Financial Section

Financial Review

Operating results

Net sales declined 9.8%, to ¥466.4 billion in fiscal 2010, ended March 31, 2010. Sales declined in Yokohama's Tire Group and in the Company's MB (diversified products) Group. In the Tire Group, sales began to recover in Japan and overseas in the fiscal fourth quarter, but that recovery was insufficient to offset weakness in the fiscal first half. In the MB Group, sales increased in golf products but declined in high-pressure hoses, conveyor belts, and other principal products.

Cost of sales declined 12.3%, to ¥323.7 billion, reflecting the decline in sales volume and declines in raw material costs. Selling, general and administrative expenses declined 10.6%, to ¥121.2 billion. That decline resulted mainly from declines in logistics expenses and other variable costs and from the Company's progress in trimming costs. Research and development expenses, included in cost of sales and in selling, general and administrative expenses, declined 13.1%, to ¥13.3 billion.

Operating income increased 67.5%, to ¥21.5 billion, and the operating profit margin increased 2.1 points, to 4.6%. The principal reasons for the improvement in operating profitability were the factors cited above in regard to cost of sales and to selling, general and administrative expenses.

Other expenses, net of other income, totaled ¥2.5 billion, compared with ¥16.0 billion in the previous fiscal year. The appreciation of the yen was more modest than in the previous fiscal year, and that resulted in a large decline in translation losses on foreign currency denominated receivables and on yen-denominated liabilities at overseas subsidiaries.

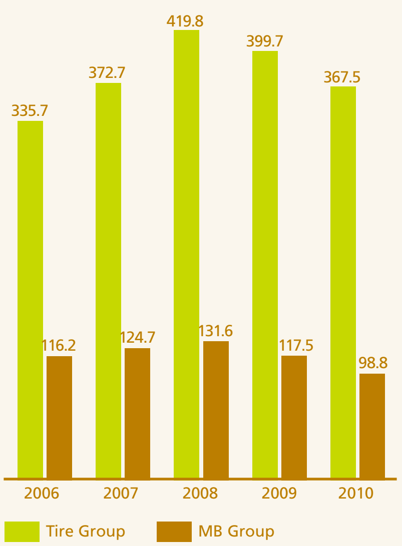
Yokohama recorded income before income taxes and minority interests of ¥19.0 billion, compared with a loss before income taxes and minority interests of ¥3.2 billion in the previous fiscal year, and income taxes increased ¥5.0 billion, to ¥7.1 billion. The Company recorded net income of ¥11.5 billion, compared with a net loss of ¥5.7 billion in the previous fiscal year.

Results by segment

By business segment

Sales declined 8.1% in Yokohama's Tire Group, to ¥367.5 billion, and operating income increased nearly 2.1-fold, to ¥20.5 billion. As noted elsewhere, sales began to recover in Japan and overseas in the fiscal fourth quarter, but that recovery was insufficient to offset weakness in the fiscal first half. The increase in operating profitability reflected the declines in raw material costs and progress in trimming costs.

Sales by Group
Billions of Yen



Operating Income by Group
Billions of Yen

In Yokohama's MB Group, sales declined 15.9%, to ¥98.8 billion, and operating income declined 74.3%, to ¥880 million. As noted elsewhere, sales increased in golf products but declined in high-pressure hoses, conveyor belts, and other principal products.

By geographical segment
Sales in Japan declined 9.8%, to ¥324.0 billion, and operating income increased 3.8-fold, to ¥16.8 billion. The sales decline comprised declines in tires and in diversified products. The increase in operating profitability reflected the declines in raw material costs and the Company's progress in trimming costs.

In North America, sales declined 11.0%, to ¥90.6 billion, and operating income declined 46.5%, to ¥2.2 billion. Sales of tires turned upward in the fiscal second half, but the upturn was insufficient to offset the decline in the fiscal first half. The appreciation of the yen also weighed on sales and on earnings.

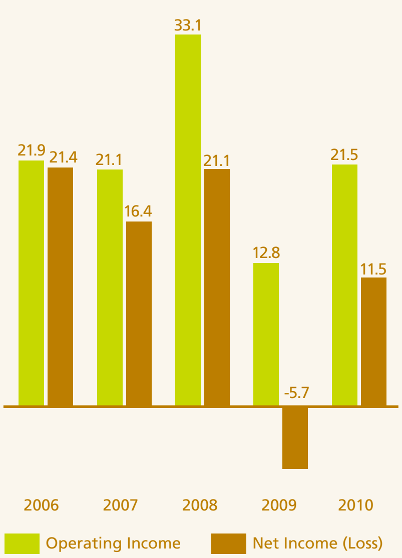
Sales declined 7.1% in Asian nations besides Japan, to ¥22.0 billion, and operating income increased 70.7%, to ¥3.4 billion. The sales decline resulted from declining sales in MB products, especially high-pressure hoses, which more than offset growth in tires. As in Japan, the decline in raw material costs occasioned improvement in profitabity despite the weakness in sales.

In other regions, sales declined 8.3%, to ¥29.8 billion, and operating income declined 68.7%, to ¥483 million. Yokohama posted strong growth in tires in Russia, but its tire sales declined in other nations of Europe and in Oceania. Also undermining sales was the appreciation of the yen.

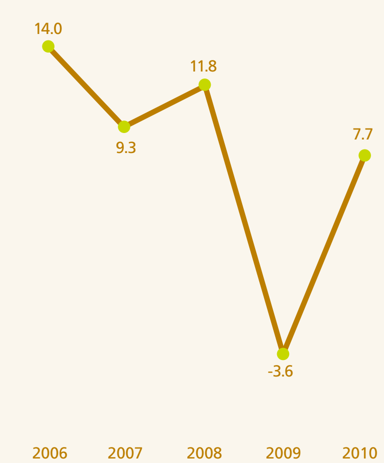
Capital spending

Capital spending declined 59.7%, to ¥17.5 billion. Yokohama funded that investment with a combination of internally generated funds and borrowings. In the Tire Group, capital spending totaled ¥14.8 billion. That total included ¥6.5 billion of investment at the parent company for expanding production capacity, for raising productivity, and for improving product quality. It also included ¥3.8 billion of investment at Yokohama Tire Manufacturing (Thailand) Co., Ltd., for expanding production capacity for tires for passenger cars and light trucks and for building a proving ground. In the MB Group, capital spending totaled ¥2.4 billion. That investment was mainly for expanding production capacity for high-pressure hoses.

Operating Income and Net Income (Loss)
Billions of Yen



Return on Shareholders' Equity
Percent



Financial position

Total assets declined ¥6.4 billion, to ¥467.0 billion at fiscal year-end. Notes and accounts receivable increased on account of the sales upturn in the fiscal second half, but Yokohama made progress in paring inventories, and liquid assets declined ¥13.0 billion from the previous fiscal year-end. Investment securities increased ¥15.4 billion on account of a recovery in the market prices of equities.

Total liabilities declined ¥25.6 billion, to ¥303.6 billion at fiscal year-end. Accounting for most of that decline was a decline of ¥24.7 billion in interest-bearing debt. The decline in total liabilities also included a decline in accrued expenses that resulted partly from Yokohama's progress in trimming costs. Net assets increased ¥19.2 billion, to ¥163.4 billion. That increase occurred as the improvement in net profitability bolstered retained earnings and as an increase in unrealized gains on listed equity shares bolstered Yokohama's unrealized gains on securities.

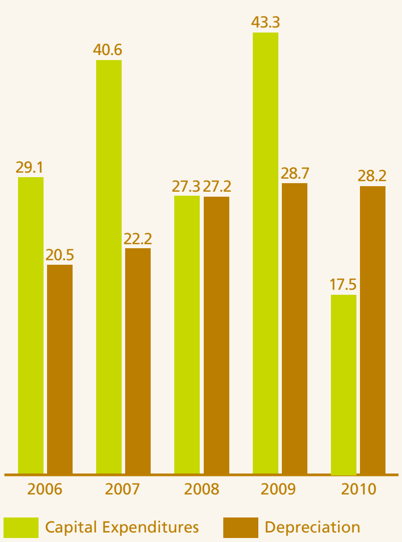
Cash flow

Net cash provided by operating activities increased ¥30.2 billion, principally because of the improvement in profitability before income taxes and minority interests and because of a reduction in inventories. Net cash used in investing activities declined ¥13.8 billion, reflecting the curtailment of capital spending. Free cash flow—net cash provided by operating activities less net cash used in investing activities—thus increased ¥44.0 billion, to ¥24.6 billion. The Company used the increase in free cash flow to repay borrowings and to fund dividend payments. Net cash used in financing activities totaled ¥29.4 billion. Cash and cash equivalents at year-end declined ¥4.7 billion, to ¥11.6 billion.

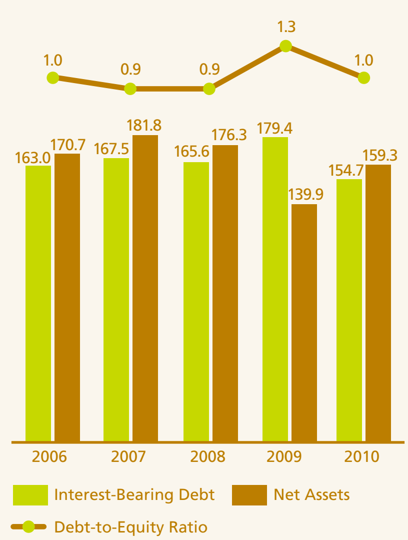
Fiscal outlook

Yokohama's projections for fiscal 2011 call for net sales to increase 11.5%, to ¥520.0 billion; for operating income to decline 16.1%, to ¥18.0 billion; and for net income to decline 30.4%, to ¥8.0 billion. Underlying the projected sales growth is an expected upturn in demand occasioned by economic recovery. The projected declines in operating income and net income reflect management's expectations of a further strengthening of the yen and an increase in raw material costs.

Capital Expenditures and Depreciation
Billions of Yen



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



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

Risk

Below is a partial listing of risks that could adversely affect the Company's business performance, financial position, or share price. All references to possible future events are from the standpoint of the fiscal year ended March 31, 2010.

Economic conditions

Vehicle tires account for most of the Company's worldwide revenues. Demand for those tires reflects economic conditions in nations and regions where the Company sells its products. Therefore, economic trends and developments that diminish demand in the Company's main markets—including Japan, North America, Europe, and Asian nations besides Japan—could adversely affect the Company's business performance and financial position.

Exchange rates

The Company conducts most of its business transactions and investment in yen, but it conducts some transactions and investment in dollars and in other currencies. The Company continues to expand its operations globally. That expansion will increase the Company's exposure to fluctuations in currency exchange rates. The Company hedges its exposure to currency exchange rates with forward exchange contracts and with other instruments, but hedging cannot fully offset the effect of fluctuations in currency exchange rates on the Company's business performance and financial position.

Seasonal factors

Historically, the Company's sales and earnings performance has tended to be stronger in the fiscal second half (October to March) than in the first half (April to September). That is partly because sales of studless snow tires are an important contributor to the Company's sales and earnings. It is also partly because purchases of warm-weather tires are most vigorous during the fiscal second half. A later-than-usual onset of winter or lighter-than-usual snowfall could diminish demand for snow tires and thereby adversely affect the Company's business performance and financial position.

Raw material prices

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

Access to funding

Instability in any of the world's principal financial markets could affect the Company's access to funding adversely. In addition, the lowering of the Company's credit rating by leading credit-rating agencies could adversely affect the Company's access to debt financing and could increase the Company's cost of funds. That could adversely affect the Company's financial performance and financial position.

Interest rates

As of March 31, 2010, the Company's interest-bearing debt was equivalent to 33.8% of its total assets. An increase in interest rates could adversely affect the Company's financial performance and financial position.

Securities

The Company owns marketable securities, mainly Japanese equities. A decline in the value of those securities could adversely affect the Company's financial performance and financial position.

Investment

In response to growing demand for automobile tires, the Company is investing in expanding its tire production capacity, especially in Asia. Changes in the regulatory environment, in economic conditions, in industrial circumstances, or in political and social stability in the host nations for the Company's investment could adversely affect the Company's business performance and financial position.

Retirement benefit obligations

The Company calculates retirement benefit obligations and retirement benefit expenses according to predetermined criteria, including expected returns on pension assets. If actual return on the Company's pension assets declined substantially below the expected return, that could adversely affect the Company's financial performance and financial position. Similarly, if the Company revised its retirement plan in a manner that increased future payment obligations as a result of unforeseen changes in actuarial calculations or for any other reason, that that could adversely affect the Company's financial performance and financial position.

Natural disasters

Earthquakes and other natural disasters could damage the Company's plants and other facilities and could limit the Company's access to essential raw materials and services. That could adversely affect the Company's business performance and financial position.

Eleven-Year Summary

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

	2010	2009	2008	2007
Net sales	**¥466,358**	¥517,263	¥551,431	¥497,396
Operating income	**21,455**	12,808	33,119	21,070
Income (loss) before income taxes and minority interests	**18,969**	(3,166)	20,478	26,038
Net income (loss)	**11,487**	(5,654)	21,060	16,363
Depreciation	**28,184**	28,684	27,238	22,166
Capital expenditures	**17,471**	43,341	27,292	40,638
R&D expenditures	**13,280**	15,277	15,289	14,649
Interest-bearing debt	**154,675**	179,379	165,614	167,474
Total net assets	**163,382**	144,159	181,538	186,528
Total assets	**466,973**	473,376	526,192	536,322
Per share (yen):				
Net income (loss): basic	**¥ 34.27**	¥ (16.87)	¥ 62.81	¥ 48.79
Net assets	**475.26**	417.45	525.96	542.10
Cash dividends	**10.00**	10.00	13.00	12.00
Key financial ratios:				
Operating margin (%)	**4.6**	2.5	6.0	4.2
Return on shareholders' equity (%)	**7.7**	(3.6)	11.8	9.3
Capital turnover (times)	**1.0**	1.0	1.0	1.0
Interest-bearing debt to shareholders' equity (times)	**1.0**	1.3	0.9	0.9
Interest coverage (times)	**8.0**	4.3	9.0	7.0
Number of employees	**17,566**	16,772	16,099	15,423

Millions of Yen

2006	2005	2004	2003	2002	2001	2000
¥451,911	¥419,789	¥401,718	¥400,448	¥399,824	¥387,855	¥392,193
21,947	20,955	21,073	23,184	22,701	19,845	19,043
22,673	16,337	16,931	18,778	16,076	7,052	(13,692)
21,447	11,322	10,331	10,144	7,363	96	(9,009)
20,491	19,616	19,199	19,040	19,247	20,083	21,922
29,067	27,533	23,735	22,708	16,940	18,118	19,470
14,557	14,265	13,818	12,520	12,298	11,827	11,626
163,022	151,758	159,700	167,832	179,098	191,289	198,930
174,609	139,534	130,622	114,719	116	114,205	96,837
502,014	432,717	429,350	412,626	437,771	448,130	425,927
¥ 62.75	¥ 32.95	¥ 29.95	¥ 29.38	¥ 21.32	¥ 0.28	¥ (26.30)
508.64	398.24	373.23	327.61	334.24	328.81	276.54
10.00	8.00	8.00	8.00	6.00	—	6.00
4.9	5.0	5.2	5.8	5.7	5.1	4.9
14.0	8.6	8.6	8.9	6.5	0.1	(9.0)
1.0	1.0	1.0	0.9	0.9	0.9	0.9
1.0	1.1	1.2	1.5	1.6	1.7	2.1
10.1	11.2	9.2	7.9	4.9	3.5	3.7
14,617	13,464	13,264	12,979	13,130	13,362	13,764

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	**2010**	2009	**2010**
Current Assets:			
Cash and deposits	**¥ 11,561**	¥ 16,274	**$ 124,256**
Trade receivables:			
Notes and accounts (Note 6)	**103,400**	91,103	**1,111,353**
Inventories (Note 3)	**67,612**	86,976	**726,701**
Deferred income taxes (Note 15)	**7,990**	8,240	**85,872**
Other current assets	**8,890**	9,912	**95,555**
Allowance for doubtful receivables	**(916)**	(1,008)	**(9,843)**
Total current assets	**198,537**	211,497	**2,133,894**
Property, Plant and Equipment, at Cost (Notes 4, 5 and 10):			
Land	**34,413**	34,778	**369,870**
Buildings and structures	**138,442**	134,710	**1,487,984**
Machinery and equipment	**403,587**	390,334	**4,337,784**
Leased assets	**2,082**	1,484	**22,378**
Construction in progress	**6,620**	14,632	**71,154**
	585,144	575,938	**6,289,170**
Less accumulated depreciation	**(401,191)**	(381,644)	**(4,312,029)**
Total property, plant and equipment, net	**183,953**	194,294	**1,977,141**
Investments and Other Assets:			
Investment securities (Note 12)	**59,257**	43,869	**636,899**
Deferred income taxes (Note 15)	**5,970**	9,116	**64,171**
Other investments and other assets	**20,169**	16,174	**216,775**
Allowance for doubtful receivables	**(913)**	(1,575)	**(9,814)**
Total investments and other assets	**84,483**	67,585	**908,031**
Total assets	**¥466,973**	¥473,376	**$5,019,066**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of Yen 2010	2009	Thousands of U.S. Dollars (Note 1) 2010
Current Liabilities:			
Bank loans	**¥ 74,770**	¥ 77,649	**$ 803,637**
Current maturities of long-term debt (Note 4)	**23,295**	15,538	**250,372**
Commercial paper	**—**	19,000	**—**
Trade notes and accounts payable	**69,858**	71,385	**750,834**
Accrued income taxes	**1,942**	1,608	**20,875**
Accrued expenses	**25,457**	29,791	**273,616**
Other current liabilities (Note 15)	**10,665**	12,365	**114,631**
Total current liabilities	**205,987**	227,336	**2,213,965**
Long-Term Liabilities:			
Long-term debt (Note 4)	**56,610**	67,193	**608,446**
Deferred income taxes (Note 15)	**8,425**	1,463	**90,548**
Reserve for pension and severance payments (Note 14)	**16,913**	17,448	**181,780**
Other long-term liabilities	**15,656**	15,777	**168,281**
Total long-term liabilities	**97,604**	101,881	**1,049,055**
Total liabilities	**303,591**	329,217	**3,263,020**
Contingent liabilities (Note 6)			
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 700,000,000 shares in 2010 and 2009			
Issued: 342,598,162 shares in 2010 and 2009	**38,909**	38,909	**418,198**
Capital surplus	**31,953**	31,953	**343,432**
Retained earnings (Note 8)	**92,740**	83,273	**996,775**
Treasury stock, at cost: 7,492,603 shares in 2010 and 7,408,825 shares in 2009	**(4,730)**	(4,700)	**(50,838)**
Total shareholders' equity	**158,872**	149,435	**1,707,567**
Valuation and Translation Adjustments:			
Unrealized gains on securities	**16,402**	7,966	**176,288**
Foreign currency translation adjustments	**(16,010)**	(17,478)	**(172,076)**
Total valuation and translation adjustments	**392**	(9,512)	**4,212**
Minority Interests	**4,118**	4,236	**44,267**
Total net assets	**163,382**	144,159	**1,756,046**
Total liabilities and net assets	**¥466,973**	¥473,376	**$5,019,066**

Consolidated Statements of Operations

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2010, 2009 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2010	2009	2008	**2010**
Net sales	**¥466,358**	¥517,263	¥551,431	**$5,012,451**
Cost of sales (Notes 5 and 7)	**323,681**	368,933	381,447	**3,478,950**
Gross profit	**142,677**	148,330	169,984	**1,533,501**
Selling, general and administrative expenses (Notes 5 and 7)	**121,222**	135,522	136,865	**1,302,903**
Operating income	**21,455**	12,808	33,119	**230,598**
Other income (expenses)				
Interest and dividend income	**1,332**	2,053	1,921	**14,317**
Interest expense	**(2,848)**	(3,479)	(3,898)	**(30,607)**
Other, net	**(970)**	(14,548)	(10,664)	**(10,422)**
	(2,486)	(15,974)	(12,641)	**(26,712)**
Income (loss) before income taxes and minority interests	**18,969**	(3,166)	20,478	**203,886**
Income taxes (Notes 2 and 15):				
Current	**2,775**	2,975	5,334	**29,821**
Deferred	**4,337**	(911)	(6,373)	**46,618**
	7,112	2,064	(1,039)	**76,439**
Minority interests in net income of consolidated subsidiaries	**(370)**	(424)	(457)	**(3,982)**
Net income (loss)	**¥ 11,487**	¥ (5,654)	¥ 21,060	**$ 123,465**

Per Share Amounts:	Yen			U.S. Dollars (Note 1)
Net income (loss): basic	**¥34.27**	¥(16.87)	¥62.81	**$0.37**
Net income: diluted	—	—	—	—
Cash dividends	**¥10.00**	¥10.00	¥13.00	**$0.11**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2010, 2009 and 2008

		Millions of Yen							
	Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation and Translation Adjustments	Minority Interests	Total Net Assets
Balance at March 31, 2007	342,598,162	¥38,909	¥31,953	¥80,065	¥(4,600)	¥146,327	¥35,460	¥4,741	¥186,528
Adjustment for employee benefit obligations in overseas subsidiaries	—	—	—	(1,557)	—	(1,557)	—	—	(1,557)
Net income	—	—	—	21,060	—	21,060	—	—	21,060
Cash dividends paid	—	—	—	(4,694)	—	(4,694)	—	—	(4,694)
Increase in retained earnings due to merger	—	—	—	114	—	114	—	—	114
Decrease in retained earnings due to change in accounting policies in overseas subsidiaries	—	—	—	(132)	—	(132)	—	—	(132)
Repurchase of treasury stock, net	—	—	—	(0)	(81)	(81)	—	—	(81)
Valuation and translation adjustments									
Net unrealized gains and losses on securities	—	—	—	—	—	—	(20,303)	—	(20,303)
Foreign currency translation adjustments	—	—	—	—	—	—	130	—	130
Increase in minority interests	—	—	—	—	—	—	—	473	473
Balance at March 31, 2008	342,598,162	38,909	31,953	94,856	(4,681)	161,037	15,287	5,214	181,538
Effect of changes in accounting policies applied to overseas subsidiaries	—	—	—	(163)	—	(163)	—	—	(163)
Adjustment for employee benefit obligations in overseas subsidiaries	—	—	—	(1,398)	—	(1,398)	—	—	(1,398)
Net income	—	—	—	(5,654)	—	(5,654)	—	—	(5,654)
Cash dividends paid	—	—	—	(4,358)	—	(4,358)	—	—	(4,358)
Repurchase of treasury stock, net	—	—	—	(10)	(19)	(29)	—	—	(29)
Valuation and translation adjustments									
Net unrealized gains and losses on securities	—	—	—	—	—	—	(11,366)	—	(11,366)
Foreign currency translation adjustments	—	—	—	—	—	—	(13,433)	—	(13,433)
Decrease in minority interests	—	—	—	—	—	—	—	(978)	(978)
Balance at March 31, 2009	342,598,162	38,909	31,953	83,273	(4,700)	149,435	(9,512)	4,236	144,159
Adjustment for employee benefit obligations in overseas subsidiaries	—	—	—	663	—	663	—	—	663
Net income	—	—	—	11,487	—	11,487	—	—	11,487
Cash dividends paid	—	—	—	(2,681)	—	(2,681)	—	—	(2,681)
Repurchase of treasury stock, net	—	—	—	(2)	(30)	(32)	—	—	(32)
Valuation and translation adjustments									
Net unrealized gains and losses on securities	—	—	—	—	—	—	8,436	—	8,436
Foreign currency translation adjustments	—	—	—	—	—	—	1,468	—	1,468
Decrease in minority interests	—	—	—	—	—	—	—	(118)	(118)
Balance at March 31, 2010	**342,598,162**	**¥38,909**	**¥31,953**	**¥92,740**	**¥(4,730)**	**¥158,872**	**¥ 392**	**¥4,118**	**¥163,382**

See accompanying Notes to Consolidated Financial Statements.

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation and Translation Adjustments	Minority Interests	Total Net Assets
Balance at March 31, 2009	$418,198	$343,432	$895,021	$(50,515)	$1,606,136	$(102,230)	$45,529	$1,549,435
Adjustment for employee benefit obligations in overseas subsidiaries	—	—	7,135	—	7,135	—	—	7,135
Net income	—	—	123,462	—	123,462	—	—	123,462
Cash dividends paid	—	—	(28,821)	—	(28,821)	—	—	(28,821)
Repurchase of treasury stock, net	—	—	(22)	(323)	(345)	—	—	(345)
Valuation and translation adjustments								
Net unrealized gains and losses on securities	—	—	—	—	—	90,663	—	90,663
Foreign currency translation adjustments	—	—	—	—	—	15,779	—	15,779
Decrease in minority interests	—	—	—	—	—	—	(1,262)	(1,262)
Balance at March 31, 2010	**$418,198**	**$343,432**	**$996,775**	**$(50,838)**	**$1,707,567**	**$ 4,212**	**$44,267**	**$1,756,046**

Consolidated Statements of Cash Flows

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2010, 2009 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2010	2009	2008	**2010**
Operating Activities:				
Income (loss) before income taxes and minority interests	**¥ 18,969**	¥ (3,166)	¥ 20,478	**$ 203,885**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation (Notes 2 and 5)	**28,184**	28,684	27,238	**302,922**
Reserve for pension and severance payments	**(526)**	(1,052)	(1,930)	**(5,657)**
Gain on sale of investment securities	**(718)**	(303)	(168)	**(7,721)**
Loss on revaluation of investment securities	**33**	2,914	3,472	**357**
Other, net	**1,103**	5,210	3,136	**11,854**
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	**(9,709)**	18,140	(7,568)	**(104,357)**
Inventories	**20,701**	(12,618)	(5,473)	**222,496**
Notes and accounts payable	**(3,575)**	(9,413)	1,418	**(38,421)**
Other, net	**(497)**	(759)	7,072	**(5,337)**
Interest and dividends received	**1,295**	2,175	1,904	**13,919**
Interest paid	**(2,845)**	(3,488)	(3,920)	**(30,580)**
Income taxes paid	**(2,570)**	(6,445)	(4,010)	**(27,619)**
Compensation for damage paid	**—**	(188)	—	**—**
Net cash provided by operating activities	**49,845**	19,691	41,649	**535,741**
Investing Activities:				
Purchases of property, plant and equipment	**(19,690)**	(42,041)	(28,535)	**(211,626)**
Purchases of marketable securities and investment securities	**(6,268)**	(2,213)	(5,654)	**(67,372)**
Proceeds from sales of marketable securities, investment securities and property	**1,230**	2,234	564	**13,219**
Proceeds from redemption of investment securities	**—**	2,000	—	**—**
Other, net	**(502)**	989	(110)	**(5,400)**
Net cash used in investing activities	**(25,230)**	(39,031)	(33,735)	**(271,179)**
Financing Activities:				
Increase (decrease) in short-term bank loans	**(3,782)**	761	18,916	**(40,646)**
Increase (decrease) in commercial paper	**(19,000)**	18,000	—	**(204,213)**
Proceeds from long-term debt	**13,167**	7,439	4,022	**141,517**
Decrease in long-term debt	**(16,363)**	(4,708)	(25,894)	**(175,874)**
Proceeds from issuance of bonds	**—**	10,000	—	**—**
Redemption of bonds	**—**	(10,000)	—	**—**
Payment of cash dividends	**(2,728)**	(4,357)	(4,694)	**(29,324)**
Other, net	**(729)**	(397)	3,642	**(7,827)**
Net cash provided by (used in) financing activities	**(29,435)**	16,738	(4,008)	**(316,367)**
Effect of exchange rate changes on cash and cash equivalents	**140**	(2,922)	340	**1,502**
Increase (decrease) in cash and cash equivalents	**(4,680)**	(5,524)	4,246	**(50,303)**
Cash and cash equivalents at beginning of year	**16,239**	19,530	14,812	**174,539**
Effect of changes in consolidation scope on cash and cash equivalents	**—**	2,233	472	**—**
Cash and cash equivalents at end of year	**¥ 11,559**	¥ 16,239	¥ 19,530	**$ 124,236**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presentation of Financial Statements

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

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

The U.S. dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥93.04 = US$1.00, the approximate exchange rate prevailing on March 31, 2010.

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant majority-owned domestic and foreign subsidiaries (together, the "Companies"). Investment in significant unconsolidated subsidiaries and affiliated companies (companies owned 20% to 50%) is accounted for by the equity method.

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

b. Foreign Currency Translation

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

The assets and liabilities of the consolidated subsidiaries outside Japan are translated at the fiscal year-end rates of those companies, and the income and expense accounts of those companies are translated at the average rates of those companies.

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

c. Cash Equivalents

For purposes of the consolidated statements of cash flows, highly liquid investments with a maturity of three months or less are considered cash equivalents.

d. Marketable Securities and Investment Securities

Securities classified as available for sale and whose fair value is readily determinable are carried at fair value with unrealized gains or losses included as a component of net assets, net of applicable taxes. Costs are determined by the moving-average method.

Securities whose fair value is not readily determinable are carried at cost. Costs are determined by the moving-average method.

e. Derivative Instruments

Derivative instruments whose fair value is readily determinable are carried at fair value.

f. Inventories

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

g. Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus an amount based on past credit loss experience.

h. Depreciation

Depreciation of property, plant and equipment is computed principally by the declining-balance method based on the estimated useful lives of the respective assets.

i. Reserve for Severance Payments and Employee Benefit Plans

Employees who terminate their service with the Companies are, under most circumstances, entitled to lump-sum severance payments determined by reference to their current basic rate of pay and length of service. The Company and certain consolidated subsidiaries have noncontributory pension plans for termination caused by age limit.

The Companies accounted for these liabilities based on the projected benefit obligations and plan assets at the balance sheet date.

Unrecognized actuarial gain and loss are amortized starting in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years, which is shorter than the average remaining service period of employees.

Unrecognized prior service cost is amortized by the straight-line method over 10 years.

In addition to providing pension and severance benefits, certain foreign subsidiaries sponsor several unfunded defined benefit postretirement plans that 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" (SFAS No. 106).

Additionally, on December 31, 2007, those subsidiaries adopted SFAS No. 158, "Employers' Accounting for Defined Pension and Other Postretirement Plans—an Amendment of Financial Accounting Standards Board Statements No. 87, 88, 106, and 132(R)."

j. Income Taxes

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

Provision is made for deferred income taxes arising from temporary differences between assets or liabilities for financial and tax reporting purposes.

k. Revenue Recognition

Sales of products are recognized upon product shipments to customers.

l. Research and Development Costs

Research and development costs are charged to income as incurred.

m. Earnings per Share

Basic net income per share is computed by dividing net income available to common shareholders by the average number of common shares outstanding during each period. Diluted net income per share is not disclosed because there were no dilutive securities in the years ended March 31, 2010, 2009, and 2008.

n. Adoption of New Accounting Standards

Effective as of the fiscal year ended March 31, 2010, the Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008) and made requisite adjustments.

This change had no effect on operating income, ordinary income or income before income taxes.

3. Inventories

Inventories at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Finished products	**¥47,229**	¥61,392	**$507,615**
Work in process	**7,523**	8,588	**80,857**
Raw materials and supplies	**12,860**	16,996	**138,229**
	¥67,612	¥86,976	**$726,701**

4. Long-Term Debt

Long-term debt at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
0.84% straight bonds due 2010	**¥10,000**	¥10,000	**$107,481**
1.688% straight bonds due 2013	**10,000**	10,000	**107,481**
1.68% straight bonds due 2014	**10,000**	10,000	**107,481**
Loans, principally from banks and insurance companies	**49,904**	52,731	**536,376**
	79,904	82,731	**858,819**
Less current maturities	**13,295**	15,538	**142,891**
	¥66,609	¥67,193	**$715,928**

Assets pledged to secure bank loans and long-term debt at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Property, plant and equipment	**¥58,479**	¥65,028	**$628,541**

5. Depreciation

Depreciation charges were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	**2010**
Selling, general and administrative expenses	**¥ 2,964**	¥ 3,137	¥ 3,370	**$ 31,855**
Manufacturing costs	**¥25,220**	¥25,547	¥23,868	**$271,067**

6. Contingent Liabilities

Contingent liabilities at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Notes discounted and endorsed	**¥ —**	¥ 367	**$ —**
Guarantees	**¥1,912**	¥1,248	**$20,551**

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, 2010, 2009, and 2008 were ¥13,280 million ($142,741 thousand), ¥15,277 million and ¥15,289 million, respectively.

8. Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Corporate Law of Japan is based on the amount stated in the nonconsolidated 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.

9. Supplementary Cash Flow Information

Cash and cash equivalents as of the years ended March 31, 2010, 2009 and 2008 are reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2010	2009	2008	**2010**
Cash and deposits	**¥11,561**	¥16,274	¥19,589	**$124,256**
Time deposits with maturities of more than three months	(2)	(35)	(59)	(20)
Cash and cash equivalents	**¥11,559**	¥16,239	¥19,530	**$124,236**

10. Leases

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

Future rental payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Within one year	**¥ 741**	¥ 773	**$ 7,960**
After one year	**3,033**	3,501	**32,601**
	¥3,774	¥4,274	**$40,561**

11. Financial Instruments

a. Policies for the Status of Financial Instruments

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

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

b. Matters and Risks of Financial Instruments

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

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

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

Bank loans and corporate bonds are for the purpose of capital investment. The longest maturity is six and half years after March 31, 2010. Some of the bank loans and corporate bonds have floating interest rates and are subject to interest rate fluctuation risk.

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

c. Risk Management of Financial Instruments

(1) Credit risk management (customer credit default)

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

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

The amounts of the largest credit risks as of March 31, 2010, are indicated in the balance sheets accounting for the financial assets subject to those risks.

(2) Market risk management (fluctuation risk of foreign currency exchange rates and interest rates and others)

The Company and some of its consolidated subsidiaries use forward exchange contracts and currency swaps to hedge against exchange rate fluctuation risk in connection with trade receivables and trade liabilities denominated in foreign currencies. They assess the amount of risk monthly by currency. Some consolidated subsidiaries also use interest swaps to hedge against interest rate fluctuation risk in connection with bank loans.

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

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

(3) Liquidity risk in fund-raising management (risk of being unable to make payment at due date)

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

d. Supplementary Information about the Fair Value of Financial Instruments

The fair value of financial instruments is the market price or, for instruments that do not have market price, a value calculated by appropriate means. The calculation of fair values incorporates variables, and the values are therefore subject to change, depending on diverse factors. The contract amounts for derivative transactions cited in "13. Derivative Instruments" do not indicate the market risk related to derivative transactions.

e. Fair Value of Financial Instruments

The amounts recorded on the consolidated balance sheets for fair values and for the variances between them as of March 31, 2010, were as follows. However, financial instruments whose fair value is extremely difficult to ascertain are not included in the table below (see Note 2).

	Millions of Yen			Thousands of U.S. Dollars		
	2010			**2010**		
	Book Value on the Consolidated Balance Sheets	Fair Value	Variance	Book Value on the Consolidated Balance Sheets	Fair Value	Variance
(1) Cash and deposits	**¥ 11,561**	**¥ 11,561**	**¥ —**	**$ 124,256**	**$ 124,256**	**$ —**
(2) Trade receivables: notes and accounts	**103,400**	**103,400**	**—**	**1,111,353**	**1,111,353**	**—**
(3) Investment securities	**53,727**	**53,727**	**—**	**577,466**	**577,466**	**—**
Total assets	**168,688**	**168,688**	**—**	**1,813,075**	**1,813,075**	**—**
(1) Trade notes and accounts payable	**69,858**	**69,858**	**—**	**750,834**	**750,834**	**—**
(2) Short-term loans payable	**88,065**	**88,065**	**—**	**946,528**	**946,528**	**—**
(3) Accrued expenses	**25,457**	**25,457**	**—**	**273,616**	**273,616**	**—**
(4) Bonds	**30,000**	**30,075**	**75**	**322,442**	**323,247**	**805**
(5) Long-term loans payable	**49,904**	**50,020**	**116**	**536,376**	**537,624**	**1,248**
(6) Long-term deposits received	**3,194**	**3,450**	**256**	**34,330**	**37,079**	**2,749**
Total liabilities	**266,478**	**266,925**	**447**	**2,864,126**	**2,868,928**	**4,802**
Derivative transactions*	**(62)**	**(62)**	**—**	**(666)**	**(666)**	**—**

* The net amount of the assets and liabilities arising from derivatives is shown. If the net amount is liabilities, it is written in parentheses.

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

Assets

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

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

(3) Investment securities

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

See "12. Securities" regarding the variances between the amounts booked on the consolidated balance sheets and the acquisition costs.

Liabilities

(1) Trade notes and accounts payable, (2) short-term loans payable, and (3) accrued expenses

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

(4) Bonds

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

(5) Long-term loans payable

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

(6) Long-term deposits received

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

Derivative transactions

See "13. Derivative Instruments."

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

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
	Book Value on the Consolidated Balance Sheets	Book Value on the Consolidated Balance Sheets
Unlisted stocks and others	¥5,530	$59,433

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

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

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
	Within One Year	Within One Year
Deposits	¥ 11,556	$ 124,204
Trade receivables: notes and accounts	103,400	1,111,353
Total	¥114,956	$1,235,557

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

	Millions of Yen					
	2010					
	Within One Year	Over One Year, within Two Years	Over Two Years, within Three Years	Over Three Years, within Four Years	Over Four Years, within Five Years	Over Five Years
Bonds	¥ 10,000	¥ —	¥ —	¥10,000	¥10,000	¥ —
Long-term loans payable	13,295	8,599	6,372	6,067	6,908	8,663
Other liabilities with interest	88,065	—	—	—	3,194	—
Total	¥111,360	¥8,599	¥6,372	¥16,067	¥20,102	¥8,663

	Thousands of U.S. Dollars					
	2010					
	Within One Year	Over One Year, within Two Years	Over Two Years, within Three Years	Over Three Years, within Four Years	Over Four Years, within Five Years	Over Five Years
Bonds	$ 107,481	$ —	$ —	$107,481	$107,481	$ —
Long-term loans payable	142,891	92,426	68,486	65,210	74,246	93,110
Other liabilities with interest	946,528	—	—	—	34,330	—
Total	$1,196,900	$92,426	$68,486	$172,691	$216,057	$93,110

The "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and the "Guidance on Disclosures about the Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008) are adopted from the consolidated fiscal year ended March 31, 2010.

12. Securities

Cost, carrying amount and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2010 and 2009, were as follows:

	Millions of Yen							
	2010				2009			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities classified as available for sale:								
Stock	¥26,278	¥53,727	¥27,647	¥(198)	¥26,501	¥39,860	¥16,127	¥(2,768)

	Thousands of U.S. Dollars			
	2010			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities classified as available for sale:				
Stock	$282,440	$577,466	$297,158	$(2,132)

Sales of securities classified as available-for-sale securities amounted to ¥896 million ($9,625 thousand), with an aggregate gain of ¥718 million ($7,721 thousand) and a loss of ¥32 million ($342 thousand) for the year ended March 31, 2010. The corresponding amounts for the year ended March 31, 2009, were ¥1,050 million and an aggregate gain of ¥302 million.

Note: Unlisted stocks, whose book value on the consolidated balance sheets is ¥1,296 million ($13,929 thousand), are not included in the above table. It is extremely difficult to ascertain the fair values because they do not have market prices.

In the preceding table for the fiscal year 2010, "Cost" is the book value after impairment. Loss from revaluation of securities amounted to ¥33 million ($357 thousand).

13. Derivative Instruments

Fair value information of derivative instruments, for which deferral hedged accounting has not been applied, at March 31, 2010 and 2009, was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2010			2009			2010		
	Contract Amount	Fair Value	Unrealized Gains (Losses)	Contract Amount	Fair Value	Unrealized Gains	Contract Amount	Fair Value	Unrealized Gains (Losses)
Forward exchange contracts:									
EURO	**¥3,114**	**¥ 109**	**¥ 109**	¥5,660	¥ 5,818	¥(158)	**$33,469**	**$ 1,174**	**$ 1,174**
U.S. dollar	**3,761**	**(110)**	**(110)**	2,908	2,978	(71)	**40,429**	**(1,179)**	**(1,179)**
Others	**1,560**	**(60)**	**(60)**	1,422	1,507	(84)	**16,760**	**(654)**	**(654)**
	¥8,435	**¥ (61)**	**¥ (61)**	¥9,990	¥10,303	¥(313)	**$90,658**	**$ (659)**	**$ (659)**

	Millions of Yen						Thousands of U.S. Dollars		
	2010			2009			2010		
	Contract Amount	Fair Value	Unrealized Losses	Contract Amount	Fair Value	Unrealized Losses	Contract Amount	Fair Value	Unrealized Losses
Interest rate swap agreements	**¥33**	**¥(1)**	**¥(1)**	¥41	¥(1)	¥(1)	**$355**	**$(7)**	**$(7)**
	¥—	**¥(1)**	**¥(1)**	¥—	¥(1)	¥(1)	**$ —**	**$(7)**	**$(7)**

Fair value information of derivative instruments, for which deferral hedged accounting has been applied, at March 31, 2010, was as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	2010				2010			
Forward exchange contracts with allocation method:	Contract Amount	Over One Year	Fair Value	Unrealized Losses	Contract Amount	Over One Year	Fair Value	Unrealized Losses
Long-term deposits received	**¥3,194**	**¥3,194**	*	**¥ —**	**$34,330**	**$34,330**	**$ —**	**$ —**
Stock	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**	**$ —**

*Amounts settled by the allocation method of currency swaps are handled together with long-term deposits received that are regarded as the subject of hedging. See "11. Financial Instruments" for their fair value.

14. Pension and Severance Plans

a. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Projected benefit obligations	**¥(29,564)**	¥(30,732)	**$(317,761)**
Fair value of plan assets	**10,462**	8,679	**112,451**
Funded status	**(19,102)**	(22,053)	**(205,310)**
Unrecognized actuarial gain and loss	**1,642**	3,958	**17,655**
Unrecognized prior service cost	**547**	647	**5,879**
Net amount recognized	**¥(16,913)**	¥(17,448)	**$(181,776)**

b. The components of net pension and severance costs for the years ended March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Service cost	**¥1,851**	¥1,851	**$19,895**
Interest cost	**604**	626	**6,495**
Expected return on plan assets	**—**	—	**—**
Recognized actuarial gains	**577**	194	**6,198**
Recognized prior service cost	**100**	100	**1,070**
Net periodic benefit cost	**3,132**	2,771	**33,658**
Contribution of defined contribution benefit plan	**492**	502	**5,289**
	¥3,624	¥3,273	**$38,947**

c. Assumptions used as of March 31, 2010 and 2009, were as follows:

	2010	2009
Discount rate	**2.5%**	2.5%
Expected return rate on plan assets	**0.00%**	0.00%

15. Deferred Income Taxes

a. Significant components of the deferred income tax assets and liabilities at March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Deferred tax assets:			
Liabilities for pension and severance payments	**¥ 11,615**	¥ 11,806	**$ 124,840**
Net operating loss carryforwards	**3,650**	7,533	**39,235**
Unrealized profits	**4,489**	4,073	**48,249**
Accrued expenses	**2,389**	2,353	**25,676**
Loss on revaluation of investment securities	**51**	128	**545**
Other	**7,886**	8,343	**84,760**
Gross deferred tax assets	**30,080**	34,237	**323,305**
Less valuation allowance	**(4,549)**	(4,434)	**(48,889)**
Total deferred tax assets	**25,531**	29,802	**274,416**
Deferred tax liabilities:			
Unrealized gains on securities	**(11,025)**	(5,350)	**(118,496)**
Liabilities for pension and severance payments	**(3,446)**	(3,446)	**(37,043)**
Gain on receipt of stock set by pension plan	**(2,103)**	(2,103)	**(22,600)**
Property, plant and equipment	**(1,684)**	(1,775)	**(18,100)**
Other	**(1,786)**	(1,284)	**(19,199)**
Total deferred tax liabilities	**(20,044)**	(13,958)	**(215,438)**
Net deferred tax assets	**¥ 5,487**	¥ 15,844	**$ 58,978**

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

	Years ended March 31	
	2010	2009
Statutory income tax rate in Japan	**40.3 %**	40.3 %
Valuation allowance for net operating loss carryforwards	**(1.7)**	(63.2)
Permanently nondeductible expenses	**2.5**	(13.1)
Permanently nontaxable income	**(5.7)**	11.7
Valuation allowance	**0.6**	(33.9)
Other	**1.5**	(7.0)
Effective income tax rate	**37.5 %**	(65.2)%

16. Business Combination

(Transactions under common control)

A consolidated subsidiary, Yokohama Tire Sales Tokyo Co., Ltd. and eighteen other domestic tire sales companies which are also consolidated subsidiaries merged on July 1, 2009. An outline of the merger is as follows:

a. Outline of the business combination

1. Name of the acquired company
   Yokohama Tire Sales Tokyo Co., Ltd. and eighteen other consolidated subsidiaries
2. Description of its business
   Sales of tires and related goods
3. Date of the business combination
   July 1, 2009
4. Legal form of the business combination
   The merger was a merger by absorption, with Yokohama Tire Sales Kanagawa Co., Ltd. as the surviving company
5. Name of the company after the business combination
   Yokohama Tire Japan Co., Ltd. (a consolidated subsidiary)
6. Reason for the business combination
   The Yokohama Rubber Co., Ltd., is gradually carrying out the reorganization of its domestic replacement tire sales and marketing businesses for the purpose of reinforcing its sales system and network and effective management.
   As the first step, Yokohama Tire Japan Co., Ltd., has been established by merging eighteen domestic tire sales companies and one marketing company.

b. Outline of accounting method

Based on "Accounting Standard for Business Combinations" (the Business Accounting Council issued on October 31, 2003) and revised implementation guidance "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, November 15, 2007), the above business combination is accounted for as transactions under common control.

17. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2010, 2009, and 2008, are outlined as follows:

Business Segments

	Millions of Yen				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2010				
Sales to third parties	**¥367,517**	**¥ 98,841**	**¥466,358**	**¥ —**	**¥466,358**
Intergroup sales and transfers	**48**	**11,497**	**11,545**	**(11,545)**	**—**
Total sales	**367,565**	**110,338**	**477,903**	**(11,545)**	**466,358**
Operating expenses	**347,103**	**109,458**	**456,561**	**(11,658)**	**444,903**
Operating income	**¥ 20,462**	**¥ 880**	**¥ 21,342**	**¥ 113**	**¥ 21,455**
Total assets at end of year	**¥351,715**	**¥133,754**	**¥485,469**	**¥(18,496)**	**¥466,973**
Depreciation	**¥ 23,404**	**¥ 4,486**	**¥ 27,890**	**¥ 294**	**¥ 28,184**
Capital expenditures	**¥ 14,832**	**¥ 2,394**	**¥ 17,226**	**¥ 245**	**¥ 17,471**
	Year ended March 31, 2009				
Sales to third parties	¥399,729	¥117,534	¥517,263	¥ —	¥517,263
Intergroup sales and transfers	73	19,113	19,186	(19,186)	—
Total sales	399,802	136,647	536,449	(19,186)	517,263
Operating expenses	389,912	133,228	523,140	(18,685)	504,455
Operating income	¥ 9,890	¥ 3,419	¥ 13,309	¥ (501)	¥ 12,808
Total assets at end of year	¥362,011	¥132,867	¥494,878	¥(21,502)	¥473,376
Depreciation	¥ 23,669	¥ 4,615	¥ 28,284	¥ 400	¥ 28,684
Capital expenditures	¥ 38,425	¥ 5,309	¥ 43,734	¥ (393)	¥ 43,341
	Year ended March 31, 2008				
Sales to third parties	¥419,834	¥131,597	¥551,431	¥ —	¥551,431
Intergroup sales and transfers	83	12,478	12,561	(12,561)	—
Total sales	419,917	144,075	563,992	(12,561)	551,431
Operating expenses	393,867	137,030	530,897	(12,585)	518,312
Operating income	¥ 26,050	¥ 7,045	¥ 33,095	¥ 24	¥ 33,119
Total assets at end of year	¥397,181	¥146,727	¥543,908	¥(17,716)	¥526,192
Depreciation	¥ 22,455	¥ 4,214	¥ 26,669	¥ 569	¥ 27,238
Capital expenditures	¥ 23,064	¥ 3,776	¥ 26,840	¥ 452	¥ 27,292

	Thousands of U.S. Dollars				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2010				
Sales to third parties	**$3,950,099**	**$1,062,352**	**$5,012,451**	**$ —**	**$5,012,453**
Intergroup sales and transfers	**520**	**123,565**	**124,085**	**(124,083)**	**—**
Total sales	**3,950,619**	**1,185,917**	**5,136,536**	**(124,083)**	**5,012,453**
Operating expenses	**3,730,690**	**1,176,460**	**4,907,150**	**(125,295)**	**4,781,855**
Operating income	**$ 219,929**	**$ 9,457**	**$ 229,386**	**$ 1,212**	**$ 230,598**
Total assets at end of year	**$3,780,256**	**$1,437,597**	**$5,217,853**	**$(198,788)**	**$5,019,065**
Depreciation	**$ 251,549**	**$ 48,216**	**$ 299,765**	**$ 3,157**	**$ 302,922**
Capital expenditures	**$ 159,416**	**$ 25,736**	**$ 185,152**	**$ 2,636**	**$ 187,788**

Geographical Areas

	Japan	North America	Asia	Other	Total	Eliminations and Corporate	Consolidated
	Millions of Yen						
	Year ended March 31, 2010						
Sales to third parties	**¥324,015**	**¥90,551**	**¥21,966**	**¥29,826**	**¥466,358**	**¥ —**	**¥466,358**
Inter-area sales and transfers	**53,761**	**38**	**31,950**	**—**	**85,749**	**(85,749)**	**—**
Total sales	**377,776**	**90,589**	**53,916**	**29,826**	**552,107**	**(85,749)**	**466,358**
Operating expenses	**360,934**	**88,430**	**50,512**	**29,343**	**529,219**	**(84,316)**	**444,903**
Operating income	**¥ 16,842**	**¥ 2,159**	**¥ 3,404**	**¥ 483**	**¥ 22,888**	**¥ (1,433)**	**¥ 21,455**
Total assets at end of year	**¥382,593**	**¥55,277**	**¥71,286**	**¥17,051**	**¥526,207**	**¥(59,234)**	**¥466,973**
	Year ended March 31, 2009						
Sales to third parties	¥359,319	¥101,789	¥23,640	¥32,515	¥517,263	¥ —	¥517,263
Inter-area sales and transfers	71,154	392	40,849	—	112,395	(112,395)	—
Total sales	430,473	102,181	64,489	32,515	629,658	(112,395)	517,263
Operating expenses	426,031	98,144	62,495	30,972	617,642	(113,187)	504,455
Operating income	¥ 4,442	¥ 4,037	¥ 1,994	¥ 1,543	¥ 12,016	¥ 792	¥ 12,808
Total assets at end of year	¥388,034	¥ 57,586	¥72,170	¥14,204	¥531,994	¥(58,618)	¥473,376
	Year ended March 31, 2008						
Sales to third parties	¥387,217	¥111,995	¥22,993	¥29,226	¥551,431	¥ —	¥551,431
Inter-area sales and transfers	67,226	1,062	34,680	—	102,968	(102,968)	—
Total sales	454,443	113,057	57,673	29,226	654,399	(102,968)	551,431
Operating expenses	431,543	106,343	54,879	28,179	620,944	(102,632)	518,312
Operating income	¥ 22,900	¥ 6,714	¥ 2,794	¥ 1,047	¥ 33,455	¥ (336)	¥ 33,119
Total assets at end of year	¥416,023	¥ 70,574	¥74,548	¥17,450	¥578,595	¥ (52,403)	¥526,192

	Japan	North America	Asia	Other	Total	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars						
	Year ended March 31, 2010						
Sales to third parties	**$3,482,545**	**$973,243**	**$236,092**	**$320,573**	**$5,012,453**	**$ —**	**$5,012,453**
Inter-area sales and transfers	**577,820**	**411**	**343,401**	**—**	**921,632**	**(921,632)**	**—**
Total sales	**4,060,365**	**973,654**	**579,493**	**320,573**	**5,934,085**	**(921,632)**	**5,012,453**
Operating expenses	**3,879,341**	**950,451**	**542,911**	**315,377**	**5,688,080**	**(906,225)**	**4,781,855**
Operating income	**$ 181,024**	**$ 23,203**	**$ 36,582**	**$ 5,196**	**$ 246,005**	**$ (15,407)**	**$ 230,598**
Total assets at end of year	**$4,112,139**	**$594,124**	**$766,187**	**$183,263**	**$5,655,713**	**$(636,648)**	**$5,019,065**

Overseas Sales

	Millions of Yen		
	North America	Other	Total
	Year ended March 31, 2010		
(A) Overseas sales	**¥97,570**	**¥110,336**	**¥207,906**
(B) Consolidated net sales			**¥466,358**
(C) (A) / (B) × 100	**20.9%**	**23.7%**	**44.6%**
	Year ended March 31, 2009		
(A) Overseas sales	¥105,040	¥122,733	¥227,773
(B) Consolidated net sales			¥517,263
(C) (A) / (B) × 100	20.3%	23.7%	44.0%
	Year ended March 31, 2008		
(A) Overseas sales	¥117,109	¥125,817	¥242,926
(B) Consolidated net sales			¥551,431
(C) (A) / (B) × 100	21.2%	22.8%	44.1%

	Thousands of U.S. Dollars		
	North America	Other	Total
	Year ended March 31, 2010		
(A) Overseas sales	**$1,048,685**	**$1,185,904**	**$2,234,589**
(B) Consolidated net sales			**$5,012,451**
(C) (A) / (B) × 100	**20.9%**	**23.7%**	**44.6%**

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2010, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly, in all material respects, the consolidated financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC

June 25, 2010