

2001

Annual Report 2001

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

Paving the Road with Progress



P R O F I L E

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

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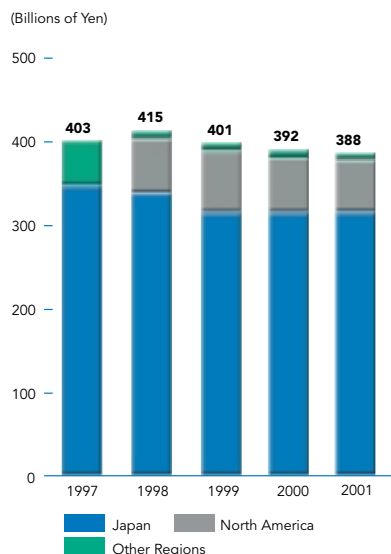
FINANCIAL HIGHLIGHTS

For the Years Ended March 31, 2001 and 2000

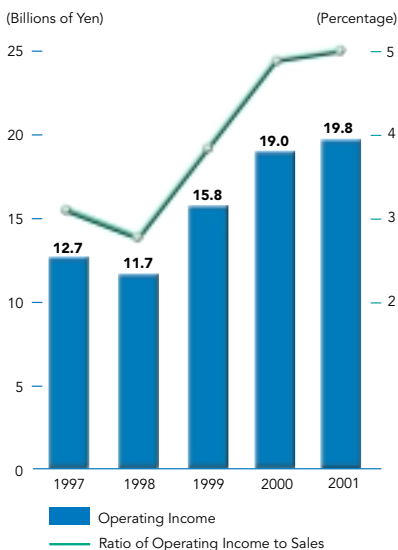
	Millions of Yen		Percentage change (2001/2000)	Thousands of U.S. Dollars
	2001	2000		2001
Net Sales	¥ 387,855	¥ 392,193	(1.1)	\$ 3,130,387
Operating Income	19,845	19,043	4.2	160,169
Income (Loss) before Income Taxes	7,052	(13,692)		56,916
Net Income (Loss)	96	(9,009)		774
			Increase (2001-2000)	
Total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

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

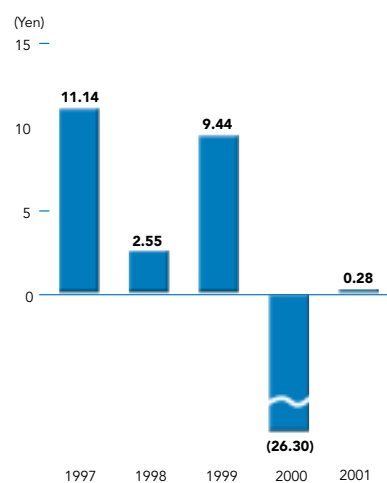
Sales by Region



Operating Income and Ratio of Operating Income to Sales



Net Income (Loss) per Share



→ T O U R S H A R E H O L D E R S

Noteworthy Improvement in Operating Income

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

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

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

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

Action 21 Strengthens Corporate Foundations

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

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

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

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

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

Turning Around an Unfavorable Legacy in Two Years

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



Yasuo Tominaga, President

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

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

Our Keywords Are Growth, Production Reformation and Globalization

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

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

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

To Achieve the Most from Our Three Keywords

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

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

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

June 2001



Yasuo Tominaga, President



REPORT ON THE RESULTS OF ACTION 21

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

RESULTS OF ACTION 21

● FINANCIAL POSITION REFORMATION

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

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

● PERSONNEL, MANAGEMENT AND ORGANIZATIONAL REFORMATION

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

● BUSINESS REFORMATION

Tire Group

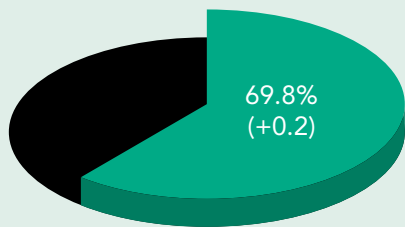
- Decided to end all tire production operations at the Hiratsuka Plant by December 2001.
- Launched an integrated logistics system in Japan to link domestic plants, distribution points and sales bases via an information network.
- Improved overall sales in Japan by introducing the DNA series of environmentally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

MB Group

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

GROUP AT A GLANCE

TIRE GROUP :

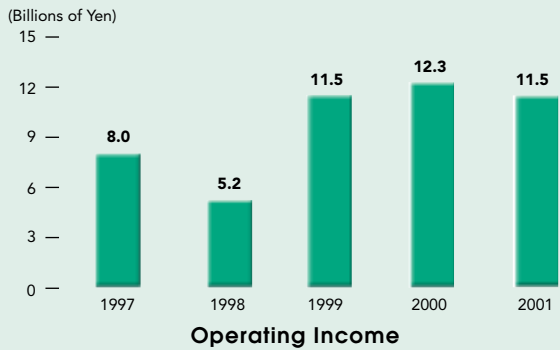


Fiscal 2001 Sales

Percentage of net sales (change from fiscal 2000)



Sales



Operating Income

Main Products

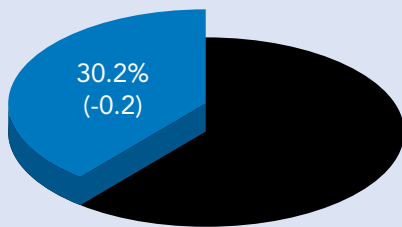
Tires for passenger cars, trucks, buses, light trucks, mining and construction equipment, industrial vehicles and aircraft, and tubes and aluminum alloy wheels

Manufacturing and Sales Organization

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

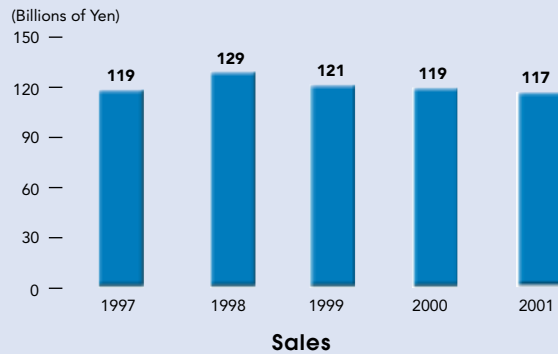
in Asia. In addition, GTY Tire Company, a joint venture with General Tire, Inc., and Toyo Tire & Rubber Co., Ltd., handles a portion of our U.S. manufacturing. In Europe, our organization of seven sales subsidiaries includes Yokohama Reifen GmbH in Germany and Yokohama HPT Ltd. in the United Kingdom.

M B G R O U P :

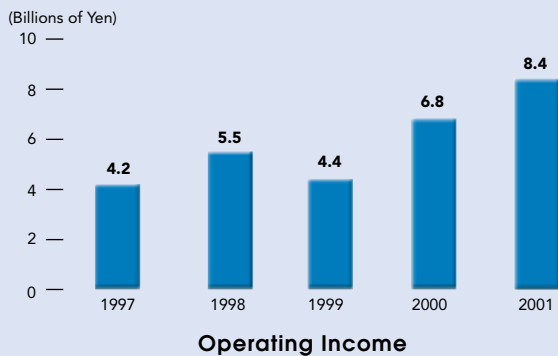


Fiscal 2001 Sales

Percentage of net sales (change from fiscal 2000)



Sales



Operating Income

Main Products

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

Manufacturing and Sales Organization

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

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