

# ANNUAL REPORT

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The Yokohama Rubber Co., Ltd. Year ended March 31, 1999

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## 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. The Company was established in 1917 and today has expanded its business on a global scale. We have achieved an excellent reputation worldwide for technologically advanced products that meet customer needs in the fields of automobiles, civil engineering, construction, marine engineering, aircraft components and golf products. In recent years, we have reinforced our global manufacturing and marketing structure through plants in Japan, the United States and Asia, and through sales operations in these regions, as well as Europe. Our objective is to build on the loyalty of customers around the world.



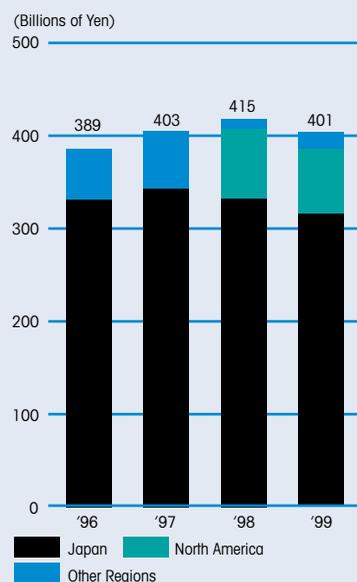
# FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED MARCH 31, 1999 AND 1998

	MILLIONS OF YEN			THOUSANDS OF U.S. DOLLARS
	1999	1998	Percentage change (1999/1998)	1999
NET SALES	¥401,183	¥415,397	(3.4)	\$3,327,938
OPERATING INCOME	15,809	11,668	35.5	131,141
INCOME BEFORE INCOME TAXES	7,731	5,685	36.0	64,131
NET INCOME	3,233	873	270.3	26,819
			Increase (Decrease) (1999-1998)	
TOTAL ASSETS	¥432,457	¥440,420	(7,963)	\$3,587,366
SHAREHOLDERS' EQUITY	105,984	105,478	506	879,170
	YEN			U.S. DOLLARS
	1999	1998		1999
PER SHARE:				
NET INCOME (BASIC)	¥ 9.44	¥ 2.55		0.08
CASH DIVIDENDS	6.00	8.00		0.05

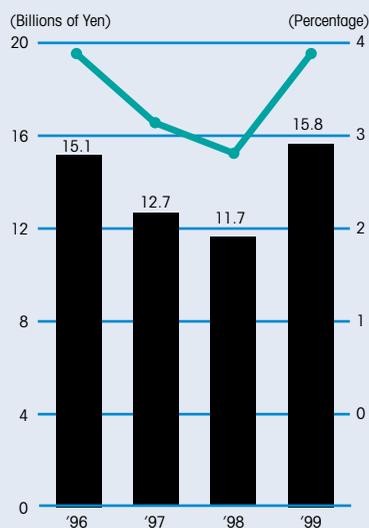
Note: Throughout this report, the United States dollar amounts have been translated from Japanese yen solely for the convenience of readers at the rate of ¥120.55=US\$1, the mean of the telegraphic transfer selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo foreign exchange market on March 31, 1999.

SALES BY REGION

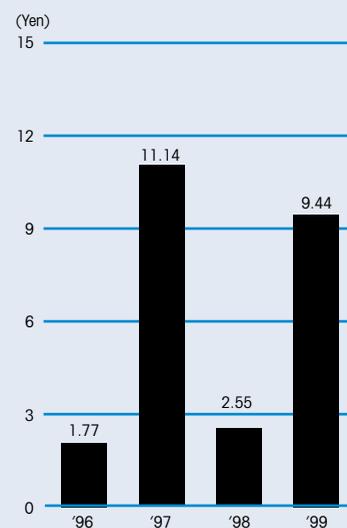


Results for Other Regions include North America until 1997.

OPERATING INCOME AND RATIO OF OPERATING INCOME TO SALES



NET INCOME PER SHARE



# TO OUR SHAREHOLDERS



*Seiji Hagiwara (right), Chairman, and Yasuo Tominaga, President*

## ● THE YEAR IN REVIEW

In fiscal 1999, ended March 31, 1999, the economies of Asia, including Japan, were beset by financial difficulties, but conditions in Europe and the United States were generally robust. Japan—the core market for Yokohama—suffered from ongoing instability of its financial system, and consumer spending and private-sector capital investment remained sluggish. The rubber products industry also endured falling demand. Although the weak yen boosted exports from Japan in the first half of the year, the currency environment underwent a rapid reversal in the fall of 1998.

In this situation, Yokohama endeavored to improve its results by introducing products with superior functions, strengthening its network of dealers, enhancing management efficiency at sales subsidiaries and undertaking aggressive marketing efforts. At the same time, we implemented a variety of cost-cutting measures and related activities to improve our management foundations. However, these steps were insufficient to counter the effects of slow demand in Japan, and as a result our consolidated net sales fell 3.4%, to ¥401,183 million. On the other hand, successful responses to strengthen our U.S. tire company and sales subsidiaries in Japan sustained a 270.3% rise in net income, to ¥3,233 million.

## ● THE DIRECTION OF BUSINESS REFORM

Amid continuing rapid changes in the market for automobiles, Yokohama is actively meeting the challenge of becoming a truly global company with the potential of expanding both sales and earnings. These efforts are encapsulated in the Action 21 Business Reform plan.

The Action 21 Business Reform plan comprises activities to comprehensively restructure our

organization in seven key action areas: businesses, financing, cash position, human resources, operating structure, administration and Group management. Simultaneously, we are working on a series of Urgent Measures for cost reduction to help guarantee a healthy income into the future.

An integral part of the Action 21 Business Reform plan is revamping our business activities. In the Tire Group, our operations are focusing on the three product areas of passenger car radials, radials for light trucks and steel radials for trucks and buses, while our marketing emphasis is on the four markets of Japan, the rest of Asia, North America and exports. In these product areas and markets, we will introduce world-leading technologies, launch new manufacturing methods and establish an integrated logistics system based on an information network. The theme of these activities is to become a more distinctive corporate group by improving our technological capabilities and shortening lead times. In this fashion, through the strengthening our production and marketing structures in individual regions we will improve our market presence, raise efficiency throughout our operations and enhance our cost competitiveness.

In the Multiple Business (MB) Group, our goal is to achieve higher market shares for our adhesives, sealants, hoses, aircraft components and golf products. We will also work to turn high-potential businesses such as antiseismic rubber bearings for bridges and buildings into major profit centers. Further, we currently boast a variety of products that are competitive in the global market, including hydraulic hoses and sealants, which we intend to market even more vigorously. In addition, we will strive to pioneer new business fields while seeking significant cost reductions and higher profitability.

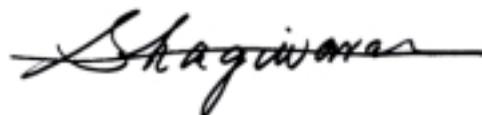
#### ● IMPLEMENTING THE ACTION 21 BUSINESS REFORM PLAN

It is difficult to predict a rapid recovery in consumer spending or capital investment in Japan in fiscal 2000, and concerns have arisen over trends in currency markets and the future direction of the U.S. and European economies, making for a continuing harsh operating environment for the Yokohama Group. To ensure our prosperity in these circumstances, we are working on the two-year Action 21 Business Reform plan launched in April 1999. All of us in the Yokohama Group are committed to realizing the aims of this plan through such measures as reducing our total assets by ¥30.0 billion, our interest-bearing debt by ¥20.0 billion and our personnel by 1,000 employees.

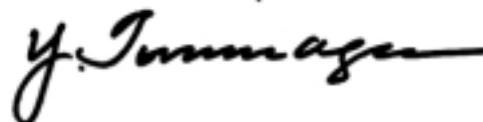
Furthermore, in accordance with the Environmental Action Plan, which is concerned with environmental preservation and was revised in June 1998, we are working not only to reduce carbon dioxide emissions, but also to achieve certification under the ISO 14001 international environmental management standard at all six of our domestic plants by mid-1999. The Mishima, Mie, Shinshiro and Ibaraki plants have already earned this accreditation.

We hope that our shareholders around the world will understand our management stance and extend their continued support into the future.

June 15, 1999



*Shigeo Hasegawa, Chairman*

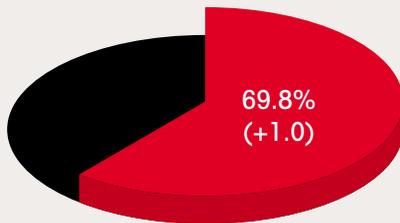


*Y. Iimura, President*

# GROUP AT A GLANCE

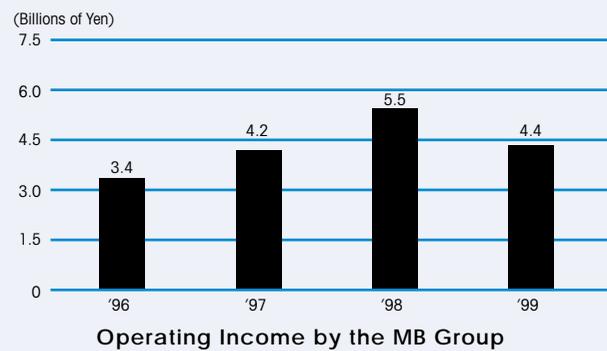
## TIRE GROUP :

**Fiscal 1999 Sales by the Tire Group**  
Percentage of net sales (change from fiscal 1998)



## MB GROUP :

**Fiscal 1999 Sales by the MB Group**  
Percentage of net sales (change from fiscal 1998)



### **Main Products**

Tires for passenger cars, trucks, buses, small 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 26 sales subsidiaries, including Shin Tokyo Yokohama Tire Co., Ltd., and 209 dealerships that also sell our products. 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 eight sales subsidiaries includes Yokohama Reifen GmbH in Germany and Yokohama HPT Ltd. in the United Kingdom.

### **Main Products**

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

### **Manufacturing and Sales Organization**

In the field of products for industrial use, Yokohama and Yokohama Hydrex Co., Ltd., are responsible for manufacturing in Japan, while SAS Rubber Company and YH America, Inc. handle U.S. production and sales. Sales in Japan are handled by Yokohamagomu Industrial Products Tokyo Sales Co., Ltd., and seven other

sales subsidiaries, and by Yokohama Hydrex and Tokyo Hydrex Sales Co., Ltd.

Our golf products are manufactured by Yokohama and marketed in Japan by PRGR Co., Ltd., and in North America by PRGR USA Corporation. Aircraft components are manufactured in Japan and marketed around the world by Yokohama.

# REVIEW OF OPERATIONS

## TIRE GROUP

### The Year at a Glance

In fiscal 1999, sales increased in North America, Europe and Oceania, but were down in Japan and other Asian countries, as well as in the Middle East. In this environment, exports of tires from Japan fell slightly from the previous year, and sales by the Tire Group dipped 2.1%, to ¥280,007 million.

### Results in Japan

#### Figures Down in all Categories

Continuing sluggishness in the Japanese economy resulted in a decrease in sales of tires. To increase tire sales on an original equipment (OE) basis and improve our market share, we applied value analysis and value engineering proposals to promote our products to automakers. However, despite a slight rise in sales of automobiles following the

implementation of new standards for low-displacement cars, domestic automobile production declined 7.0%, to 9.97 million units in fiscal 1999. Our marketing efforts were negatively influenced by this slow demand, and domestic sales were down for the year.

In the replacement tires market, we worked to stimulate demand by introducing products featuring distinctive technologies and functions. These offerings included the PARADA radial tire—with a novel tread pattern to add the precocious touch of a first-rate look to automobiles—the GEOLANDAR I/T studless tire for four-wheel drive vehicles, the DNA—a next-generation **GEOLANDAR I/T** tire with reduced rolling resistance to improve fuel consumption—and a variety of other innovative tires.



*The GEOLANDAR I/T studless tire for four-wheel-drive vehicles has earned high popularity in Japan.*

We also continued our Inch-Up promotional campaign, which encourages car owners to replace existing tires with Yokohama products featuring lower sidewall profiles. The lower sidewall-profile tires, providing unequivocal improvement to cornering, braking and handling performance, are integrated with low noise and high riding comfort:

*The DNA, introduced to the Japanese market in October 1998, is a next-generation, environmentally friendly tire that improves rolling resistance by 10% from previous models and improves fuel consumption.*





## PARADA

*The PARADA, the ideal tire for dressing up cars such as station wagons and minivans, has been particularly popular with young consumers in Japan.*

the requirements of modern vehicles. Through this campaign, we have promoted a range of products, centered on those with high-value-added features. We also strengthened our marketing and brand management during the year under review by expanding the network of our capitalized sales outlets to take the prime move in the marketplace. Our subsidiaries and affiliates increased to 254 as of March 31, 1999, compared with 195 a year earlier. Activities in the Yokohama Group included the integration of wholesale-function subsidiaries—reduced to 26, from 32 at the close of fiscal 1998—the rationalization of distribution and the strengthening of management foundations. Harsh as this situation may be, these endeavors were insufficient to counteract the influence of depressed demand and severe market conditions. Although our unit sales increased slightly in fiscal 1999, a decrease was reported for sales in terms of value.

### *Startup of Integrated Logistics System*

In the fall of 1999 at the Shinshiro Plant we will begin full-scale operations of a new logistics system based on a digital information network that will integrate our product development, production, distribution and sales activities. Using this system, we will be able to significantly shorten the lead time from receipt of orders to delivery. As a result, we

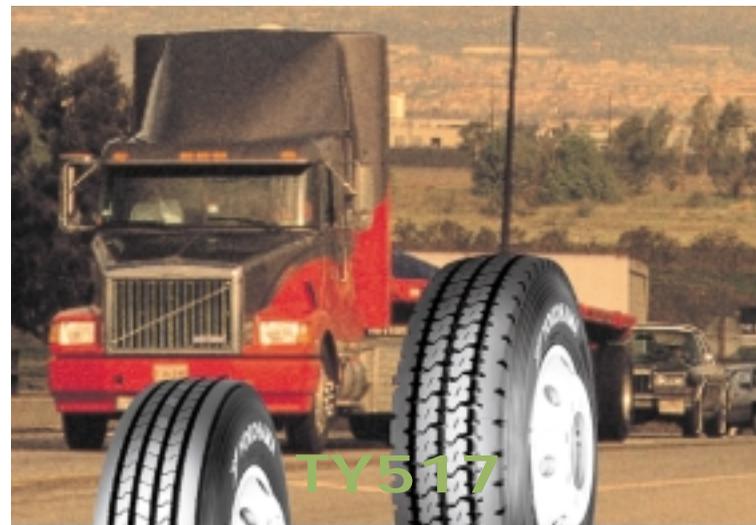
can, for example, achieve a cycle of completion of production plans in about a week.

In addition to enabling us to meet customer needs more effectively, we expect that these efforts will help us cut costs through productivity enhancement and inventory reductions. Furthermore, we intend to introduce these systems in other facilities in the near future.

## Results in North America

### *YTC Sales Increase*

Yokohama's sales in North America are handled by localized production facilities in tandem with exports from Japan. In fiscal 1999, reflecting the health of the U.S. economy, sales in this region increased favorably.



## RY237



## TY517



*Yokohama's steel radials for trucks and buses have earned high acclaim in the United States. Pictured are the RY237 and TY517, two representative products in this area.*

# TIRE GROUP

In this environment, sales of U.S. subsidiary YTC advanced 8.0%, to US\$420 million. Passenger car radials and steel radials for trucks and buses were particularly strong sellers. In October 1998, YTC launched a new production line for radial tires for sport utility vehicles (SUVs), bolstering both capacity and efficiency, and bringing its output to 23,000 tires per day. Meanwhile, YTC expanded sales to independent dealers during the year. Moreover, the company reduced its loss to US\$9.0 million, an improvement of US\$20.0 million from the previous year's loss, thanks to successful efforts to improve its financial position. YTC's new goal has been set to become profitable in fiscal 2000.



*YTC's Salem Plant in Virginia contributed to increased sales of the subsidiary during the year.*

## Results in Asia and Oceania

### *Full-Scale Production in the Philippines and Vietnam*

Yokohama's sales in Asia, centered on passenger car radials, are sustained primarily through exports from Japan. In fiscal 1999, these exports decreased under

the effects of lingering economic slowdown in the region. However, there are still signs of high potential for future growth in Asia, which is why Yokohama reinforced its business in the Philippines and Vietnam during the year.

Yokohama Tire Philippines, an export hub for passenger car radials that began operations in January 1998, commenced exports to Europe, the Middle East, and other countries in Asia. In addition, the company began selling replacement tires in the Philippine market and OE tires to Japanese automakers with facilities in the country. As a result, output reached one million tires for the year.

In other activities in this region, Yokohama Tyre Vietnam commenced production of SPEEDLINE tires for motorcycles in July 1998. In Oceania, sales of our major passenger car radials and tires for SUVs were strong, while exports of these tires from Japan increased considerably.



*Yokohama supplies tires for races such as the Daytona 24 Hours and Le Mans 24 Hours. This photo is from the 45th Macao Grand Prix in November 1998, for which we were the sole tire supplier.*



## GEOLANDAR A/T

*The GEOLANDAR A/T, a high-performance tire for four-wheel-drive vehicles, performed well in Oceania.*

### **Targeting Further Growth**

In March 1999, Yokohama Tire Philippines was certified under the ISO 9002 series of international quality management standards. This company is now working to achieve output of 1.6 million tires in fiscal 2000. Yokohama Tyre Vietnam plans to introduce tires for scooters and expand its sales channels with the objective of annual tire production of 320,000. This subsidiary is also planning to enter the market for light truck tires.

### **Results in Europe and Other Regions**

In Europe, where our operations center on the sale of passenger car radials, our high-performance tires have earned an excellent reputation for quality. Sales of these tires increased in fiscal 1999 against the backdrop of the generally strong regional economy. As full-scale exports from Yokohama Tire Philippines began during the year, we were able to enhance our product lineup in Europe. In fiscal 2000, we plan to begin sales of our AVS SPORT ultrahigh-performance tires, further expand our sales efforts and raise brand awareness in an effort to increase sales.

In the Middle East, we mainly export passenger car radials and steel radials for trucks and buses. In the year under review, falling crude oil prices restricted purchasing power, and our exports decreased on a fiscal basis. In the first half of fiscal 2000, steady increases in the price of oil are expected to help turn our results around, while we also plan further introductions of new tires to the market.



## AVS SPORT

*Yokohama plans to introduce the AVS SPORT as its global flagship product for ultrahigh-performance tires.*



# MB GROUP

## The Year at a Glance

Sales of antiseismic rubber bearings, marine hoses and aircraft components increased in fiscal 1999, but slack consumer spending and capital investment and a drop in housing starts led to decreases in demand for our sealant products, conveyor belts, hoses and golf products. As a result, sales by the Multiple Business (MB) Group shrunk 6.4%, to ¥121,176 million.



*Yokohama is the top brand of sealing materials for construction use in Japan. Pictured is SUPER II, our primary product in this area.*

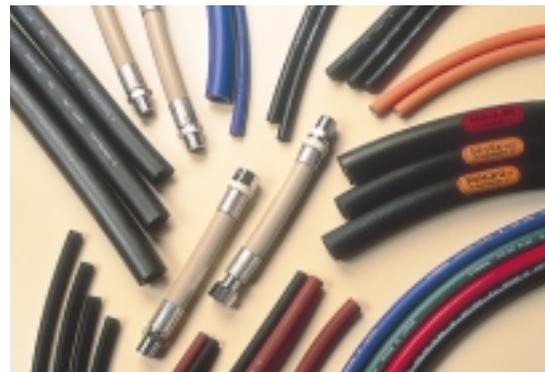
## HAMATITE® Products

HAMATITE® is Japan's top brand of sealants for buildings. We also hold nearly half of the domestic market for industrial sealing materials for windshield sealants on an OE basis to

automakers. In the year under review, we launched a new HAMATITE® sealant designed to maintain the external appearance of buildings. Also, we commercialized AD GUARD PC-1, the world's first one-part, room temperature-curable epoxy resin adhesive. Removing the necessity of mixing different liquids to produce this sealant greatly simplifies work at construction sites. In fiscal 1999, mainly because of restrained capital investment, automobile production and housing starts in Japan, sales in this category fell from the previous year.

## Hoses

Yokohama leads the Japanese market for hydraulic hoses. We fabricate the hoses, while Group company Yokohama Hydrex assembles them with couplings before sale. In the year under review, reduced automobile production and decreased output by mining and construction equipment companies led to a drop in our hose sales.



*Yokohama produces a variety of hydraulic hoses for applications from automobiles to mining and construction equipment.*



*Sales expanded for our marine hoses in fiscal 1999.*

## Fenders and Marine Hoses

Most of our fenders and marine hoses are exported outside Japan. In fiscal 1999, active promotion efforts allowed us to significantly increase sales of marine hoses.



*We anticipate a bright future for our antiseismic rubber bearings for buildings.*

## Antiseismic Rubber Bearings

Yokohama entered the market for antiseismic rubber bearings with its introduction of bearings for bridges in fiscal 1995. We first launched bearings for

*In fiscal 1999, these three drivers in our PRGR H/S series helped us improve our market share despite the sluggish domestic golf market.*



buildings in fiscal 1997. Our renowned high-attenuation rubber, which is used in these bearings, quickly alleviates vibrations from earthquakes. Sales were strong in the year under review, doubling from figures recorded two years ago.

## Golf Products

In the PRGR brand, which enjoys an excellent reputation in the high-end golf products market, Yokohama markets drivers, irons, caddy bags and highly permeable shirts. In fiscal 1999, we released three new drivers in the PRGR H/S series, and the overall market share of PRGR expanded. However, the drop in personal spending in Japan caused the golf products market to contract approximately 20%, and our sales edged down as a result.

# MB GROUP

## Aircraft Components

In this category, sales of lavatory modules and drinking water tanks to The Boeing Company of the United States were favorable, and orders for components made from composite materials increased from aircraft manufacturers in Japan. Thus, overall sales in this category were up from a year earlier.



*Yokohama also manufactures components for rockets. Pictured is a coil tube for rocket heat exchanges.*



*Lavatory modules for The Boeing Company are produced with advanced composite materials.*



*YH America in Kentucky began manufacturing windshield sealant in the period under review.*

## Overseas Production

To meet the needs of automakers and construction companies with operations outside Japan, Yokohama is strengthening its overseas manufacturing of hoses and sealants. In the United States, SAS Rubber, which produces automobile hoses for the North American market, began supplying products to Ford Motor Company. YH America, our other base for automobile hoses in the North American market, handles hose and coupling assembly. In June 1998, YH America began full-scale production of windshield sealants for supply to U.S. affiliates of Japanese automakers.

Yokohama Rubber (Thailand) Co., Ltd., is responsible for producing windshield sealants and assembling hoses and couplings for our customers in Asia. Although the Thai economy continued to contract in fiscal 1999, we are working to maintain our operations in the country by promoting exports and reducing costs by, for example, purchasing more materials locally.



# INNOVATIVE RESEARCH AND DEVELOPMENT

*Yokohama's R&D organization is equipped to respond effectively to changes in the marketplace, owing to its active promotion of information exchange between product design, manufacturing and sales divisions throughout the Yokohama Group. In this area, we concentrate on technologies to ensure high product performance, minimal costs, low energy consumption and environmental preservation. We place particular emphasis on developing new and composite materials.*

## Technologies for Silica Composite Tires

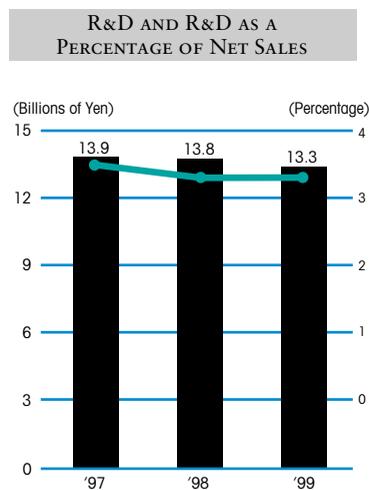
Silica composite tires are attracting attention throughout the industry as environmentally friendly next-generation tires. These tires offer superior grip and minimized fuel consumption by reducing rolling resistance, while ensuring excellent performance. However, the difficulty of effectively forming composites of silica and rubber has meant costly and complex processing. As research and product development are pursued around the world to resolve these issues, Yokohama is ahead of the competition with its development of two unique technologies.

**ZERUMA** • Developed by Yokohama in 1996, Zeruma is a new processing auxiliary that improves the performance of silica composite tires while reducing production costs. This additive, a liquid compound, possesses a molecular structure that acts as an intermediary between silica and rubber. Zeruma evenly distributes silica components through rubber, enabling the resulting composite to fully achieve its performance potential. Also, Zeruma reduces compounding and vulcanizing times, simplifying processing and enhancing productivity.

**SILICA SURFACE-TREATED CARBON BLACK** • In October 1998, Yokohama announced a new technology to chemically combine silica with carbon surfaces before compounding with rubber. We named the technology based on this material Silica Surface-Treated Carbon Black. Compared with conventional compounding technologies, Yokohama's new technique makes it possible to distribute small amounts of silica evenly, thereby reducing production costs. In addition, rubber processed in this manner not only lowers fuel consumption while increasing tire grip, it also raises tire abrasion resistance by strengthening the compounding capability of rubber.

## New Materials

**VELAREN** • In 1997, we successfully developed a dynamic vulcanization and continuous kneading technology that unifies the curing and kneading processes, thus enabling the blending of plastics with different kinds of rubber. Velaren, the rubber-plastic compound resulting from this technology, is employed in a series of new materials that are light and easy to recycle, and which contribute to resource conservation and energy efficiency by enabling manufacturers to downsize products. Currently, we are using Velaren materials in water-shielding sheets for civil engineering use, but we also foresee applications in such fields as tires and sports products.



# ENVIRONMENTAL PROTECTION

*Yokohama pursues its business objectives under the theme of QCDE, or quality, cost, delivery and environmental protection. Maintaining high QCDE standards is essential if a company is to compete successfully in the global market. Of particular importance to all good corporate citizens in the next century will be ensuring that our environment is healthy. Yokohama's commitment to the environment is evident in the many ecological activities it has undertaken since the beginning of the 1990s.*

## **Environmental Action Plan and Environmental Management Standards**

Since Yokohama enacted its Environmental Action Plan in 1993, our corporate obligations have grown and evolved. Consequently, in June 1998 we revised the plan, outlining new goals in the process. In addition to working to reduce industrial waste and carbon dioxide emissions from our facilities, we set the objective of attaining the ISO 14001 international standard for environmental management at all six of our plants in Japan. The Mishima Plant fulfilled requirements in July and the Mie Plant in December 1998, while the Shinshiro and Ibaraki plants reached the standard in May and June 1999, respectively.

## **Life Cycle Assessment Method for Tires Helps Reduce Carbon Dioxide**

In July 1998, Yokohama established a Life Cycle Assessment (LCA) method for tires. Analysis under this system, from production to disposal of a tire, has shown that between 80% and 90% of the carbon dioxide produced is generated during its usage. Consequently, we realized that the most effective way to cut carbon dioxide emissions from tires is to enhance performance by, for example, improving rolling and abrasion resistance. Using the data from this analysis, we continue to develop products that have minimal negative impact on the environment.

## **A Television Campaign for Maintaining Tire Air Pressure**

Yokohama began airing a unique series of television promotions in July 1998 with the message of contributing to environmental protection by regularly checking the air pressure of tires. Insufficient air pressure increases rolling resistance, thereby adversely affecting fuel efficiency.

## **Yokohama Sole Tire Supplier for U.S. Electric Vehicle Race**

The Americas Electric Challenge is a nationwide series of races sponsored by Electric Vehicle Technology Competitions, Ltd., of the United States. In support of the spirit of this event, which aims to promote both fun and environmental protection, Yokohama lends its support by being the sole supplier of tires for the ABB University Spec Series, one group of races within the Americas Electric Challenge. In 1998, 10 races were held in this series in locations such as Indianapolis Motor Speedway in Indiana.

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# FINANCIAL REVIEW

## OPERATING RESULTS

### Sales

In fiscal 1999, consolidated net sales of The Yokohama Rubber Co., Ltd., and its consolidated subsidiaries shrank 3.4% from the previous fiscal year, to ¥401,183 million. Although sales of YTC and other overseas subsidiaries expanded, the severe operating environment in Japan led to reduced sales of Yokohama and its domestic sales subsidiaries.

### Cost of Sales and Selling, General and Administrative Expenses

Efforts such as cost reduction by YTC in North America and sales subsidiaries in Japan helped decrease cost of sales 5.8% from the previous year, to ¥281,245 million. Selling, general and administrative expenses fell 1.0% from a year earlier, to ¥104,129 million, mainly because of a reduction in personnel expenses throughout the Yokohama Group.

### Operating Income

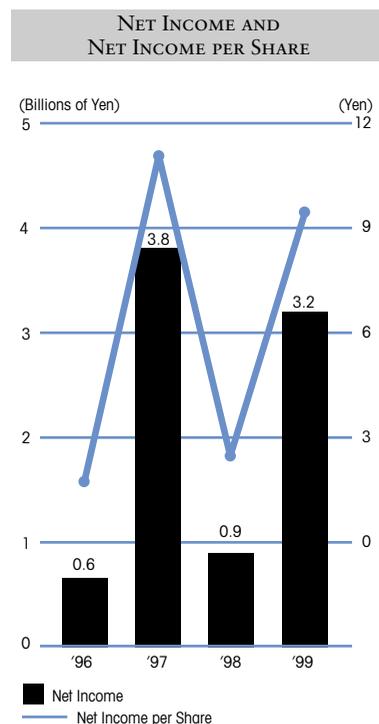
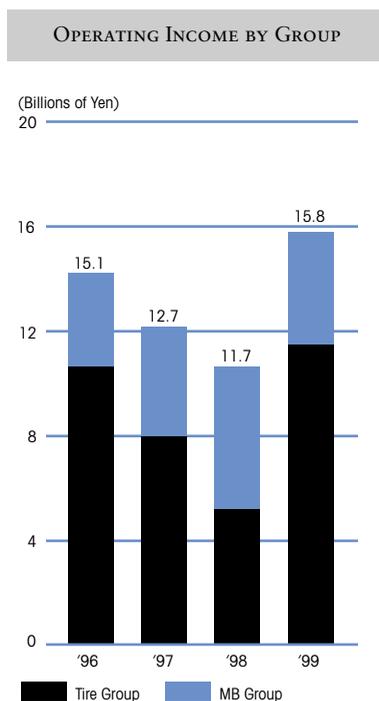
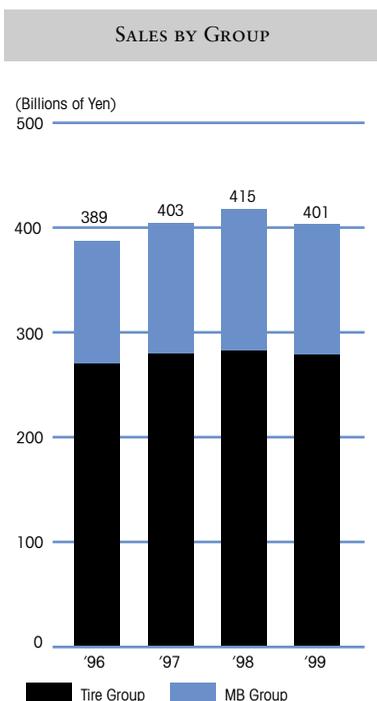
Reduced cost of sales and selling, general and administrative expenses more than offset the decline in net sales, resulting in a rise in operating income to ¥15,809 million, or an increase of 35.5% over the previous fiscal year.

### Net Income

The Yokohama Group's net income soared 270.3%, to ¥3,233 million. Basic net income per share amounted to ¥9.44, up from ¥2.55 in fiscal 1998.

### Capital Expenditures and Depreciation

Capital expenditures by the Group amounted to ¥28,216 million, up 3.6%, and depreciation edged down 2.0%, to ¥21,141 million. A total of ¥22,601 million was invested in the Tire Group, mainly to introduce new passenger car radials and to rationalize and expand production facilities for steel radials for trucks and buses. Investment in the Multiple Business Group totaled ¥4,555 million, which was applied mainly to reinforce and



rationalize production equipment for sealants, rubber bearings for bridges and civil aircraft components. Other capital expenditures came to ¥1,060 million. In fiscal 2000, the Group forecasts capital expenditures of ¥22,800 million and depreciation of ¥20,800 million.

## FINANCIAL POSITION AND CASH FLOWS

### Assets

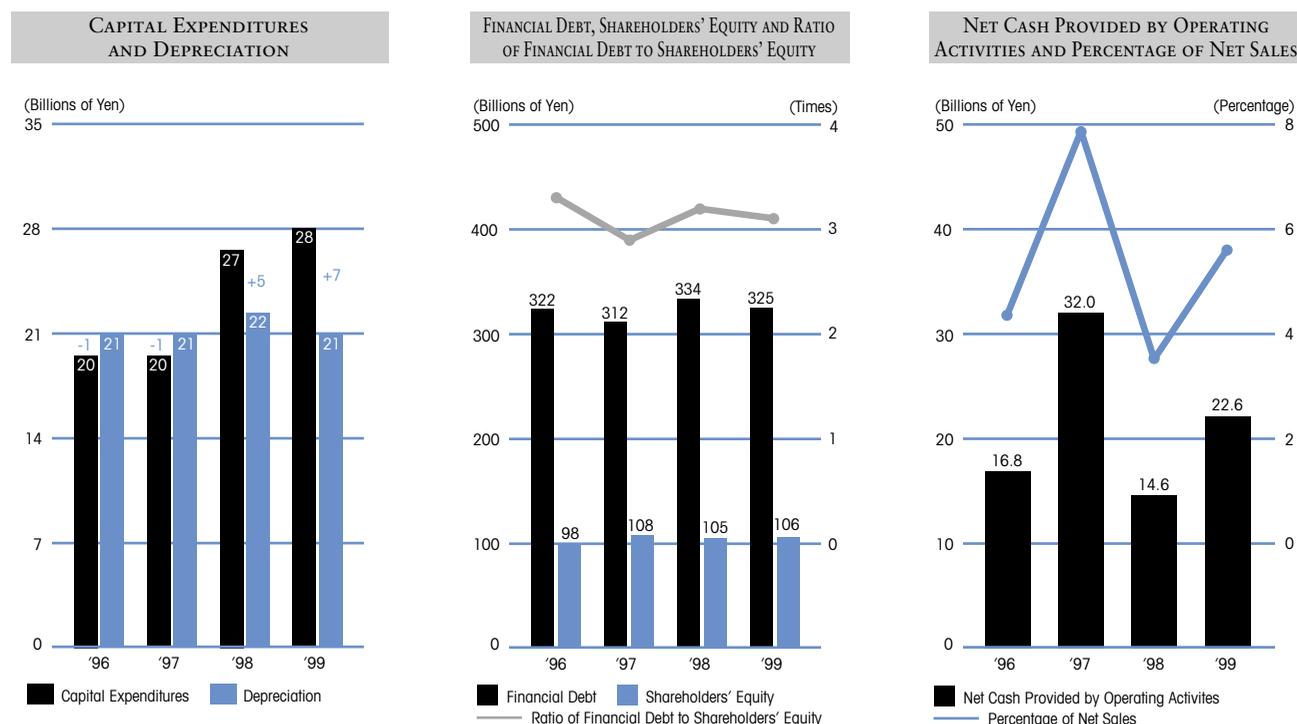
The Yokohama Group's total assets stood at ¥432,457 million at March 31, 1999, up ¥7,963 from a year earlier. Current assets declined ¥20,165 million, to ¥224,637 million, chiefly attributable to a drop in trade receivables resulting from lower sales by the parent company and reduced inventories by Yokohama, YTC and domestic tire sales subsidiaries. On the other hand, active capital expenditures in YTC and domestic manufacturing facilities increased property, plant and equipment ¥9,768 million, to ¥163,740 million.

### Liabilities and Shareholders' Equity

Current liabilities dropped ¥23,183 million, to ¥241,002 million, owing primarily to a decrease in trade notes and accounts payable and the maturity of convertible bonds. Long-term liabilities expanded ¥14,109 million, to ¥83,785 million, as new straight bonds were issued, and long-term debt increased. In this environment, total liabilities fell ¥9,074 million, to ¥324,787 million. Total shareholders' equity amounted to ¥105,984 million, up ¥506 million from a year earlier.

### Cash Flows

Net cash provided by operating activities came to ¥22,563 million in fiscal 1999, leading to a 5.6% ratio of net cash provided by operating activities to net sales. Net cash used in investing activities was ¥22,925 million, and net cash used in financing activities was ¥1,258 million. In this situation, cash and time deposits at the fiscal year-end totaled ¥21,842 million, a drop of ¥1,620 million from a year earlier.



## SEGMENT INFORMATION

### Business Groups

Influenced by the drop in sales of tires by the parent company, sales by the Tire Group shrank 2.1%, to ¥280,007 million. However, the Tire Group's operating income climbed 120.2%, to ¥11,526 million, mainly because of successful cost-reduction efforts at YTC and domestic tire sales subsidiaries. Sales by the Multiple Business Group were down 6.4%, to ¥121,176 million, and operating income slumped 21.0%, to ¥4,375 million.

### Regions

Sales by the Yokohama Group in Japan amounted to ¥371,115 million, a 6.7% contraction, negatively affected by the depressed market. However, cost cutting by the parent company and domestic tire sales subsidiaries sustained a 14.9% rise in operating income, to ¥13,643 million. In North America, a strong performance by YTC contributed to a 12.9% advance in regional sales, to ¥73,322 million, and operating income jumped to ¥1,278 million, from a loss of ¥405 million a year earlier. Sales in other regions expanded 1.9%, to ¥10,746 million, and operating income was propelled 241.4%, to ¥454 million.

### Forecast for Fiscal 2000

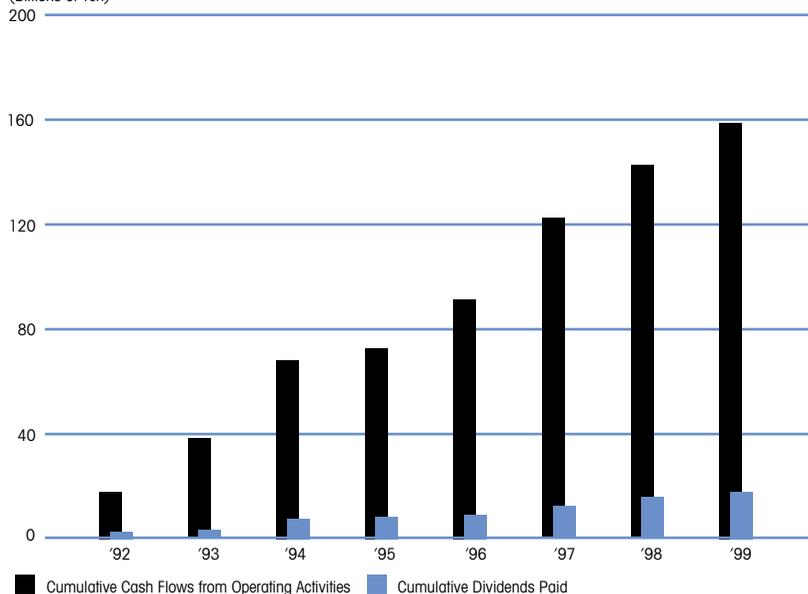
The Yokohama Group anticipates increased sales by consolidated subsidiaries, generating a 2% rise in consolidated net sales, to ¥410,000 million. The Group also forecasts that profitability improvements by the parent company will contribute to a 14% growth in operating income, to ¥18,000 million. Net income is forecast at ¥4,500 million, up 39% from the fiscal 1999 figure.

### Y2K Countermeasures

The Year 2000, or Y2K computer bug is recognized by the Yokohama Group as an important management issue. The Group is currently implementing comprehensive countermeasures throughout its information, production, logistics and materials procurement systems. These countermeasures, including the production of risk management manuals, are expected to be completed by September 30, 1999.

## CUMULATIVE CASH FLOWS AND DIVIDENDS PAID SINCE 1992

(Billions of Yen)



## SIX-YEAR SUMMARY

FISCAL YEARS ENDED MARCH 31, 1999, 1998, 1997, 1996 AND 1995, AND DECEMBER 31, 1994

	MILLIONS OF YEN					
	1999	1998	1997	1996	1995	1994
Net Sales	¥401,183	¥415,397	¥402,652	¥389,304	¥ 80,145	¥379,363
Operating Income	15,809	11,668	12,681	15,136	1,934	15,210
Income before Income Taxes	7,731	5,685	13,808	6,054	121	7,605
Net Income (Loss)	3,233	873	3,753	563	(601)	2,091
Depreciation	21,141	21,566	21,167	21,146	5,066	22,262
Capital Expenditures	28,216	27,229	20,316	20,038	—	—
R&D Expenditures	13,300	13,800	13,900	—	—	—
Interest-Bearing Debt	215,245	209,132	188,428	203,120	201,131	201,555
Shareholders' Equity	105,984	105,478	108,306	97,907	96,012	96,664
Total Assets	432,457	440,420	420,939	423,749	407,997	416,351
<b>Per Share (Yen):</b>						
Net Income (Loss) (Basic) ¥	9.44	¥ 2.55	¥ 11.44	¥ 1.77	¥ (1.93)	¥ 7.18
Cash Dividends	6.00	8.00	8.00	8.00	2.00	8.00
<b>Share Price (Yen):</b>						
High	¥ 351	¥ 563	¥ 707	¥ 678	¥ 687	¥ 745 688*
Low	255	290	475	439	488	528 647*
Fiscal Year-End	314	319	504	665	489	647
Common Stock Issued	342,598,162	342,598,162	342,598,162	323,642,673	316,655,465	301,570,565
Number of Employees	12,107	12,325	12,267	12,743	—	13,254

**Notes:**

1. The fiscal period ended March 31, 1995, was a special three-month fiscal period resulting from a change in Yokohama's fiscal year.
2. An asterisk (\*) denotes stock prices adjusted following stock splits.

# CONSOLIDATED BALANCE SHEETS

THE YOKOHAMA RUBBER CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
AS OF MARCH 31, 1999 AND 1998

ASSETS	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	1999	1998	1999
<b>Current Assets:</b>			
Cash and time deposits (Note 4)	¥ 21,842	¥ 23,462	\$ 181,186
Marketable securities (Note 4)	30,930	29,213	256,574
Trade receivables:			
Notes and accounts (Notes 4 and 6)	106,426	113,128	882,837
Allowance for doubtful receivables	(5,480)	(4,096)	(45,458)
Inventories (Note 3)	58,483	63,913	485,135
Deferred income taxes	4,009	4,899	33,256
Other current assets	8,427	14,283	69,904
<b>Total current assets</b>	<b>224,637</b>	<b>244,802</b>	<b>1,863,434</b>
<b>Property, Plant and Equipment, at Cost (Notes 4 and 5):</b>			
Land	30,399	29,694	252,169
Buildings and structures	105,929	100,331	878,714
Machinery and equipment	316,159	297,700	2,622,638
Construction in progress	8,379	10,930	69,507
	460,866	438,655	3,823,028
Less accumulated depreciation	(297,126)	(284,683)	(2,464,753)
<b>Total property, plant and equipment, net</b>	<b>163,740</b>	<b>153,972</b>	<b>1,358,275</b>
<b>Investments and Other Assets:</b>			
Investment securities	6,987	8,081	57,959
Long-term loans receivable	3,617	4,884	30,004
Deferred income taxes	94	—	780
Other investments and other assets	26,687	25,820	221,377
Allowance for doubtful receivables	(515)	(536)	(4,272)
<b>Total investments and other assets</b>	<b>36,870</b>	<b>38,249</b>	<b>305,848</b>
Foreign currency translation adjustments	7,210	3,397	59,809
<b>Total</b>	<b>¥ 432,457</b>	<b>¥ 440,420</b>	<b>\$ 3,587,366</b>

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	1999	1998	1999
<b>Current Liabilities:</b>			
Bank loans	¥115,734	¥122,460	\$ 960,050
Current maturities of long-term debt (Note 4)	7,705	23,021	63,915
Commercial paper	23,000	10,500	190,792
Trade notes and accounts payable	62,152	71,730	515,570
Accrued income taxes	1,580	2,665	13,107
Accrued expenses	17,706	19,431	146,877
Other current liabilities	13,125	14,378	108,876
<b>Total current liabilities</b>	<b>241,002</b>	<b>264,185</b>	<b>1,999,187</b>
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 4)	68,808	53,151	570,784
Other long-term liabilities	4,846	4,573	40,199
Liabilities for severance benefits	10,131	11,718	84,040
Deferred income taxes	—	234	—
<b>Total long-term liabilities</b>	<b>83,785</b>	<b>69,676</b>	<b>695,023</b>
Minority interests	1,686	1,081	13,986
Contingent liabilities (Note 6)			
<b>Shareholders' Equity:</b>			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 342,598,162 shares	38,909	38,909	322,762
Capital surplus	31,893	31,893	264,562
Retained earnings (Note 8)	35,182	34,676	291,846
<b>Total shareholders' equity</b>	<b>105,984</b>	<b>105,478</b>	<b>879,170</b>
<b>Total</b>	<b>¥432,457</b>	<b>¥440,420</b>	<b>\$ 3,587,366</b>

# CONSOLIDATED STATEMENTS OF INCOME

THE YOKOHAMA RUBBER CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 1999, 19998 AND 1997

	MILLIONS OF YEN			THOUSANDS OF U.S. DOLLARS (NOTE 1)
	1999	1998	1997	1999
Net sales	¥ 401,183	¥ 415,397	¥ 402,652	\$ 3,327,938
Cost of sales	281,245	298,551	288,800	2,333,015
	119,938	116,846	113,852	994,923
Selling, general and administrative expenses	104,129	105,178	101,171	863,782
Operating income	15,809	11,668	12,681	131,141
Other income (expenses)				
Interest income and dividends received	1,156	1,145	1,454	9,589
Interest expense	(6,260)	(5,533)	(5,790)	(51,929)
Other—net	(2,974)	(1,595)	5,463	(24,670)
	(8,078)	(5,983)	1,127	(67,010)
Income before income taxes	7,731	5,685	13,808	64,131
Income taxes (Note 2):				
Current	3,954	5,945	10,229	32,800
Deferred	504	(1,111)	(221)	4,180
	4,458	4,834	10,008	36,980
Minority interests in net income of consolidated subsidiaries	(40)	22	(47)	(332)
Net income	¥ 3,233	¥ 873	¥ 3,753	\$ 26,819
<b>Per share amounts:</b>				
	YEN			U.S. DOLLARS (NOTE 1)
Net income: Basic	¥ 9.44	¥ 2.55	¥ 11.14	\$ 0.08
Net income: Diluted	—	—	¥ 11.10	—
Cash dividends	¥ 6.00	¥ 8.00	¥ 8.00	\$ 0.05

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THE YOKOHAMA RUBBER CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 1999, 1998 AND 1997

	SHARES OF COMMON STOCK	MILLIONS OF YEN		
		COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS
Balance at March 31, 1996	323,642,673	¥34,233	¥27,217	¥36,457
Increase resulting from changes in equity in consolidated subsidiaries	—	—	—	5
Net income	—	—	—	3,753
Cash dividends paid	—	—	—	(2,636)
Directors' and statutory auditors' bonuses	—	—	—	(75)
Common stock issued upon exercise of warrants	18,955,489	4,676	4,676	—
Balance at March 31, 1997	342,598,162	38,909	31,893	37,504
Decrease resulting from changes in equity in consolidated subsidiaries	—	—	—	(885)
Net income	—	—	—	873
Cash dividends paid	—	—	—	(2,741)
Directors' and statutory auditors' bonuses	—	—	—	(75)
Balance at March 31, 1998	342,598,162	38,909	31,893	34,676
Increase in retained earnings due to addition of consolidated subsidiaries	—	—	—	73
Net income	—	—	—	3,233
Cash dividends paid	—	—	—	(2,740)
Directors' and statutory auditors' bonuses	—	—	—	(60)
Balance at March 31, 1999	342,598,162	¥38,909	¥31,893	¥35,182

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS
Balance at March 31, 1998	\$322,762	\$264,562	\$287,648
Increase in retained earnings due to addition of consolidated subsidiaries	—	—	606
Net income	—	—	26,819
Cash dividends paid	—	—	(22,729)
Directors' and statutory auditors' bonuses	—	—	(498)
Balance at March 31, 1999	\$322,762	\$264,562	\$291,846

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, 1999, 19998 AND 1997

	MILLIONS OF YEN			THOUSANDS OF U.S. DOLLARS (NOTE 1)
	1999	1998	1997	1999
<b>Operating Activities:</b>				
Net income	¥ 3,233	¥ 873	¥ 3,753	\$ 26,819
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	21,141	21,566	21,167	175,371
Provision for severance benefits, less payments	(1,587)	(328)	141	(13,164)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	64	99	(114)	531
Deferred income taxes—non-current	5	(70)	(111)	41
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	6,702	2,507	(2,021)	55,595
Inventories	5,430	(3,898)	556	45,043
Other current assets	1,216	(7,410)	5,008	10,087
Notes and accounts payable	(9,578)	3,491	(2,460)	(79,452)
Other current liabilities	(4,063)	(2,205)	6,080	(33,704)
Net cash provided by operating activities	22,563	14,625	31,999	187,167
<b>Investing Activities:</b>				
Additions to property, plant and equipment	(28,199)	(27,060)	(20,323)	(233,920)
Increase in investments	(1,391)	(553)	(2,763)	(11,539)
Proceeds from sales of investment securities and properties	4,425	2,052	7,542	36,707
Other, net	2,240	(4,294)	(6,626)	18,582
Net cash used in investing activities	(22,925)	(29,855)	(22,170)	(190,170)
<b>Financing Activities:</b>				
Decrease in short-term bank loans and current maturities of long-term debt	(22,042)	(10,893)	(15,212)	(182,845)
Increase (decrease) in commercial paper	12,500	7,500	3,000	103,691
Proceeds from long-term debt	20,121	33,644	8,420	166,910
Decrease in long-term debt	(9,097)	(10,205)	(10,900)	(75,462)
Common stock issued upon exercise of warrants	—	—	9,351	—
Payment of cash dividends	(2,740)	(2,741)	(2,635)	(22,729)
Net cash provided by (used in) financing activities	(1,258)	17,305	(7,976)	(10,435)
Increase (decrease) in cash and time deposits	(1,620)	2,075	1,853	(13,438)
Cash and time deposits at beginning of year	23,462	21,387	19,534	194,624
Cash and time deposits at end of year	¥21,842	¥23,462	¥21,387	\$ 181,186

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.

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 1998 and 1997 consolidated financial statements to conform to the classifications used in 1999.

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 ¥120.55=U.S.\$1.00, the approximate exchange rate prevailing on March 31,1999.

## 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

Current foreign currency receivables and payables are translated at the year-end rates, and non-current receivables and payables at historical rates.

### (3) Marketable Securities and Investment Securities

Marketable securities are carried at the lower of cost or market and investment securities are carried at cost. Costs are determined by the moving average method.

### (4) 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.

### (5) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided at an estimated amount of probable bad debt plus the maximum amount which is deductible under the Japanese income tax law.

### (6) 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.

### (7) Liabilities 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 Companies generally provide for this liability at 40% of the amount which would be required to be paid if all employees voluntarily terminated their service at the balance sheet date.

The Company and certain consolidated subsidiaries have non-contributory pension plans for their termination caused by age limit. Contributions to the pension fund are charged to income when made.

The liabilities also include provisions for retirement payments for directors and statutory auditors determined according to the Company's internal rules.

In addition to providing pension and severance plan 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."

### (8) Income Taxes

Income taxes in Japan comprise a corporation tax, enterprise tax and prefectural and municipal inhabitants' taxes.

The income tax effect of timing differences resulting from the elimination of intercompany profits and other consolidation entries is recognized as deferred income taxes.

### (9) Revenue Recognition

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

### (10) Research and Development Costs

Research and development costs are charged to income as incurred.

### (11) Net income per Share

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

### (12) 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, 1999 and 1998 consisted of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Finished products	¥ 43,351	¥ 48,035	\$ 359,610
Work in process	7,453	7,930	61,825
Raw materials and supplies	7,679	7,948	63,700
	¥ 58,483	¥ 63,913	\$ 485,135

## 4. LONG-TERM DEBT

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
1.7% convertible bonds due 1998	—	¥ 14,800	—
2.65% straight bonds due 2004	¥ 10,000	10,000	\$ 82,953
2.175% straight bonds due 2002	10,000	10,000	82,953
2.2% straight bonds due 2003	10,000	—	82,953
Loans, principally from banks and insurance companies	46,513	41,372	385,840
	76,513	76,172	634,699
Less current maturities	7,705	23,021	63,915
	¥ 68,808	¥ 53,151	\$ 570,784

Assets pledged to secure bank loans and long-term debt at March 31, 1999 and 1998 were as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Time deposits	—	¥ 18	—
Marketable securities	¥ 6,816	331	\$ 56,541
Notes receivable	458	1,119	3,799
Property, plant and equipment	92,638	86,283	768,461
	¥ 99,912	¥ 87,751	\$ 828,801

## 5. DEPRECIATION

Depreciation charges were as follows:

	MILLIONS OF YEN			THOUSANDS OF U.S. DOLLARS
	1999	1998	1997	1999
Selling, general and administrative expenses	¥ 1,945	¥ 2,342	¥ 2,202	\$ 16,134
Manufacturing costs	¥19,196	¥19,224	¥18,965	\$159,237

## 6. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 1999 and 1998 were as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Notes discounted and endorsed	¥2,099	¥3,196	\$17,412
Guarantees	¥1,693	¥5,625	\$14,044

## 7. LEASES

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

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Acquisition costs	¥6,002		\$49,788
Accumulated depreciation	2,998		24,869
Net book value	¥3,004		\$24,919

The Companies have commitments payable under finance leases as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Within one year	¥1,205	¥1,101	\$ 9,996
After one year	1,799	1,966	14,923
	¥3,004	¥3,067	\$24,919

Lease expenses under finance leases for the years ended March 31, 1999 and 1998 aggregated approximately ¥1,263 million (\$10,477 thousand) and ¥1,113 million, respectively.

Rental payments under non-cancellable operating leases were as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	1999	1998	1999
Within one year	¥1,281	¥1,482	\$10,626
After one year	6,467	6,526	53,646
	¥7,748	¥8,008	\$64,272

## 8. RETAINED EARNINGS AND DIVIDENDS

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

On June 29, 1999, the shareholders authorized payment of a cash dividend to shareholders of record on March 31, 1999 of ¥3.00 (\$0.03) per share, or a total of ¥1,027 million (\$8,519 thousand).

## 9. SEGMENT INFORMATION

The business and geographical segment information for the Companies for the year ended March 31, 1999, 1998 and 1997 is outlined as follows :

### Business Segments

	MILLIONS OF YEN				
	TIRES	MULTIPLE BUSINESS	TOTAL	ELIMINATIONS AND CORPORATE	CONSOLIDATED
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	¥ 286,952	¥107,383	¥394,335	¥38,122	¥432,457
Depreciation	¥ 16,867	¥ 4,046	¥ 20,913	¥ 228	¥ 21,141
Capital expenditures	¥ 22,601	¥ 4,555	¥ 27,156	¥ 1,060	¥ 28,216
Year ended March 31, 1998					
Sales to third parties	¥ 286,000	¥ 129,397	¥415,397	—	¥415,397
Intergroup sales and transfers	126	8,900	9,026	¥ (9,026)	—
Total sales	286,126	138,297	424,423	(9,026)	415,397
Operating expenses	280,892	132,757	413,649	(9,920)	403,729
Operating income	¥ 5,234	¥ 5,540	¥ 10,774	¥ 894	¥ 11,668
Total assets	¥ 292,743	¥114,428	¥407,171	¥33,249	¥440,420
Depreciation	¥ 17,314	¥ 4,009	¥ 21,323	¥ 243	¥ 21,566
Capital expenditures	¥ 19,569	¥ 6,465	¥ 26,034	¥ 1,195	¥ 27,229
Year ended March 31, 1997					
Sales to third parties	¥ 283,884	¥ 118,768	¥ 402,652	—	¥ 402,652
Intergroup sales and transfers	128	7,949	8,077	¥ (8,077)	—
Total sales	284,012	126,717	410,729	(8,077)	402,652
Operating expenses	276,010	122,502	398,512	(8,541)	389,971
Operating income	¥ 8,002	¥ 4,215	¥ 12,217	¥ 464	¥ 12,681
Total assets	¥ 279,607	¥ 108,070	¥ 387,677	¥33,262	¥ 420,939
Depreciation	¥ 17,485	¥ 3,453	¥ 20,938	¥ 229	¥ 21,167
Capital expenditures	¥ 16,387	¥ 3,717	¥ 20,104	¥ 212	¥ 20,316

THOUSANDS OF U.S. DOLLARS

	TIRES	MULTIPLE BUSINESS	TOTAL	ELIMINATIONS AND CORPORATE	CONSOLIDATED
Year ended March 31, 1999					
Sales to third parties	\$2,322,745	\$1,005,193	\$3,327,938	—	\$3,327,938
Intergroup sales and transfers	971	65,665	66,636	\$ (66,636)	—
Total sales	2,323,716	1,070,858	3,394,574	(66,636)	3,327,938
Operating expenses	2,228,104	1,034,566	3,262,670	(65,873)	3,196,797
Operating income	\$ 95,612	\$ 36,292	\$ 131,904	\$ (763)	\$ 131,141
Total assets	\$2,380,356	\$ 890,776	\$3,271,132	\$316,234	\$3,587,366
Depreciation	\$ 139,917	\$ 33,563	\$ 173,480	\$ 1,891	\$ 175,371
Capital expenditures	\$ 187,482	\$ 37,785	\$ 225,267	\$ 8,793	\$ 234,060

Geographical Areas

MILLIONS OF YEN

	JAPAN	NORTH AMERICA	OTHER	TOTAL	ELIMINATIONS AND CORPORATE	CONSOLIDATED
Year ended March 31, 1999						
Sales to third parties	¥317,115	¥ 73,322	¥10,746	¥401,183	—	¥401,183
Intergroup 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
Year ended March 31, 1998						
Sales to third parties	¥339,882	¥ 64,966	¥10,549	¥415,397	—	¥415,397
Intergroup sales and transfers	22,436	2,818	—	25,254	¥(25,254)	—
Total sales	362,318	67,784	10,549	440,651	(25,254)	415,397
Operating expenses	350,448	68,189	10,416	429,053	(25,324)	403,729
Operating income (loss)	¥ 11,870	¥ (405)	¥ 133	¥ 11,598	¥ 70	¥ 11,668
Year ended March 31, 1997						
	JAPAN	FOREIGN	TOTAL	ELIMINATIONS AND CORPORATE	CONSOLIDATED	
Sales to third parties	¥348,746	¥ 53,906	¥402,652	—	¥402,652	
Intergroup sales and transfers	13,155	1,068	14,223	¥(14,223)	—	
Total sales	361,901	54,974	416,875	(14,223)	402,652	
Operating expenses	347,211	56,941	404,152	(14,181)	389,971	
Operating income (loss)	¥ 14,690	¥ (1,967)	¥ 12,723	¥ (42)	¥ 12,681	

	THOUSANDS OF U.S. DOLLARS					CONSOLIDATED
	JAPAN	NORTH AMERICA	OTHER	TOTAL	ELIMINATIONS AND CORPORATE	
	Year ended March 31, 1999					
Sales to third parties	\$2,630,568	\$608,229	\$ 89,141	\$3,327,938	—	\$3,327,938
Intergroup sales and transfers	214,666	26,752	20,573	261,991	\$(261,991)	—
Total sales	2,845,234	634,981	109,714	3,589,929	(261,991)	3,327,938
Operating expenses	2,732,061	624,379	105,948	3,462,388	(265,591)	3,196,797
Operating income	\$ 113,173	\$ 10,602	\$ 3,766	\$ 127,541	\$ 3,600	\$ 131,141

Overseas Sales	MILLIONS OF YEN (THOUSANDS OF U.S. DOLLARS)			MILLIONS OF YEN		
	NORTH AMERICA	OTHER	TOTAL	NORTH AMERICA	OTHER	TOTAL
	Year ended March 31, 1999			Year ended March 31, 1998		
(A) Overseas sales	¥78,604 (\$652,044)	¥45,657 (\$378,740)	¥124,261 (\$1,030,784)	¥68,101	¥51,253	¥119,354
(B) Net sales			¥401,183 (\$3,327,938)			¥415,397
(C) (A)/(B) × 100	19.6%	11.4%	31.0%	16.4%	12.3%	28.7%

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, totaled ¥100,141 million, or 24.9% of consolidated net sales for the year ended March 31, 1997.

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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## Showa Ota & Co. CERTIFIED PUBLIC ACCOUNTANTS

HIBIYA KOKUSAI BUILDING  
2-3, UCHISAIWAI-CHO 2-CHOME,  
CHIYODA-KU, TOKYO  
100-0011, JAPAN,  
PHONE: 03-3503-1100  
TELEX: 02224127 SACTOK J

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

We have examined the consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999 expressed in Japanese yen. Our examinations 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, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1999 are presented solely for convenience. Our examination 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 29, 1999

*Showa Ota & Co.*

## PRINCIPAL CONSOLIDATED SUBSIDIARIES AND AFFILIATES

COMPANY	PAID-IN CAPITAL	PERCENTAGE OF EQUITY (%)	MAIN BUSINESSES
<b>JAPAN</b>			
Yokohama Tire Kinki Sales Co., Ltd.*	¥386,000,000	99.5	Sales of tires and related products
Shin Tokyo Yokohama Tire Co., Ltd.*	¥300,000,000	100.0	Sales of tires and related products
Yokohama Tire Chubu Sales Co., Ltd.*	¥300,000,000	93.8	Sales of tires and related products
Hokkaido Yokohama Tire Sales Co., Ltd.*	¥298,000,000	97.3	Sales of tires and related products
Yokohama Tire Kyushu Sales Co., Ltd.*	¥212,000,000	88.7	Sales of tires and related products
Yokohama Tire Chiba Sales Co., Ltd.*	¥275,000,000	99.1	Sales of tires and related products
Yokohama Tire Kanto Sales Co., Ltd.*	¥209,000,000	91.1	Sales of tires and related products
Yokohama Tire Shikoku Sales Co., Ltd.*	¥180,000,000	73.3	Sales of tires and related products
Yokohama Tire Hokuriku Sales Co., Ltd.*	¥160,000,000	96.3	Sales of tires and related products
Yokohama Tire Kanagawa Sales Co., Ltd.*	¥100,000,000	100.0	Sales of tires and related products
YFC Co., Ltd.*	¥105,000,000	100.0	Sales of automobile-related products
Sanyo Retread Co., Ltd.*	¥200,000,000	100.0	Production and sales of retread tires
Tokyo Retread Co., Ltd.*	¥160,000,000	90.6	Production and sales of retread tires
Yokohamagomu Industrial Products Tokyo Sales Co., Ltd.*	¥107,000,000	98.6	Sales of Multiple Business Group products
Yokohamagomu Industrial Products Hokkaido Sales Co., Ltd.*	¥100,000,000	100.0	Sales of Multiple Business Group products
Yokohamagomu Industrial Products Chubu Sales Co., Ltd.*	¥100,000,000	100.0	Sales of Multiple Business Group products
Yokohamagomu Industrial Products Kansai Sales Co., Ltd.*	¥100,000,000	100.0	Sales of Multiple Business Group products
Yokohamagomu Industrial Products Kyushu Sales Co., Ltd.*	¥100,000,000	100.0	Sales of Multiple Business Group products
Tokyo Hamatite Corporation*	¥100,000,000	100.0	Sales of Multiple Business Group products
Yokohama Hydex Co., Ltd.*	¥490,000,000	100.0	Assembling and sales of hydraulic hoses
Hamagomu Aicom Inc.*	¥100,000,000	100.0	Information-processing services
<b>THE UNITED STATES</b>			
Yokohama Tire Corporation*	US\$30,000,000	100.0	Production and sales of tires and related products
GTY Tire Company	US\$10,000,000	33.4	Production and sales of tires and related products
Yokohama Corporation of America*	US\$36,070,000	100.0	Capital participation in GTY and sales of tires
SAS Rubber Company*	US\$4,000,000	100.0	Production and sales of hydraulic hoses
Yokohama Corporation of North America*	US\$82,350,000	100.0	Holding of shares in YTC and other companies
YH America, Inc.*	US\$7,370,000	100.0	Assembling and sales of hydraulic hoses Production and sales of windshield sealants
PRGR USA Corporation	US\$200,000	100.0	Sales of golf products

Note: The companies listed above represent the principal subsidiaries and affiliates of Yokohama Rubber. The total number of subsidiaries and affiliates of Yokohama Rubber was 307 as of March 31, 1999. Companies marked with an asterisk (\*) represent consolidated subsidiaries.

COMPANY	PAID-IN CAPITAL	PERCENTAGE OF EQUITY (%)	MAIN BUSINESSES
<b>CANADA</b>			
Yokohama Tire (Canada) Inc.*	C\$2,500,000	80.0	Sales of tires and related products
<b>THE PHILIPPINES</b>			
Yokohama Tire Philippines, Inc.*	P625,000,000	80.0	Production and sales of tires and related products
<b>VIETNAM</b>			
Yokohama Tyre Vietnam Company	US\$2,100,000	56.0	Production and sales of tires and related products
<b>THAILAND</b>			
Yokohama Rubber (Thailand) Co., Ltd.	B90,000,000	70.0	Assembling and sales of hydraulic hoses Production and sales of windshield sealants
<b>TAIWAN</b>			
Shieh Chi Industrial Co., Ltd.	NT\$244,145,000	49.0	Production and sales of hydraulic hoses
<b>AUSTRALIA</b>			
Yokohama Tyre Australia Pty., Ltd.*	A\$4,000,000	60.0	Sales of tires and related products
<b>THE UNITED KINGDOM</b>			
Yokohama HPT Ltd.	£417,000	33.4	Sales of tires and related products
<b>ITALY</b>			
Yokohama Italia S.P.A.	L2,500,000,000	15.0	Sales of tires and related products
<b>SWITZERLAND</b>			
Yokohama (Suisse) SA	SFr400,000	20.0	Sales of tires and related products
<b>SWEDEN</b>			
Yokohama Scandinavia AB	SKr2,000,000	56.0	Sales of tires and related products
<b>GERMANY</b>			
Yokohama Reifen GmbH*	DM2,100,000	75.0	Sales of tires and related products
<b>AUSTRIA</b>			
Yokohama Austria GmbH	S2,500,000	51.0	Sales of tires and related products
<b>DENMARK</b>			
Yokohama Danmark A/S	DKr1,000,000	71.3	Sales of tires and related products
<b>THE NETHERLANDS</b>			
Yokohama Rubber Finance Europe B.V.*	DGL300,000	100.0	Financing, borrowing and fund management activities

# BOARD OF DIRECTORS AND CORPORATE AUDITORS

(AS OF JUNE 29, 1999)

CHAIRMAN	Seiji Hagiwara
PRESIDENT	Yasuo Tominaga
EXECUTIVE DIRECTORS	Ryohei Tsunokuma Hiroshi Hirakawa
MANAGING DIRECTORS	Kenzo Nakanishi Toshihiko Hiyama Yoshiro Naitoh Hisao Suzuki Kohji Ikawa
DIRECTORS	Kazuhisa Akutagawa Masaaki Kushida Keimei Kiyoura Kazuo Okamoto Noriaki Tateno Koji Amano Seiji Miyashita Takashi Yamashita Takeshi Takao Hiroyuki Narukawa Tadanobu Nagumo
CORPORATE AUDITORS	Eika Yamagata Hajime Iioka Yasuyuki Wakahara Kengo Tomomatsu

## CORPORATE DATA

(AS OF MARCH 31, 1999)

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:	<a href="http://www.yrc.co.jp/">http://www.yrc.co.jp/</a>

### STOCK INFORMATION

AUTHORIZED NUMBER OF SHARES:	480,000,000
ISSUED NUMBER OF SHARES:	342,598,162 (unchanged from fiscal 1998 year-end)
NUMBER OF SHAREHOLDERS:	20,448 (up 2,952 from fiscal 1998 year-end)
AVERAGE SHARES PER SHAREHOLDER:	16,755

### INVESTOR INFORMATION

SETTLEMENT DATE:	March 31
GENERAL MEETING OF SHAREHOLDERS:	June
TRANSFER AGENT:	The Chuo Trust & Banking Co., Ltd. 7-1, Kyobashi 1-chome, Chuo-ku, Tokyo, Japan
DATE OF RECORD:	March 31
STOCK EXCHANGE LISTINGS:	Tokyo, Osaka, Nagoya