales network included making Yokohama Suisse SA, our sales company in Switzerland, a subsidiary of Yokohama Reifen GmbH, which handles sales in Germany. We also strengthened the decision-making authority of our European headquarters in Germany by strengthening the organization with product and region managers. Through these and other activities, we are creating a sales organization that can rapidly pursue business initiatives closely linked with customer needs.

Also in fiscal 2001, Yokohama expanded OE sales of its tires to European car manufacturers. Yokohama tires were selected for the Porsche Boxster, Mercedes-Benz G-Class models, Lotus Exige and Aston Martin V12 Vanquish. In addition, we began the OE supply of tires for trucks and buses to the Scania Group, Sweden's leading truck manufacturer.

In fiscal 2002, we plan to launch the AVS Winter V901 tire for passenger cars, as well as a passenger car tire stressing a comfortable and quiet ride. Other tires will be introduced for vans, trucks and buses. Marketing efforts will include a region-wide television ad campaign and participation in the Frankfurt Motor Show. Our sales target for the year is a 10% increase in volume from fiscal 2001.

Tire sales in the Middle East are handled mainly through exports from Japan and the Philippines. New truck and bus tires launched sustained unit- and value-based regional sales increases in fiscal 2001.



The A539 tire for compact to midsized sports sedans, which we marketed in Europe and Asia, features an excellent wet grip and a low-noise ride.

MB Group

REVIEW OF OPERATIONS

THE YEAR AT A GLANCE

Despite the effects of sluggish public works investment and consumer spending, Yokohama was able to increase sales of its antiseismic rubber bearings, sealants, marine hoses and conveyor belts. However, sales of golf products, aircraft components and fenders dropped from the previous year, leading to a 1.5% decrease in sales of the MB Group, to ¥117.3 million.

SEALANTS AND ADHESIVES

Yokohama's HAMATITE® sealants for buildings are the top-selling brand in Japan. We also have about half of the domestic market for windshield sealants, which we deliver on an OE basis to automobile manufacturers. In fiscal 2001, sales grew for our sealants for buildings and windshields, sustaining a rise in overall sales of sealants and adhesives.

In operations for sealants for buildings, sales increased for MILEX-Z, our highly durable and stain-free sealant developed in response to the need for buildings with longer life spans. In addition, we entered the market for hot-melt sealants for multilayered glass products. Efforts to reduce production costs, including the shift to new specifications and materials, helped improve the profitability of these businesses.

HOSES

With approximately 40% of the market, Yokohama is Japan's top provider of hoses for construction equipment and machine tools, and the Company also holds a large share of the market for hoses for automobile use. In fiscal 2001, the rise in domestic automobile production and the selection of Yokohama's hoses for use in popular car models



In fiscal 2001, progress was made in integrating the hose-related operations of Yokohama and Yokohama Hydex.

Set between viaduct piers and bridge girders, Yokohama's antiseismic bearings for bridges reduce vibrations when earthquakes occur.



Our hydraulic hoses for construction equipment are the top sellers in Japan.

made possible expanded sales of car steering and air conditioner hoses. A slight increase was also posted in sales of hydraulic hoses.

In April 2000, Yokohama began integrating its hose-related operations, including product design, development and manufacturing, with those of subsidiary Yokohama Hydrex, which designs couplings and produces hose/coupling assemblies. Our goal is to enhance management efficiency and strengthen profitability. Activities to date have included the introduction of a production management system to share information on orders, production and delivery, improvement of production lines and the considerable shortening of lead times from product order to delivery. In the area of marketing, the two companies integrated sales bases overlapping the same regions, improving operating efficiency while enhancing management of customer information.

FENDERS AND MARINE HOSES

Yokohama's independently developed marine hoses and fenders are the top sellers in their markets worldwide. In fiscal 2001, sales of marine hoses increased significantly, mainly owing to large-scale project orders in Saudi Arabia and Iran. However, fender sales declined under the effects of intensified price competition.

ANTISEISMIC RUBBER BEARINGS

Moves to strengthen our sales structure, as well as large-scale projects such as the construction of Tomei Expressway No. 2, enabled us to expand sales of our antiseismic rubber bearings for bridges. On the other hand, sales of antiseismic rubber bearings for buildings declined under the effects of lowering prices and a drop in the number of projects for which our products were adopted.



GOLF PRODUCTS

In an environment of lackluster consumer spending, the active entrance of foreign brands into the Japanese market intensified competition. Yokohama's ZOOM.c utility club and H/S 315, a driver launched in the fall of 2000, sold favorably, but sales of irons decreased, and overall revenues declined from the previous year.

AIRCRAFT COMPONENTS

A drop in the production of aircraft influenced Yokohama's sales of lavatory modules and drinking water tanks to The Boeing Company of the United States. As a result, sales in the category decreased.



Our water tanks for airplane use are strong, yet light, thanks to the wrapping of a multilayer compound of epoxy resin and carbon fibers.

OVERSEAS PRODUCTION

Yokohama is pursuing overseas production of its hoses and sealants, mainly in the United States and Asia. SAS Rubber Company delivers automobile hoses to automakers in the United States via an assembly company; unit sales increased considerably in fiscal 2001. YH America Inc. handles the assembly of hoses and metal couplings, and also produces sealants for automobiles. Sales of this subsidiary were favorable in fiscal 2001, chiefly because of production expansion by U.S. affiliates of Japanese automobile manufacturers. These customers also sustained an increase in sales of windshield sealants and hot-melt-type sealants for automobile headlamps.

Yokohama Rubber (Thailand) Co., Ltd. handles the production of windshield sealants, as well as the assembly of automobile hoses and couplings. Backed by a recovery in automobile production in Thailand and countries in the Association of Southeast Asian Nations (ASEAN), sales of windshield sealant rose considerably in fiscal 2001. The recovery in automobile production also sustained a favorable increase in the company's sales of hoses for automobiles.



Yokohama Rubber (Thailand) increased its sales in fiscal 2001, as economic conditions improved in ASEAN nations.

► INNOVATIVE RESEARCH AND DEVELOPMENT

In its continuing development of new technologies, Yokohama's goals are to enhance product performance, to ensure low costs, to conserve energy and to preserve the environment.

In particular, we strive to develop new and composite materials.

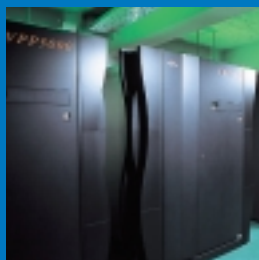
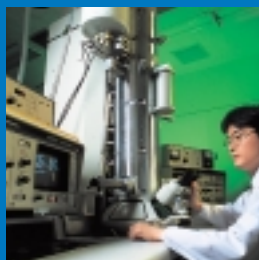
Flooring Sealant for Homes to Help Counter Sick House Syndrome

Volatile organic compounds (VOCs) included in materials for newly constructed homes can affect people in a variety of ways, such as causing eye and throat irritation. Such problems are known as sick house syndrome. As a countermeasure, Yokohama has developed a new elastic adhesive for flooring materials (ECU-193) that uses neither organic substances nor plasticizers that generate VOCs. This highly powerful adhesive is designed for affixing wood flooring to a variety of bases, including concrete, mortar, aluminum and polyvinyl chloride. In addition, it is highly heat resistant, making it usable at high temperatures with floor-heating units.

Electromagnetic Wave Absorbent to Protect IT Equipment

In a collaborative project with Aoyama Gakuin University of Japan, Yokohama is working on the development of an absorbent for electromagnetic waves, which can damage information technology (IT) equipment.

By absorbing electromagnetic waves of a specific frequency, such devices help prevent operating mishaps caused by the irregular reflection of electromagnetic waves. The subject of the current project is an absorbent



that comprises two layers: a rubber sheet and metal plate. The wavelength to be absorbed is determined by the thickness of the rubber sheet and the mixture of dielectric substances with rubber. In fiscal 2001, we commercialized an electromagnetic wave absorbent for use in electronic toll collection systems, which allow drivers to pay highway tolls without stopping their cars.

HITES 2 Tire Control System to Enhance Driving Safety

HITES 2, a computerized system for trucks and buses that comprehensively controls tire air pressure, temperature, remaining tread and other data characteristics, contributes to reduced tire maintenance and safer driving.

A sensor placed within the tire monitors air pressure and temperature, which is displayed in real time on a cockpit monitor, allowing drivers to check the status of each tire at any time. What's more, this data is automatically transmitted to Yokohama's host computer, where it is managed along with information gained through periodic checks of tire wear, damage and distance traveled. All of this data can be analyzed within the computer and provided via the Internet, enabling customers to precisely calculate the appropriate times for tire changes and rotations.

ENVIRONMENTAL PROTECTION

In its environmental preservation activities, Yokohama focuses on reducing and reusing resources, promoting activities to prevent global warming, developing products and procuring materials that are environmentally friendly, and reinforcing the Yokohama Group's environmental management structure.

Organization for Environment Preservation

In 1992, Yokohama established the Environmental Preservation Promotion Department with the mission of tackling environmental issues. In the following year, the Environmental Preservation Promotion Committee was launched, with the president of Yokohama serving as chairman, to oversee all of the Company's environmental activities. The basic themes of this organization are reducing Yokohama's burden on the environment, developing environmental preservation measures and contributing to society.

Working to Achieve Zero Emissions by 2006

Yokohama decided to set the goal of achieving zero emissions, or completely eliminating the emission of waste buried in landfills, at its plants in Japan by the year 2006. Full-scale planning to meet this target—such as resource reduction, designing and developing easy-to-recycle products, thoroughly separating waste by type of processing required, and securing recycling outsourcers—were commenced in January 2001.

Strengthening Chemical Substance Management

Japan enacted a Pollutant Release and Transfer Register (PRTR), an information database designed to manage harmful chemical substances, in 1999. From 2001, companies in Japan are required to collect and report to the government data on the volume of their emissions into the environment and transfer as waste of some 350 substances specified

as pollutants. From 2000, Yokohama took the spirit of the PRTR one step further, not only keeping data on the volume of chemicals it uses and emits, but also implementing "entry stage management" to eliminate harmful chemicals at the research and development stages and Chemical Substance Safety Assessments to monitor the chemicals its uses. We have analyzed a wide range of data on the possible harmful characteristics of chemicals, and put in place an evaluation system organized by the ranking of each characteristic.

Issuing of the Yokohama Environmental Report

In May 2000, we published the first Yokohama Environmental Report, which introduces the Yokohama Group's environmental preservation activities. Information contained in this report was also provided on our web site. This report summarizes our environmental management system, environmental activity goals and results, activities at the production level and environmentally friendly product development.

Yokohama Tire Philippines Earns ISO 14001 Certification

In October 2000, Yokohama Tire Philippines, a manufacturer and marketer of passenger car tires, earned certification under the ISO 14001 series of international environmental management standards. The company is the first tire manufacturer in the Philippines to achieve this accreditation.

FINANCIAL SECTION

Financial Review

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Financial Review

OPERATING RESULTS

Sales

In fiscal 2001, ended March 31, 2001, sluggish tire demand in the United States and the effects of the high value of the yen on local-currency sales severely impacted the operations of the Yokohama Rubber Co., Ltd. These effects were the primary cause of a 1.1% decrease in consolidated net sales, to ¥387.9 billion.

Cost of Sales, and Selling, General and Administrative Expenses

Successful initiatives to reduce costs such as those for raw materials and processing led to a 1.6% decrease in Yokohama's cost of sales, to ¥260.5 billion. Similarly, moves to lower personnel expenses and logistics costs caused a 0.9% reduction in selling, general and administrative expenses, to ¥107.5 billion.

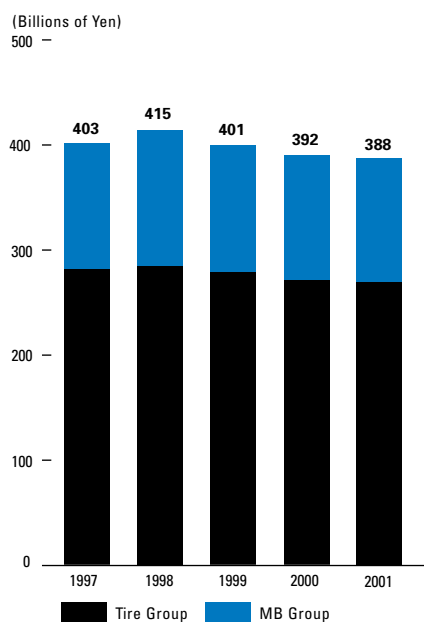
Operating Income

Although consolidated net sales declined, reductions in the cost of sales and selling, general and administrative expenses led to a 4.2% increase in operating income, to ¥19.8 billion.

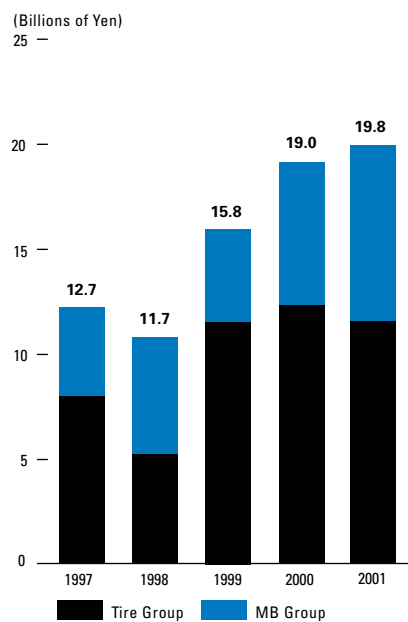
Net Income

In line with the adoption of new accounting standards, Yokohama incurred a one-time write-off of goodwill in Yokohama Tire Corporation (YTC) in the United States and losses on the evaluation of golf club memberships. In this situation, net income was restricted to ¥96 million.

Sales by Group



Operating Income by Group



SEGMENT INFORMATION

Business Groups

Sales of the Tire Group slipped 0.9%, to ¥270.6 billion, owing mainly to slow sales in North America and the negative effects of the high yen. Furthermore, factors such as a loss reported by YTC brought about a 6.7% drop in operating income in this category, to ¥11.5 billion. Sales of the MB (Multiple Business) Group fell 1.5%, to ¥117.3 billion, chiefly because of slow demand for Yokohama's golf products and aircraft components. However, efforts such as the elimination of unprofitable businesses supported a 23.1% advance in operating income in this category, to ¥8.4 billion.

Regions

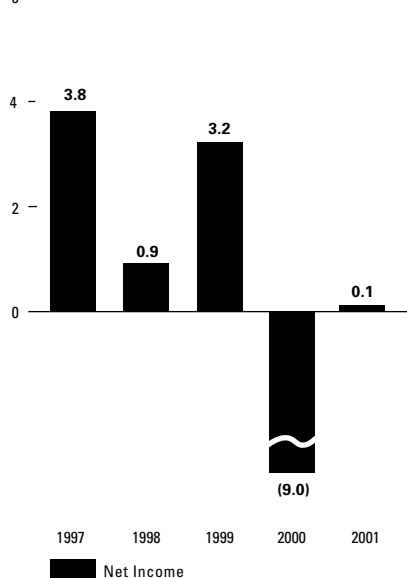
Increased sales of tires in Japan led to a 0.3% increase in domestic sales, to ¥317.5 billion. In addition, an improvement in the profitability of Yokohama significantly boosted operating income in Japan, which jumped 34.0%, to ¥20.6 billion. In North America, a slowdown in economic growth caused a 5.9% decrease in regional sales, to ¥61.7 billion. An operating loss of ¥1.5 billion was also posted. Sales in other regions declined 13.0%, to ¥8.7 billion, mainly owing to the high yen and local inventory adjustments. However, improvement in the profitability of operations in Asia and Oceania generated a 2.9% expansion in operating income from other regions, to ¥717 million.

Capital Expenditures and Depreciation

Facility expenditures decreased 7.2%, to ¥18.1 billion, while depreciation fell 8.4%, to ¥20.0 billion. Facility expenditures included ¥14.7 billion in the Tire Group, which was mainly used for efficiency enhancement and reinforcement at production facilities for truck and bus tires, and molds for new products. Capital expenditures by the MB Group totaled ¥3.4 billion, which was used to expand the Company's production capacity for antiseismic rubber bearings and hoses. Yokohama estimates that it will spend ¥20.5 billion for capital investments in fiscal 2002, and that depreciation will amount to ¥19.9 billion.

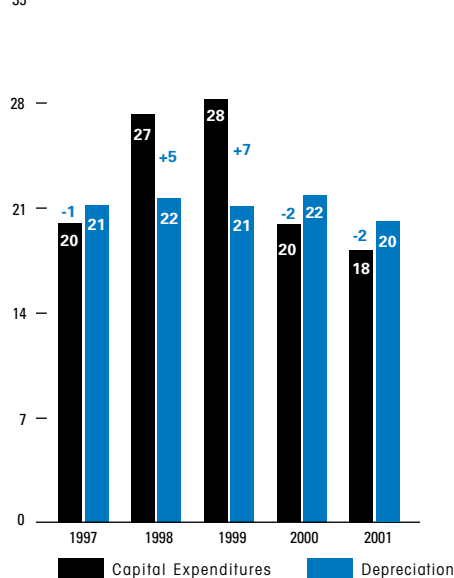
Net Income

(Billions of Yen)



Capital Expenditures and Depreciation

(Billions of Yen)



FINANCIAL POSITION AND CASH FLOWS

Assets

At March 31, 2001, total assets of the Yokohama Group amounted to ¥448.1 billion, an increase of ¥31.4 billion from March 31, 2000. Total current assets decreased ¥16.6 billion, to ¥199.3 billion, mainly owing to a reevaluation of the objective of holding marketable securities, and the subsequent shift of these to investment securities. Property, plant and equipment fell, chiefly because of the reduction of facility investments and decommissioning of facilities and equipment. However, because the difference in the market valuation of investment securities at fiscal year-end amounted to a net increase, total fixed assets (total property, plant and equipment, net plus total investments and other assets) expanded ¥48.0 billion, to ¥248.8 billion.

Liabilities, Minority Interests and Shareholders' Equity

Total current and long-term liabilities increased ¥4.8 billion, to ¥333.9 billion. Although interest-bearing debt contracted by ¥7.6 billion, the adoption of tax effect accounting led to an increase in deferred income taxes. Total shareholders' equity grew ¥26.7 billion, to ¥112.7 billion, mainly owing to unrealized gains on investment securities.

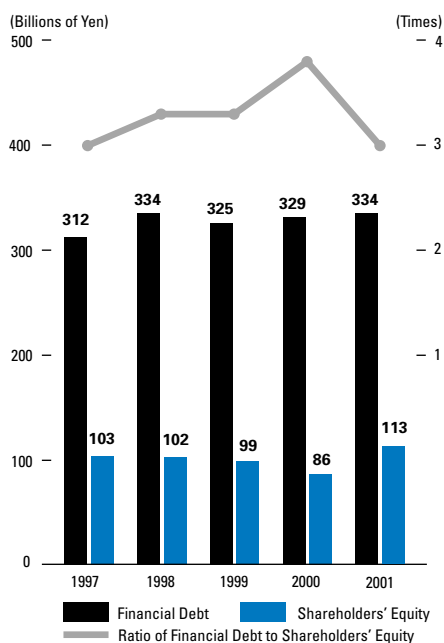
Cash Flows

Net cash provided by operating activities decreased to ¥26.2 billion as of March 31, 2001. Net cash used in investing activities fell to ¥15.3 billion, mainly owing to the drop in facility investments. Net cash used in financing activities declined following the large repayment of interest-bearing debt in fiscal 2000, amounting to ¥11.5 billion. In this situation, cash and cash equivalents at fiscal year-end were ¥25.0 billion.

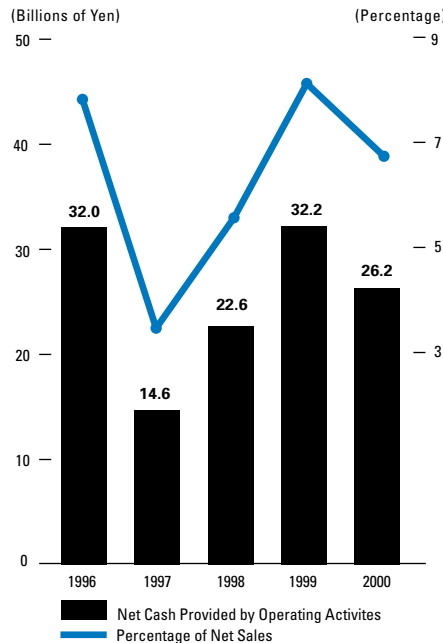
Forecast for Fiscal 2002

In fiscal 2002, ending March 31, 2002, Yokohama forecasts sales of ¥400.0 billion, a 3.1% increase. Operating income is estimated to grow 15.9%, to ¥23.0 billion, and net income is anticipated to rise ¥7.9 billion, to ¥8.0 billion.

Financial Debt, Shareholders' Equity and Ratio of Financial Debt to Shareholders' Equity



Net Cash Provided by Operating Activities and Percentage of Net Sales



Five-Year Summary

FISCAL YEARS ENDED MARCH 31

		Millions of Yen			
	2001	2000	1999	1998	1997
Net Sales	¥ 387,855	¥ 392,193	¥ 401,183	¥ 415,397	¥ 402,652
Operating Income	19,845	19,043	15,809	11,668	12,681
Income (Loss) before Income Taxes	7,052	(13,692)	7,731	5,685	13,808
Net Income (Loss)	96	(9,009)	3,233	873	3,753
Depreciation	20,083	21,922	21,141	21,566	21,167
Capital Expenditures	18,118	19,470	28,216	27,229	20,316
R&D Expenditures	11,827	11,626	13,300	13,800	13,900
Interest-Bearing Debt	191,287	198,931	215,245	209,132	188,428
Shareholders' Equity	112,651	85,951	99,125	102,081	103,111
Total Assets	448,130	416,702	425,247	437,023	415,744
Per Share (Yen):					
Net Income (Loss): Basic	¥ 0.28	¥ (26.30)	¥ 9.44	¥ 2.55	¥ 11.44
Cash Dividends	—	6.00	6.00	8.00	8.00
Share Price (Yen):					
High	¥ 312	¥ 368	¥ 351	¥ 563	¥ 707
Low	200	197	255	290	475
Fiscal Year-End	235	287	314	319	504
Common Stock Issued	342,598,162	342,598,162	342,598,162	342,598,162	342,598,162
Number of Employees	13,362	13,764	12,107	12,325	12,267

Notes:

1. From fiscal 2000, R&D expenditures are based on new accounting standards.
2. Please refer to Note 1 for changes caused by the adoption of new accounting standards.

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2001	2000	2001
Current Assets:			
Cash and cash equivalents (Note 9)	¥ 25,046	¥ 25,617	\$ 202,147
Time deposits	1,522	707	12,284
Marketable securities (Notes 4 and 11)	—	24,909	—
Trade receivables:			
Notes and accounts (Notes 4 and 6)	106,437	99,563	859,055
Allowance for doubtful receivables	(2,609)	(2,550)	(21,057)
Inventories (Note 3)	57,644	56,657	465,246
Deferred income taxes (Note 14)	5,955	5,745	48,063
Other current assets	5,350	5,275	43,180
Total current assets	199,345	215,923	1,608,918
Property, Plant and Equipment, at Cost (Notes 4 and 5):			
Land	30,684	30,814	247,651
Buildings and structures	110,763	107,075	893,971
Machinery and equipment	315,493	314,052	2,546,352
Construction in progress	3,123	6,907	25,206
	460,063	458,848	3,713,180
Less accumulated depreciation	(307,255)	(301,780)	(2,479,863)
Total property, plant and equipment, net	152,808	157,068	1,233,317
Investments and Other Assets:			
Investment securities (Notes 4 and 11)	72,109	5,398	581,993
Long-term loans receivable	2,097	2,060	16,925
Deferred income taxes (Note 14)	2,252	10,742	18,176
Other investments and other assets	21,003	25,992	169,516
Allowance for doubtful receivables	(1,484)	(481)	(11,977)
Total investments and other assets	95,977	43,711	774,633
Total assets	¥ 448,130	¥ 416,702	\$ 3,616,868

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	2001	2000	2001
Current Liabilities:			
Bank loans	¥ 124,768	¥ 118,438	\$ 1,007,006
Current maturities of long-term debt (Note 4)	18,231	10,076	147,143
Commercial paper	—	8,000	—
Trade notes and accounts payable	63,462	60,195	512,203
Accrued income taxes	6,579	2,886	53,099
Accrued expenses	19,445	18,007	156,941
Other current liabilities	10,137	10,609	81,816
Total current liabilities	242,622	228,211	1,958,208
Long-Term Liabilities:			
Long-term debt (Note 4)	48,290	62,417	389,750
Deferred income taxes (Note 14)	10,084	990	81,389
Reserve for pension and severance payments (Note 13)	27,433	32,310	221,412
Other long-term liabilities	5,496	5,161	44,358
Total long-term liabilities	91,303	100,878	736,909
Minority Interests	1,554	1,662	12,542
Contingent liabilities (Note 6)			
Shareholders' Equity:			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 342,598,162 shares	38,909	38,909	314,036
Capital surplus	31,893	31,893	257,409
Retained earnings (Note 8)	23,010	23,941	185,714
Accumulated other comprehensive income			
Unrealized gains on securities	26,394	—	213,027
Foreign currency translation adjustments	(7,555)	(8,792)	(60,977)
	112,651	85,951	909,209
Treasury stock, at cost	(0)	(0)	(0)
Total shareholders' equity	112,651	85,951	909,209
Total liabilities, minority interests and shareholders' equity	¥ 448,130	¥ 416,702	\$ 3,616,868

Consolidated Statements of Operations

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
Net sales	¥ 387,855	¥ 392,193	¥ 401,183	\$ 3,130,387
Cost of sales	260,466	264,626	281,245	2,102,228
	127,389	127,567	119,938	1,028,159
Selling, general and administrative expenses	107,544	108,524	104,129	867,990
Operating income	19,845	19,043	15,809	160,169
Other income (expenses)				
Interest and dividends income	832	915	1,156	6,715
Interest expense	(5,971)	(5,444)	(6,260)	(48,192)
Lump-sum amortization of goodwill	(4,156)	—	—	(33,543)
Amortization of prior service cost for pension plan	—	(23,168)	—	—
Other—net	(3,498)	(5,038)	(2,974)	(28,233)
	(12,793)	(32,735)	(8,078)	(103,253)
Income (loss) before income taxes	7,052	(13,692)	7,731	56,916
Income taxes (Note 2):				
Current	8,520	4,655	3,954	68,765
Deferred	(1,579)	(9,434)	504	(12,744)
	6,941	(4,779)	4,458	56,021
Minority interests in net income of consolidated subsidiaries	(15)	(96)	(40)	(121)
Net income (loss)	¥ 96	¥ (9,009)	¥ 3,233	\$ 774
Per share amounts:	Yen			U.S. Dollars (Note 1)
Net income (loss): Basic	¥ 0.28	¥ (26.30)	¥ 9.44	\$ 0.00
Net income: Diluted	—	—	—	—
Cash dividends	—	¥ 6.00	¥ 6.00	—

Consolidated Statements of Shareholders' Equity

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2001, 2000, 1999 and 1998

	Shares of Common Stock	Millions of Yen				Total
		Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	
Balance at March 31, 1998	342,598,162	¥ 38,909	¥ 31,893	¥ 34,676	¥ (3,397)	¥ 102,081
Increase in retained earnings due to addition of consolidated subsidiaries	—	—	—	73	—	73
Net income	—	—	—	3,233	—	3,233
Cash dividends paid	—	—	—	(2,740)	—	(2,740)
Directors' and statutory auditors' bonuses	—	—	—	(60)	—	(60)
Other comprehensive income						
Foreign currency translation adjustments	—	—	—	—	(3,462)	(3,462)
Balance at March 31, 1999	342,598,162	38,909	31,893	35,182	(6,859)	99,125
Prior year's adjustment for deferred taxes	—	—	—	1,262	—	1,262
Decrease in retained earnings due to addition of consolidated subsidiaries	—	—	—	(1,439)	—	(1,439)
Net loss	—	—	—	(9,009)	—	(9,009)
Cash dividends paid	—	—	—	(2,055)	—	(2,055)
Other comprehensive income						
Foreign currency translation adjustments	—	—	—	—	(1,933)	(1,933)
Balance at March 31, 2000	342,598,162	38,909	31,893	23,941	(8,792)	85,951
Net income	—	—	—	96	—	96
Cash dividends paid	—	—	—	(1,027)	—	(1,027)
Other comprehensive income						
Unrealized gains on securities	—	—	—	—	26,394	26,394
Foreign currency translation adjustments	—	—	—	—	1,237	1,237
Balance at March 31, 2001	342,598,162	¥ 38,909	¥ 31,893	¥ 23,010	¥ 18,839	¥ 112,651

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at March 31, 2000	\$ 314,036	\$ 257,409	\$ 193,228	\$ (70,960)	\$ 693,713
Net income	—	—	774	—	774
Cash dividends paid	—	—	(8,288)	—	(8,288)
Other comprehensive income					
Unrealized gains on securities	—	—	—	213,027	213,027
Foreign currency translation adjustments	—	—	—	9,983	9,983
Balance at March 31, 2001	\$ 314,036	\$ 257,409	\$ 185,714	\$ 152,050	\$ 909,209

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, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	2001
Operating Activities:				
Income (loss) before income taxes	¥ 7,052	¥ (13,692)	¥ 7,731	\$ 56,916
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:				
Depreciation	20,083	21,922	21,141	162,091
Reserve for pension and severance payments	(2,145)	(463)	(1,587)	(17,312)
Amortization of prior service cost for pension plan	—	23,168	—	—
Lump-sum amortization of goodwill	4,156	—	—	33,543
Other, net	6,686	7,318	8,281	53,963
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	(5,338)	4,265	6,702	(43,083)
Inventories	394	559	5,430	3,180
Notes and accounts payable	3,130	(101)	(9,578)	25,262
Other, net	2,096	1,168	(5,413)	16,917
Interest and dividends received	830	918	1,156	6,699
Interest paid	(5,903)	(5,458)	(6,260)	(47,643)
Income taxes paid	(4,827)	(3,484)	(5,039)	(38,959)
Net cash provided by operating activities	26,214	32,120	22,563	211,574
Investing Activities:				
Purchases of property, plant and equipment	(17,280)	(20,243)	(28,199)	(139,467)
Purchases of marketable securities and investment securities	(492)	(705)	(1,391)	(3,971)
Proceeds from sales of marketable securities, investment securities and properties	4,035	4,688	4,425	32,567
Other, net	(1,561)	(264)	2,240	(12,599)
Net cash used in investing activities	(15,298)	(16,524)	(22,925)	(123,470)
Financing Activities:				
Increase (decrease) in short-term bank loans and current maturities of long-term debt	2,946	3,788	(22,042)	23,777
Increase (decrease) in commercial paper	(8,000)	(15,000)	12,500	(64,568)
Proceeds from long-term debt	5,277	3,576	20,121	42,591
Decrease in long-term debt	(10,661)	(8,861)	(9,097)	(86,045)
Payment of cash dividends	(1,030)	(2,054)	(2,740)	(8,313)
Net cash used in financing activities	(11,468)	(18,551)	(1,258)	(92,558)
Effect of exchange rate change on cash and cash equivalents	141	(438)	—	1,137
Decrease in cash and cash equivalents	(411)	(3,393)	(1,620)	(3,317)
Cash and cash equivalents at beginning of year (Note 9)	25,617	26,463	23,462	206,755
Increase (decrease) in cash and cash equivalents due to addition to consolidated subsidiaries	(160)	2,547	—	(1,291)
Cash and cash equivalents at end of year (Note 9)	¥ 25,046	¥ 25,617	¥ 21,842	\$ 202,147

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company") have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from the consolidated financial statements filed under the Securities and Exchange Law of Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Yokohama Rubber Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for financial instruments, retirement benefits and foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

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 and practices generally accepted in Japan.

Certain reclassifications have been made in 2000 and 1999 consolidated financial statements to conform to the classifications used in 2001.

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 ¥123.90=U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2001.

2. Summary of Significant Accounting Policies

(1) 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"). Investments in unconsolidated subsidiaries and associated companies (companies owned 20% to 50%) are accounted for by the equity method of accounting.

All significant intercompany transactions and balances have been eliminated. The excess of the cost of the Companies' investments in subsidiaries and associated companies over their equity in the net assets at the dates of acquisition was not material and has been fully written off as incurred.

(2) Foreign Currency Translation

Foreign currency receivables and payables are translated at the year-end spot rates. The resulting exchange losses and gains are charged or credited to income.

The assets and liabilities of the consolidated subsidiaries outside Japan are translated at the fiscal year-end rates of those companies, and the income and expense accounts of those companies are translated at the average rates of those companies. The resulting exchange adjustments are recorded in shareholders' equity and minority interests.

A revised accounting standard for foreign currency transactions became effective April 1, 2000. The effect of the adoption of the revised standard on the consolidated financial statements was immaterial for the year ended March 31, 2001.

(3) 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 in 2001 and 2000.

Reclassifications of cash equivalents at end of year 1999 to cash equivalents at beginning of year 2000 were made. (Note 9)

(4) Marketable Securities and Investment Securities

Securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of shareholder's equity, net of applicable taxes. Costs are determined by the moving average method.

Securities whose fair values aren't readily determinable are carried at cost. Costs are determined by the moving average method.

A new accounting standard for financial instruments became effective April 1, 2000. The effect of the adoption of the new standard was to decrease income before income taxes by ¥1,343 million (\$10,839 thousand) for the year ended March 31, 2001.

In accordance with the new standard referred to above, marketable securities of ¥24,908 million (\$201,033 thousand), which had been included in short-term investments, were reclassified to investment securities as of April 1, 2000.

(5) Derivative Instruments

Derivative instruments whose fair values are readily determinable, are carried at fair value.

(6) 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.

(7) 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.

(8) 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.

(9) 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 their 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 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 are 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 is written down by contributing the holding securities to the pension trust.

In addition to providing pension and severance benefits, certain foreign subsidiaries sponsor several unfunded 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."

A new accounting standard for retirement benefits became effective April 1, 2000. The effect of the adoption of the new standard was to increase income before income taxes by ¥828 million (\$6,683 thousand) for the year ended March 31, 2001.

(10) 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.

(11) Revenue Recognition

Sales of products are recognized in the accounts upon shipments to customers.

(12) Research and Development Costs

Research and development costs are charged to income as incurred.

(13) Earnings per Share

The computation of basic net income (loss) per share is based on the weighted average number of shares outstanding during the period.

(14) Leases

Finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property, are accounted for as operating leases.

3. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Finished products	¥ 43,637	¥ 43,789	\$ 352,195
Work-in-process	5,621	5,876	45,367
Raw materials and supplies	8,386	6,992	67,684
	¥ 57,644	¥ 56,657	\$ 465,246

4. Long-Term Debt

Long -term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
2.65% straight bonds due 2004	¥ 10,000	¥ 10,000	\$ 80,710
2.175% straight bonds due 2002	10,000	10,000	80,710
2.2% straight bonds due 2003	10,000	10,000	80,710
Loans, principally from banks and insurance companies	36,521	42,493	294,763
	66,521	72,493	536,893
Less current maturities	18,231	10,076	147,143
	¥ 48,290	¥ 62,417	\$ 389,750

Assets pledged to secure bank loans and long-term debt at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Marketable securities	—	¥ 331	—
Investment securities	¥ 295	—	\$ 2,381
Notes receivable	2,869	1,464	23,156
Property, plant and equipment	90,724	93,886	732,236
	¥ 93,888	¥ 95,681	\$ 757,773

5. Depreciation

Depreciation charges were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Selling, general and administrative expenses	¥ 2,784	¥ 2,716	¥ 1,945	\$ 22,470
Manufacturing costs	¥ 17,299	¥ 19,206	¥ 19,196	\$ 139,621

6. Contingent Liabilities

Contingent liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Notes discounted and endorsed	¥ 2,171	¥ 2,517	\$ 17,522
Guarantees	¥ 1,579	¥ 1,799	\$ 12,744

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, 2001 and 2000 were ¥11,827 million (U.S.\$95,456 thousand) and ¥11,626 million, respectively.

8. Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the non-consolidated financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends is applicable. In addition, a semiannual interim dividends may be made by resolution of the Board of Directors, subject to the limitations imposed by the Commercial Code.

9. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash and time deposits	¥ 26,288	¥ 25,408	\$ 212,171
Time deposits with a maturity of over three months	(1,522)	(707)	(12,284)
Investments in short-term, highly liquid securities	280	916	2,260
Cash and cash equivalents	¥ 25,046	¥ 25,617	\$ 202,147

Reconciliations of cash and cash equivalents at end of year 1999 to cash and cash equivalents at beginning of year 2000 were as follows:

	Millions of Yen
Cash and cash equivalents at end of year 1999	¥ 21,842
Time deposits with a maturity of over three months	(1,598)
Investments in short-term, highly liquid securities	721
Commercial paper	5,498
Cash and cash equivalents at beginning of year 2000	¥ 26,463

10. Leases

An analysis of leased property under finance leases was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition costs	¥ 6,710	¥ 6,419	\$ 54,157
Accumulated depreciation	3,890	3,587	31,397
Net book value	¥ 2,820	¥ 2,832	\$ 22,760

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Within one year	¥ 1,191	¥ 1,255	\$ 9,613
After one year	1,629	1,577	13,147
	¥ 2,820	¥ 2,832	\$ 22,760

Lease expenses under finance leases for the years ended March 31, 2001 and 2000 aggregated approximately ¥1,453 million (U.S. \$11,727 thousand) and ¥1,386 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Within one year	¥ 1,860	¥ 1,423	\$ 15,012
After one year	7,941	5,625	64,092
	¥ 9,801	¥ 7,048	\$ 79,104

11. Securities

Cost, carrying amounts and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2001 were as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	Cost	Carrying amounts	Unrealized gains	Unrealized losses	Cost	Carrying amounts	Unrealized gains	Unrealized losses
Securities classified as:								
Available-for-sale:								
Stocks	¥ 22,143	¥ 67,342	¥ 45,401	¥ (202)	\$ 178,716	\$ 543,519	\$ 366,433	\$ (1,630)

Market value information of certain securities at March 31, 2000 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Book value	Market value	Unrealized gains	Book value	Market value	Unrealized gains
Current assets :						
Stocks	¥ 24,909	¥ 80,670	¥ 55,761	\$ 234,658	\$ 759,962	\$ 525,304
Non-current assets :						
Stocks	619	7,054	6,435	5,831	66,453	60,622
	¥ 25,528	¥ 87,724	¥ 62,196	\$ 240,489	\$ 826,415	\$ 585,926

12. Derivative Instruments

Fair value information of derivative instruments at March 31, 2001 and 2000 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			2001		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Forward exchange contracts:									
Deutsche Mark	¥ 2,182	¥ 2,315	¥ (133)	—	—	—	\$ 17,611	\$ 18,684	\$ (1,073)
U.S. dollar	1,198	1,264	(66)	¥ 68	¥ 68	¥ 0	9,669	10,202	(533)
Others	772	803	(31)	61	61	0	6,231	6,481	(250)
	¥ 4,152	¥ 4,382	¥ (230)	¥ 129	¥ 129	¥ 0	\$ 33,511	\$ 35,367	\$ (1,856)
	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			2001		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Interest rate swap agreements	¥ 7,434	¥ (66)	¥ (66)	¥ 7,529	¥ (7)	¥ (7)	\$ 60,000	\$ (533)	\$ (533)
Interest rate option (cap) contracts written	2,144	8	8	2,144	3	3	17,304	65	65
	—	¥ (58)	¥ (58)	—	¥ (4)	¥ (4)	—	\$ (468)	\$ (468)

13. Pension and severance plans

1. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligations	¥ (49,297)	\$ (397,877)
Fair value of plan assets	18,198	146,876
Funded status	(31,099)	(251,001)
Unrecognized transition obligation	2,051	16,554
Unrecognized actuarial gain and loss	1,615	13,035
Net amount recognized	¥ (27,433)	\$ (221,412)

2. The components of net pension and severance costs for the year ended March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 2,495	\$ 20,137
Interest cost	1,623	13,099
Expected return on plan assets	(279)	(2,252)
Amortization of transition obligation	8,991	72,567
Recognized actuarial gain and loss	—	—
Net periodic benefit cost	¥ 12,830	\$ 103,551

3. Assumptions used as of March 31, 2001 were as follows:

Discount rate	3.5%
Expected return rate on plan assets	4.0%

14. Deferred Income Taxes

1. Significant components of the deferred income tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Liabilities for pension and severance payments	¥ 14,167	¥ 1,217	\$ 114,342
Amortization of prior service cost for pension plan	—	9,643	—
Net operating loss carryforwards	9,078	6,741	73,269
Unrealized profits	4,302	4,819	34,721
Accrued expenses	1,026	748	8,281
Other	2,838	1,331	22,906
Gross deferred tax assets	31,411	24,499	253,519
Less valuation allowance	(8,896)	(6,747)	(71,800)
Total deferred tax assets	22,515	17,752	181,719
Deferred tax liabilities:			
Unrealized gains on securities	(18,806)	—	(151,784)
Liabilities for pension and severance payments	(3,558)	—	(28,717)
Property, plant and equipment	(1,621)	(1,336)	(13,083)
Other	(472)	(1,115)	(3,809)
Total deferred tax liabilities	(24,457)	(2,451)	(197,393)
Net deferred tax assets (liabilities)	¥ (1,942)	¥ 15,301	\$ (15,674)

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

	Year ended March 31	
	2001	2000
Statutory income tax rate in Japan	41.6%	(41.6)%
Valuation allowance recognized on current losses of subsidiaries	53.1	—
Permanently nondeductible expenses	8.9	4.9
Permanently nontaxable income	(2.6)	(1.2)
Other	(2.6)	3.0
Effective income tax rate	98.4%	(34.9)%

15. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2001, 2000 and 1999 are outlined as follows:

Business Segments

	Millions of Yen				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2001					
Sales to third parties	¥ 270,594	¥ 117,261	¥ 387,855	—	¥ 387,855
Intergroup sales and transfers	134	7,619	7,753	¥ (7,753)	—
Total sales	270,728	124,880	395,608	(7,753)	387,855
Operating expenses	259,264	116,512	375,776	(7,766)	368,010
Operating income	¥ 11,464	¥ 8,368	¥ 19,832	¥ 13	¥ 19,845
Total assets at end of year	¥ 302,635	¥ 120,519	¥ 423,154	¥ 24,976	¥ 448,130
Depreciation	¥ 16,020	¥ 3,940	¥ 19,960	¥ 123	¥ 20,083
Capital expenditures	¥ 14,867	¥ 3,420	¥ 18,287	¥ (169)	¥ 18,118
Year ended March 31, 2000					
Sales to third parties	¥ 273,088	¥ 119,105	¥ 392,193	—	¥ 392,193
Intergroup sales and transfers	120	8,060	8,180	¥ (8,180)	—
Total sales	273,208	127,165	400,373	(8,180)	392,193
Operating expenses	260,925	120,368	381,293	(8,143)	373,150
Operating income	¥ 12,283	¥ 6,797	¥ 19,080	¥ (37)	¥ 19,043
Total assets at end of year	¥ 277,223	¥ 103,919	¥ 381,142	¥ 35,560	¥ 416,702
Depreciation	¥ 17,592	¥ 4,124	¥ 21,716	¥ 206	¥ 21,922
Capital expenditures	¥ 15,573	¥ 3,660	¥ 19,233	¥ 237	¥ 19,470
Year ended March 31, 1999					
Sales to third parties	¥ 280,007	¥ 121,176	¥ 401,183	—	¥ 401,183
Intergroup sales and transfers	117	7,916	8,033	¥ (8,033)	—
Total sales	280,124	129,092	409,216	(8,033)	401,183
Operating expenses	268,598	124,717	393,315	(7,941)	385,374
Operating income	¥ 11,526	¥ 4,375	¥ 15,901	¥ (92)	¥ 15,809
Total assets at end of year	¥ 286,952	¥ 107,383	¥ 394,335	¥ 30,912	¥ 425,247
Depreciation	¥ 16,867	¥ 4,046	¥ 20,913	¥ 228	¥ 21,141
Capital expenditures	¥ 22,601	¥ 4,555	¥ 27,156	¥ 1,060	¥ 28,216

Thousands of U.S. Dollars

	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2001					
Sales to third parties	\$ 2,183,971	\$ 946,416	\$ 3,130,387	—	\$ 3,130,387
Intergroup sales and transfers	1,081	61,493	62,574	\$ (62,574)	—
Total sales	2,185,052	1,007,909	3,192,961	(62,574)	3,130,387
Operating expenses	2,092,526	940,371	3,032,897	(62,679)	2,970,218
Operating income	\$ 92,526	\$ 67,538	\$ 160,064	\$ 105	\$ 160,169
Total assets at end of year	\$ 2,442,575	\$ 972,712	\$ 3,415,287	\$ 201,581	\$ 3,616,868
Depreciation	\$ 129,297	\$ 31,799	\$ 161,096	\$ 995	\$ 162,091
Capital expenditures	\$ 119,991	\$ 27,602	\$ 147,593	\$ (1,364)	\$ 146,229

Geographical Areas

Millions of Yen

	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2001						
Sales to third parties	¥ 317,500	¥ 61,698	¥ 8,657	¥ 387,855	—	¥ 387,855
Interarea sales and transfers	19,407	213	2,603	22,223	¥ (22,223)	—
Total sales	336,907	61,911	11,260	410,078	(22,223)	387,855
Operating expenses	316,333	63,391	10,543	390,267	(22,257)	368,010
Operating income	¥ 20,574	¥ (1,480)	¥ 717	¥ 19,811	¥ 34	¥ 19,845
Total assets at end of year	¥ 363,656	¥ 58,558	¥ 12,578	¥ 434,792	¥ 13,338	¥ 448,130
Year ended March 31, 2000						
Sales to third parties	¥ 316,695	¥ 65,549	¥ 9,949	¥ 392,193	—	¥ 392,193
Interarea sales and transfers	23,967	673	3,175	27,815	¥ (27,815)	—
Total sales	340,662	66,222	13,124	420,008	(27,815)	392,193
Operating expenses	325,304	64,072	12,427	401,803	(28,653)	373,150
Operating income	¥ 15,358	¥ 2,150	¥ 697	¥ 18,205	¥ 838	¥ 19,043
Total assets at end of year	¥ 358,850	¥ 57,709	¥ 12,611	¥ 429,170	¥ (12,468)	¥ 416,702
Year ended March 31, 1999						
Sales to third parties	¥ 317,115	¥ 73,322	¥ 10,746	¥ 401,183	—	¥ 401,183
Interarea sales and transfers	25,878	3,225	2,480	31,583	¥ (31,583)	—
Total sales	342,993	76,547	13,226	432,766	(31,583)	401,183
Operating expenses	329,350	75,269	12,772	417,391	(32,017)	385,374
Operating income	¥ 13,643	¥ 1,278	¥ 454	¥ 15,375	¥ 434	¥ 15,809
Total assets at end of year	¥ 365,836	¥ 62,665	¥ 15,595	¥ 444,096	¥ (18,849)	¥ 425,247

	Thousands of U.S. Dollars					
	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2001					
Sales to third parties	\$ 2,562,551	\$ 497,965	\$ 69,871	\$ 3,130,387	—	\$ 3,130,387
Interarea sales and transfers	156,634	1,719	21,009	179,362	\$ (179,362)	—
Total sales	2,719,185	499,684	90,880	3,309,749	(179,362)	3,130,387
Operating expenses	2,553,132	511,630	85,092	3,149,854	(179,636)	2,970,218
Operating income	\$ 166,053	\$ (11,946)	\$ 5,788	\$ 159,895	\$ 274	\$ 160,169
Total assets at end of year	\$ 2,935,077	\$ 472,623	\$ 101,517	\$ 3,509,217	\$ 107,651	\$ 3,616,868

Overseas Sales

	Millions of Yen		
	North America	Other	Total
	Year ended March 31, 2001		
(A) Overseas sales	¥ 61,727	¥ 33,880	¥ 95,607
(B) Consolidated net sales			¥ 387,855
(C) (A)/(B) × 100	15.9%	8.8%	24.7%

	Year ended March 31, 2000		
(A) Overseas sales	¥ 66,673	¥ 36,228	¥ 102,901
(B) Consolidated net sales			¥ 392,193
(C) (A)/(B) × 100	17.0%	9.2%	26.2%

	Year ended March 31, 1999		
(A) Overseas sales	¥ 78,604	¥ 45,657	¥ 124,261
(B) Consolidated net sales			¥ 401,183
(C) (A)/(B) × 100	19.6%	11.4%	31.0%

	Thousands of U.S. Dollars		
	North America	Other	Total
	Year ended March 31, 2001		
(A) Overseas sales	\$ 498,200	\$ 273,446	\$ 771,646
(B) Consolidated Net sales			\$ 3,130,387
(C) (A)/(B) × 100	15.9%	8.8%	24.7%

Report of Independent Certified Public Accountants

Century Ota Showa & Co.

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 consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, expressed in Japanese yen, present fairly the financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, the Yokohama Rubber Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for financial instruments, retirement benefits and foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audits 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.

Tokyo, Japan
June 28, 2001

Century Ota Showa & Co.

See Note 1 to the consolidated financial statements, which explains the basis of preparing the consolidated financial statements of The Yokohama Rubber Co., Ltd. under Japanese accounting principles and practices.

Board of Directors and Corporate Auditors

(As of June 28, 2001)

PRESIDENT

Yasuo Tominaga

EXECUTIVE DIRECTORS

Hisao Suzuki

Yoshiro Naitoh

MANAGING DIRECTORS

Kenzo Nakanishi

Kohji Ikawa

Keimei Kiyoura

Seiji Miyashita

DIRECTORS

Kazuo Okamoto

Koji Amano

Takashi Yamashita

Hiroyuki Narukawa

Tadanobu Nagumo

Yuzo Kikuchi

Tetsuya Mizoguchi

Keigo Ueda

Takashi Sugimoto

Toshihiko Shiraki

CORPORATE AUDITORS

Masaaki Kushida

Hajime Iioka

Junnosuke Furukawa

Yuzuru Fujita

Investor Information

(As of March 31, 2001)

COMPANY NAME:	The Yokohama Rubber Co., Ltd.
ESTABLISHED:	October 13, 1917
PAID-IN CAPITAL:	¥38,909 million
HEAD OFFICE:	36-11, Shimbashi 5-chome, Minato-ku Tokyo 105-8685, Japan
PRODUCTION FACILITIES:	Hiratsuka Factory and Mie, Mishima, Shinshiro, Ibaraki and Onomichi plants
INTERNET ADDRESS:	http://www.yrc.co.jp/
AUTHORIZED NUMBER OF SHARES:	480,000,000
ISSUED NUMBER OF SHARES:	342,598,162 (unchanged from fiscal 2000 year-end)
NUMBER OF SHAREHOLDERS:	24,338 (up 650 from fiscal 2000 year-end)
AVERAGE SHARES PER SHAREHOLDER:	14,077
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, Japan
DATE OF RECORD:	March 31
STOCK EXCHANGE LISTINGS:	Tokyo, Osaka, Nagoya