

# FINANCIAL SECTION

Financial Review  
**18**

Five-Year Summary  
**21**

Consolidated Balance Sheets  
**22**

Consolidated Statements of Operations  
**24**

Consolidated Statements of Shareholders' Equity  
**25**

Consolidated Statements of Cash Flows  
**26**

Notes to Consolidated Financial Statements  
**27**

Report of Independent Certified Public Accountants  
**36**

# Financial Review

## OPERATING RESULTS

### Sales

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

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

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

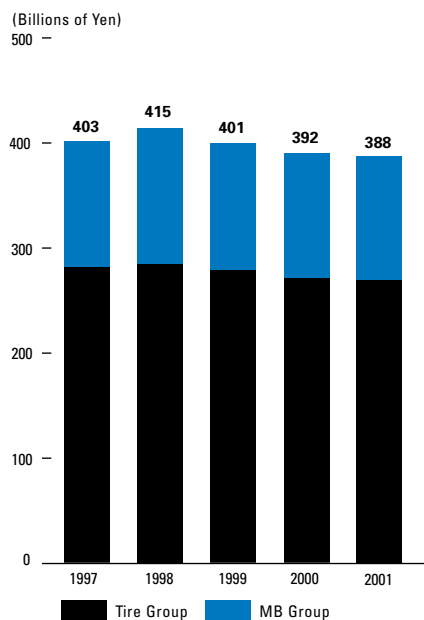
### Operating Income

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

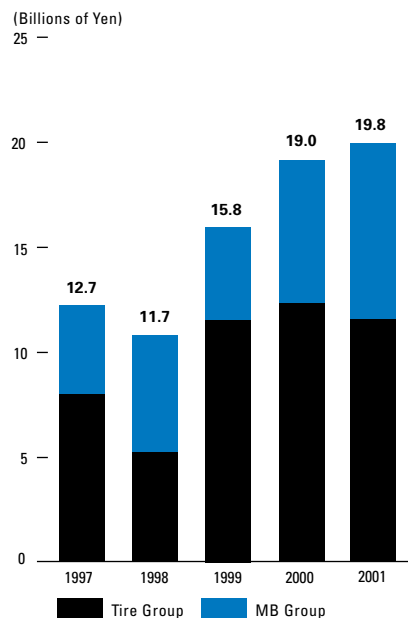
### Net Income

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

### Sales by Group



### Operating Income by Group



## SEGMENT INFORMATION

### Business Groups

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

### Regions

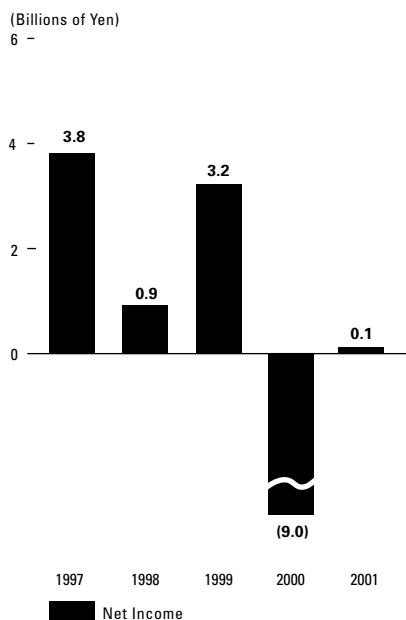
Increased sales of tires in Japan led to a 0.3% increase in domestic sales, to ¥317.5 billion. In addition, an improvement in the profitability of Yokohama significantly boosted operating income in Japan, which jumped 34.0%, to ¥20.6 billion. In North America, a slowdown in economic growth caused a 5.9% decrease in regional sales, to ¥61.7 billion.

An operating loss of ¥1.5 billion was also posted. Sales in other regions declined 13.0%, to ¥8.7 billion, mainly owing to the high yen and local inventory adjustments. However, improvement in the profitability of operations in Asia and Oceania generated a 2.9% expansion in operating income from other regions, to ¥717 million.

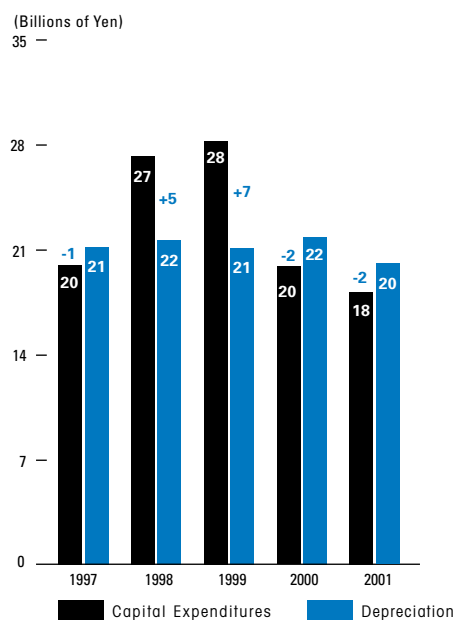
### Capital Expenditures and Depreciation

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

#### Net Income



#### Capital Expenditures and Depreciation



## FINANCIAL POSITION AND CASH FLOWS

### Assets

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

### Liabilities, Minority Interests and Shareholders' Equity

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

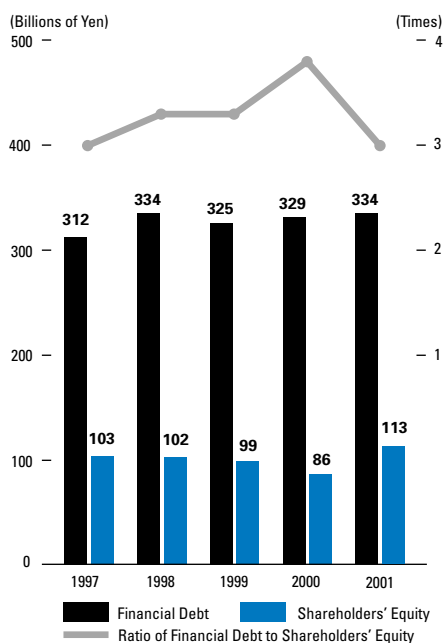
### Cash Flows

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

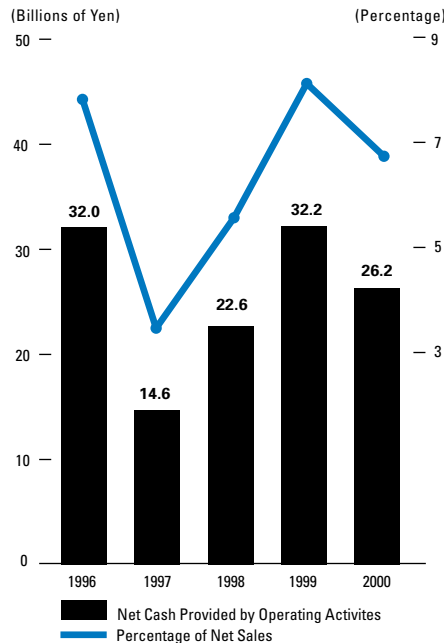
### Forecast for Fiscal 2002

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

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



Net Cash Provided by Operating Activities and Percentage of Net Sales



# Five-Year Summary

FISCAL YEARS ENDED MARCH 31

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

Notes:

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

# Consolidated Balance Sheets

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

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

See accompanying Notes to Consolidated Financial Statements.

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

# Consolidated Statements of Operations

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

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



# Consolidated Statements of Shareholders' Equity

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

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

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

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

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

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

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of Presenting Financial Statements

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

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

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

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

The U.S. dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥123.90=U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2001.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

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

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

### (2) Foreign Currency Translation

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

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

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

### (3) Cash Equivalents

For purposes of the consolidated statements of cash flows, highly liquid investments with a maturity of three months or less are considered cash equivalents in 2001 and 2000.

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

### (4) Marketable Securities and Investment Securities

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

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

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

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

### **(5) Derivative Instruments**

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

### **(6) Inventories**

Inventories are stated at cost determined by the moving average method, except that the finished products of certain subsidiaries are valued by the most recent purchase price method.

### **(7) Allowance for Doubtful Receivables**

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

### **(8) Depreciation**

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

### **(9) Reserve for Severance Payments and Employee Benefit Plans**

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

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

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

The transition obligation of consolidated subsidiaries is amortized over 5 years. The transition obligation of the Company is written down by contributing the holding securities to the pension trust.

In addition to providing pension and severance benefits, certain foreign subsidiaries sponsor several unfunded defined benefit postretirement plans which provide certain health care and life insurance benefits to eligible employees and, in 1993, adopted Statement of Financial Accounting Standard No.106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

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

### **(10) Income Taxes**

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

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

### **(11) Revenue Recognition**

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

### **(12) Research and Development Costs**

Research and development costs are charged to income as incurred.

### **(13) Earnings per Share**

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

### **(14) Leases**

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

## **3. Inventories**

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

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

#### 4. Long-Term Debt

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

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

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

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

#### 5. Depreciation

Depreciation charges were as follows:

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

#### 6. Contingent Liabilities

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

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

#### 7. Research and development expenses

Research and development expenses charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2001 and 2000 were ¥11,827 million (U.S.\$95,456 thousand) and ¥11,626 million, respectively.

## 8. Retained Earnings and Dividends

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

## 9. Cash and Cash Equivalents

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

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

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

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

## 10. Leases

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

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

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

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

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

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

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

## 11. Securities

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

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

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

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

## 12. Derivative Instruments

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

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

### 13. Pension and severance plans

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

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

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

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

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

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

### 14. Deferred Income Taxes

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

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



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

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

## 15. Segment Information

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

### Business Segments

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

Thousands of U.S. Dollars

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

### Geographical Areas

Millions of Yen

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

Thousands of U.S. Dollars

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

### Overseas Sales

Millions of Yen

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

#### Year ended March 31, 2000

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

#### Year ended March 31, 1999

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

Thousands of U.S. Dollars

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

# Report of Independent Certified Public Accountants

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## ***Century Ota Showa & Co.***

Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03-3503-1100  
Fax: 03-3503-1197

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

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audits also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan  
June 28, 2001

*Century Ota Showa & Co.*

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

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# Board of Directors and Corporate Auditors

(As of June 28, 2001)

## PRESIDENT

Yasuo Tominaga

## EXECUTIVE DIRECTORS

Hisao Suzuki

Yoshiro Naitoh

## MANAGING DIRECTORS

Kenzo Nakanishi

Kohji Ikawa

Keimei Kiyoura

Seiji Miyashita

## DIRECTORS

Kazuo Okamoto

Koji Amano

Takashi Yamashita

Hiroyuki Narukawa

Tadanobu Nagumo

Yuzo Kikuchi

Tetsuya Mizoguchi

Keigo Ueda

Takashi Sugimoto

Toshihiko Shiraki

## CORPORATE AUDITORS

Masaaki Kushida

Hajime Iioka

Junnosuke Furukawa

Yuzuru Fujita

# Investor Information

(As of March 31, 2001)

<b>COMPANY NAME:</b>	The Yokohama Rubber Co., Ltd.
<b>ESTABLISHED:</b>	October 13, 1917
<b>PAID-IN CAPITAL:</b>	¥38,909 million
<b>HEAD OFFICE:</b>	36-11, Shimbashi 5-chome, Minato-ku Tokyo 105-8685, Japan
<b>PRODUCTION FACILITIES:</b>	Hiratsuka Factory and Mie, Mishima, Shinshiro, Ibaraki and Onomichi plants
<b>INTERNET ADDRESS:</b>	<a href="http://www.yrc.co.jp/">http://www.yrc.co.jp/</a>
<b>AUTHORIZED NUMBER OF SHARES:</b>	480,000,000
<b>ISSUED NUMBER OF SHARES:</b>	342,598,162 (unchanged from fiscal 2000 year-end)
<b>NUMBER OF SHAREHOLDERS:</b>	24,338 (up 650 from fiscal 2000 year-end)
<b>AVERAGE SHARES PER SHAREHOLDER:</b>	14,077
<b>SETTLEMENT DATE:</b>	March 31
<b>GENERAL MEETING OF SHAREHOLDERS:</b>	June
<b>TRANSFER AGENT:</b>	The Chuo Mitsui Trust and Banking Company, Limited 33-1, Shiba 3-chome, Minato-ku Tokyo, Japan
<b>DATE OF RECORD:</b>	March 31
<b>STOCK EXCHANGE LISTINGS:</b>	Tokyo, Osaka, Nagoya