# Financial Section

# Financial Review

## OPERATING ENVIRONMENT AND RESULTS

### Operating Environment

In fiscal 2005, ended March 31, 2005, the global economy was generally solid, with capital investment expanding in the United States and Asian markets enjoying growth. In contrast, the pace of Japan's recovery slowed in the second half owing to the impact of higher oil prices, offsetting rises in the first half of private-sector capital investment and exports, which steadied personal consumption.

For the term, the yen appreciated an average of around 5% against the dollar and depreciated about 2% against the euro.

### Sales

Tire sales increased, particularly overseas, despite the yen's rise. Net sales thus gained ¥18.1 billion, or 4.5%, to ¥419.8 billion. After excluding the impact of foreign exchange changes, net sales would have gained about ¥5.8 billion.

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

The cost of sales was up ¥15.3 billion, or 5.7%, to ¥284.4 billion. This was mainly because of higher sales and increased costs of such key raw materials as synthetic and natural rubber, which offset the impact of cost-cutting by improving productivity and rationalizing domestic tire sales companies. The hike in raw materials expenses added about ¥9.0 billion to the cost of sales.

Selling, general and administrative expenses rose ¥2.9 billion, or 2.6%, to ¥114.5 billion. This was principally because logistics costs increased in line with tire export growth, while the Company boosted spending to support aggressive marketing.

R&D expenses, which are part of the cost of sales and selling, general and administrative expenses, were up ¥447 million, or 3.2%, to ¥14.3 billion.

### Operating Income

As a result of the above factors, operating income declined ¥118 million, or 0.6%, to ¥21.0 billion.

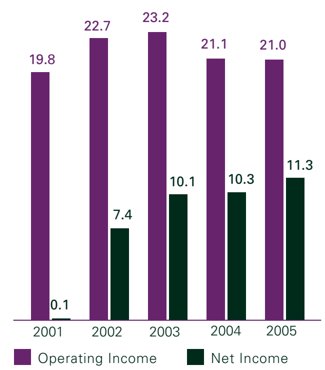
### Other Income and Expenses

Net other expenses increased ¥476 million, or 11.5%, to ¥4.6 billion. This was despite lower foreign exchange losses and interest expense, and reflected losses on disposal of inventories and losses on evaluation of inventories, mainly in the aircraft components business.

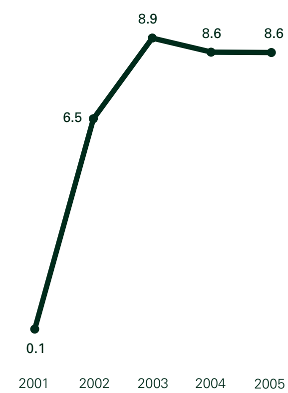
### Net Income

Income before income taxes was down ¥594 million, or ¥3.5%, to ¥16.3 billion. After a decline in income taxes, however, net income gained ¥991 million, or 9.6%, to ¥11.3 billion.

**Operating Income and Net Income**
(Billions of Yen)




**Return on Shareholders' Equity**
(Percentage)



## SEGMENT INFORMATION

### By Business Group

In fiscal 2005, overseas sales of tires grew, particularly in North America, Europe, and Asia. Domestic replacement tire sales were up from a year earlier. As a result, the Tire Group reported sales of ¥307.9 billion, up ¥19.2 billion, or 6.7%, from fiscal 2004. Operating income advanced ¥2.9 billion, or 19.0%, to ¥18.2 billion.

Sales of the Multiple Business Group declined ¥1.2 billion, or 1.0%, to ¥111.9 billion. This reflected lower sales of golf products, conveyor belts, and pneumatic fenders, which offset higher sales of high-pressure hoses and sealants. Segment operating income dropped ¥3.0 billion, or 51.8%, to ¥2.8 billion, owing to hikes in materials costs, the lower profitability of aircraft components, and slow sales of golf products.

### By Region

Sales in Japan increased ¥10.1 billion, or 3.2%, to ¥329.3 billion, on the strength of overseas and domestic gains in replacement tire sales. Operating income dropped ¥1.6 billion, or 8.6%, however, to ¥17.3 billion. This reflected higher raw materials prices and the deteriorating profitability of the Multiple Business Group.

In North America, U.S. tire sales subsidiary Yokohama Tire Corporation greatly increased revenues. Sales for this region thus increased ¥5.0 billion, or 7.5%, to ¥72.1 billion. Operating income improved ¥973 million, or 86.0%, to ¥2.1 billion, on the strength of efforts to boost profitability.

In other regions, sales rose ¥2.9 billion, or 18.9%, to ¥18.4 billion. Operating income was up ¥281 million, or 35.2%, to ¥1.1 billion. The main contributors to this performance were Asian tire production subsidiaries Hangzhou Yokohama Tire and Yokohama Tire Philippines.

## CAPITAL EXPENDITURES AND DEPRECIATION

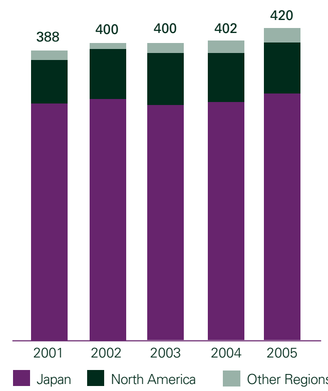
Capital expenditures for the term climbed ¥3.8 billion, or 16.0%, to ¥27.5 billion. Yokohama spent ¥9.9 billion to beef up production facilities for new and high-performance tires. Approximately ¥4.0 billion was invested to build new manufacturing facilities for truck and bus tires at Yokohama Tire Manufacturing (Thailand). Investments of ¥2.4 billion and ¥2.0 billion were made to set up facilities for new radial tires for passenger cars at Yokohama Tire Philippines and Hangzhou Yokohama Tire, respectively. Total Tire Group investments were thus ¥22.7 billion.

The Multiple Business Group's capital expenditures were ¥4.5 billion. They were largely to boost capacity in Yokohama's sealant and other production and in sealant and hose assembly facility expansions in China. Yokohama's capital expenditures were funded from internal sources and loans.

Depreciation rose ¥417 million, or 2.2%, to ¥19.6 billion.

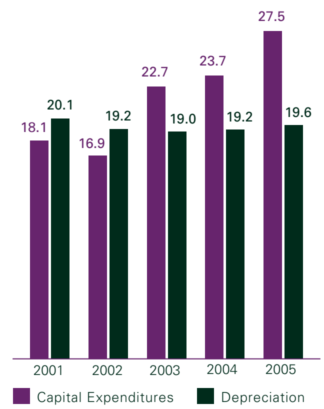
### Sales by Region

(Billions of Yen)



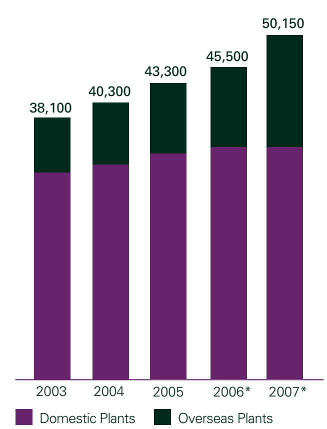

### Capital Expenditures and Depreciation

(Billions of Yen)




### Tire Production Capacity

(Thousands of Units)




*Forecasts

## SOURCES OF FUNDS AND LIQUIDITY

### Financial Position

At the close of the term, total assets were up ¥3.4 billion, or 0.8%, to ¥432.7 billion. This was due mainly to a ¥6.2 billion increase in net property, plant and equipment following additions to production facilities overseas. Interest-bearing debt was down ¥7.9 billion, or 5.0%, to ¥151.8 billion. Total shareholders' equity increased ¥8.5 billion, or 6.6%, to ¥136.3 billion, mainly because of higher net income.

The equity ratio improved 1.7 percentage point, to 31.5%. Shareholders' equity per share gained ¥25.01, to ¥398.24. The interest-bearing debt to shareholders' equity ratio was 1.1, down from 1.7 four years earlier.

### Cash Flows

Net cash provided by operating activities totaled ¥33.6 billion, up ¥7.7 billion, or 29.8%. The main contributors were a ¥4.0 billion decline in inventories and a ¥2.7 billion drop in income taxes paid.

Net cash used in investing activities rose ¥3.0 billion, or 14.1%, to ¥24.2 billion. This was due mainly to a ¥3.0 billion increase in purchases of property, plant and equipment, largely for plant expansions overseas.

As a result of these factors, free cash flow totaled ¥9.4 billion. Management allocated this amount mainly to pay cash dividends and repay loans.

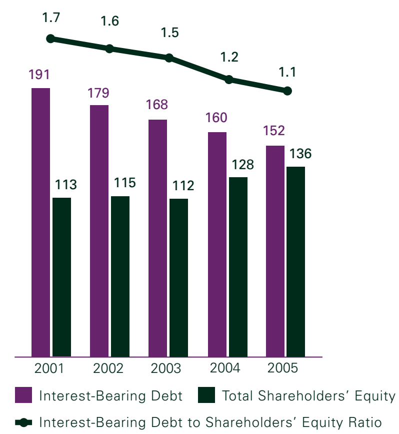
At year-end, therefore, cash and cash equivalents were ¥13.8 billion, down ¥2.6 billion, or 16.0% from 12 months earlier.

## OUTLOOK

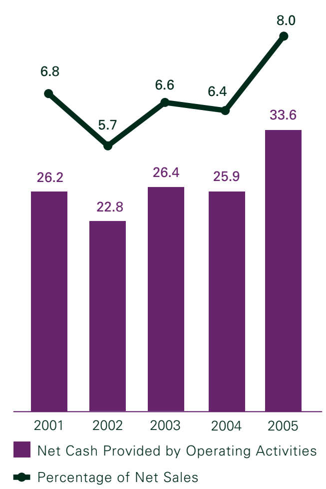
For fiscal 2006, Yokohama projects net sales of ¥445 billion, up 6.0%, operating income of ¥24 billion, up 14.5%, and net income of ¥11.5 billion, up 1.6%.

Management is confident of achieving these goals by overcoming pressures from higher raw materials costs with expanded tire sales and cost-cutting.

**Interest-Bearing Debt, Total Shareholders' Equity, and Interest-Bearing Debt to Shareholders' Equity Ratio**
(Billions of Yen, Times)




**Net Cash Provided by Operating Activities and Percentage of Net Sales**
(Billions of yen, Percentage)



## PERFORMANCE RISKS

The following describes risks that could affect the Company's operating performance, share price, and financial position. Forward-looking statements are based on assessments at the end of the fiscal year.

### Economic Conditions

Vehicle tires represent a major portion of the Yokohama Group's worldwide revenues. Demand for such tires reflects economic conditions in nations and regions where the Company sells its products. Therefore, economic difficulties in our main markets—including Japan, North America, Europe, and Asia—can lower demand, hampering the Company's performance and financial position. Other potential influences include the loss of market share and falling prices from intensifying competition.

### Exchange Rates

The Yokohama Group deals mainly in yen for general commercial transactions and investments, but also uses the dollar and other currencies. Consistent with the Company's basic policy of operating globally, the proportion of overseas business should grow in line with expansion in the sales network and production outside Japan. As a result, the use of foreign currencies in commercial transactions and investments should increase, and exchange rate fluctuations may significantly affect performance and financial position. Exchange contracts and other instruments should minimize risks from such fluctuations, but it is impossible to completely avoid risks.

### Seasonal Factors

The Group traditionally performs better in the second half of each fiscal year. This is because sales of studless tires in cold regions where snow accumulates and of replacement tires in the lead-up to summer generally concentrate in that half. Therefore, delays in the onset of winter and lighter snowfalls could affect the Company's performance and financial position.

### Raw Materials Prices

Our principal raw materials are natural rubber and petrochemical products. Surges in natural rubber prices or international crude oil prices could affect manufacturing costs. We have taken steps to minimize the potential impact but also recognize that such measures cannot fully mitigate the impact of major increases in raw materials on our performance and financial position.

### Fund-Raising Ability and Costs

Group financial management policies emphasize stability, safety, and liquidity in fund-raising. We recognize, however, that volatility in Japanese and other major world financial markets could hamper fund-raising. Moreover, our latitude could shrink, with related costs increasing, if credit rating agencies significantly lower their ratings on the Company. Such events could adversely affect our performance and financial position.

### Interest-Bearing Debt

As of March 31, 2004, interest-bearing debt was equivalent to 37.2% of total assets. Through groupwide financial management, we are working to improve our financial position by maximizing capital efficiency. Nevertheless, management recognizes that interest rate movements may affect performance and financial position.

### Securities Holdings

Japanese equities account for a large share of the Company's holdings of marketable securities available for sale or investment. Significant changes or declines in Japanese stock prices could cause increases in unrealized holding losses on securities, which would affect our performance and financial position.

### Investment-Related Factors

To meet growing worldwide demand for automobile tires, the Company is investing heavily to expand its production network and manufacturing facilities, especially in Asia. These investments aim to improve quality and meet rising demand and thus enhance the Company's reputation and market share. Management recognizes, however, that local laws and customs may lead to unpredictable events that prevent the Company from achieving its targets. Such events could affect performance and financial position.

### Retirement Benefit Obligations

The Group's retirement benefit obligations and retirement benefit expenses are calculated according to predetermined criteria related to discount rates, expected returns on pension assets, and other factors. If actual discount rates and expected returns differ from these set criteria, the differential must be recognized and carried forward. Therefore, future retirement benefit expenses could increase, and unrecognized prior services costs could be incurred as a result of declines in interest rates, pension asset market prices, or investment returns, or following changes to the Company's retirement and pension plans. Such events could influence performance and financial position.

### Natural Disasters

As a contingency for earthquakes and other natural disasters, the Company constantly studies, plans, and implements countermeasures. Management recognizes, however, that unprecedented disasters could affect production facilities or the operations of main raw materials suppliers. This could hamper the Company's performance and financial position.

# Six-Year Summary

Fiscal Years Ended March 31

Millions of Yen

| | **2005** | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Net Sales | **¥419,789** | ¥401,718 | ¥400,448 | ¥399,824 | ¥387,855 | ¥392,193 |
| Operating Income | **20,955** | 21,073 | 23,184 | 22,701 | 19,845 | 19,043 |
| Income (Loss) before Income Taxes | **16,337** | 16,931 | 18,778 | 16,076 | 7,052 | (13,692) |
| Net Income (Loss) | **11,322** | 10,331 | 10,144 | 7,363 | 96 | (9,009) |
| Depreciation | **19,616** | 19,199 | 19,040 | 19,247 | 20,083 | 21,922 |
| Capital Expenditures | **27,533** | 23,735 | 22,708 | 16,940 | 18,118 | 19,470 |
| R&D Expenditures | **14,265** | 13,818 | 12,520 | 12,298 | 11,827 | 11,626 |
| Interest-Bearing Debt | **151,758** | 159,700 | 167,832 | 179,098 | 191,289 | 198,931 |
| Total Shareholders' Equity | **136,312** | 127,833 | 112,243 | 114,502 | 112,651 | 85,951 |
| Total Assets | **432,717** | 429,350 | 412,626 | 437,771 | 448,130 | 416,702 |
| Per Share (Yen): | | | | | | |
| Net Income (Loss): Basic | **¥ 32.95** | ¥ 29.95 | ¥ 29.38 | ¥ 21.32 | ¥ 0.28 | ¥ (26.30) |
| Shareholders' Equity | **398.24** | 373.23 | 327.61 | 334.24 | 328.81 | 250.88 |
| Cash Dividends | **8.00** | 8.00 | 8.00 | 6.00 | — | 6.00 |
| Key Financial Ratios: | | | | | | |
| Operating Margin (%) | **5.0** | 5.2 | 5.8 | 5.7 | 5.1 | 4.9 |
| Return on Shareholders' Equity (%) | **8.6** | 8.6 | 8.9 | 6.5 | 0.1 | (9.7) |
| Interest-Bearing Debt to Shareholders' Equity Ratio (times) | **1.1** | 1.2 | 1.5 | 1.6 | 1.7 | 2.3 |
| Number of Employees | **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, 2005 and 2004

| ASSETS | Millions of Yen 2005 | Millions of Yen 2004 | Thousands of U.S. Dollars (Note 1) 2005 |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash and cash equivalents | **¥ 13,836** | ¥ 16,473 | **$ 128,839** |
| Time deposits | **23** | 43 | **218** |
| Trade receivables: | | | |
| Notes and accounts (Notes 4 and 6) | **104,436** | 102,577 | **972,492** |
| Inventories (Note 3) | **62,450** | 63,916 | **581,526** |
| Deferred income taxes (Note 13) | **7,261** | 7,385 | **67,610** |
| Other current assets | **6,151** | 7,024 | **57,279** |
| Allowance for doubtful receivables | **(2,277)** | (3,289) | **(21,204)** |
| Total current assets | **191,880** | 194,129 | **1,786,760** |
| **Property, Plant and Equipment, at Cost** (Notes 4 and 5)**:** | | | |
| Land | **32,954** | 32,913 | **306,865** |
| Buildings and structures | **114,122** | 113,742 | **1,062,686** |
| Machinery and equipment | **336,369** | 331,807 | **3,132,223** |
| Construction in progress | **11,004** | 6,248 | **102,471** |
| | **494,449** | 484,710 | **4,604,245** |
| Less accumulated depreciation | **(335,445)** | (331,942) | **(3,123,620)** |
| Total property, plant and equipment, net | **159,004** | 152,768 | **1,480,625** |
| **Investments and Other Assets:** | | | |
| Investment securities (Note 10) | **59,751** | 59,293 | **556,392** |
| Long-term loans receivable | **1,135** | 1,409 | **10,567** |
| Deferred income taxes (Note 13) | **2,672** | 2,838 | **24,878** |
| Other investments and other assets | **20,111** | 20,942 | **187,285** |
| Allowance for doubtful receivables | **(1,836)** | (2,029) | **(17,101)** |
| Total investments and other assets | **81,833** | 82,453 | **762,021** |
| Total assets | **¥432,717** | ¥429,350 | **$4,029,406** |

See accompanying Notes to Consolidated Financial Statements.

| Liabilities, Minority Interests and Shareholders' Equity | Millions of Yen 2005 | 2004 | Thousands of U.S. Dollars (Note 1) 2005 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Bank loans | **¥ 71,001** | ¥ 89,651 | **$ 661,155** |
| Current maturities of long-term debt (Note 4) | **9,305** | 5,593 | **86,650** |
| Commercial paper | **—** | 9,000 | **—** |
| Trade notes and accounts payable | **66,357** | 63,219 | **617,904** |
| Accrued income taxes | **2,347** | 4,123 | **21,858** |
| Accrued expenses | **22,847** | 21,241 | **212,751** |
| Other current liabilities | **14,000** | 14,810 | **130,359** |
| Total current liabilities | **185,857** | 207,637 | **1,730,677** |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Note 4) | **71,452** | 55,456 | **665,350** |
| Deferred income taxes (Note 13) | **7,818** | 7,340 | **72,798** |
| Reserve for pension and severance payments (Note 12) | **20,685** | 20,843 | **192,621** |
| Other long-term liabilities | **7,371** | 7,452 | **68,638** |
| Total long-term liabilities | **107,326** | 91,091 | **999,407** |
| **Minority Interests** | **3,221** | 2,789 | **29,997** |
| Contingent liabilities (Note 6) | | | |
| **Shareholders' Equity:** | | | |
| Common stock: | | | |
| Authorized: 480,000,000 shares | | | |
| Issued: 342,598,162 shares | **38,909** | 38,909 | **362,316** |
| Capital surplus | **31,952** | 31,893 | **297,541** |
| Retained earnings (Note 8) | **51,934** | 43,866 | **483,604** |
| Accumulated other comprehensive income | | | |
| Unrealized gains on securities | **23,598** | 22,815 | **219,742** |
| Foreign currency translation adjustments | **(9,943)** | (9,561) | **(92,584)** |
| | **136,450** | 127,922 | **1,270,619** |
| Treasury stock, at cost: 425,525 shares in 2005 and 304,357 shares in 2004 | **(138)** | (89) | **(1,294)** |
| Total shareholders' equity | **136,312** | 127,833 | **1,269,325** |
| Total liabilities, minority interests and shareholders' equity | **¥432,717** | ¥429,350 | **$4,029,406** |

# CONSOLIDATED STATEMENTS OF INCOME

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005, 2004 and 2003

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| Net sales | **¥419,789** | ¥401,718 | ¥400,448 | **$3,909,014** |
| Cost of sales | **284,369** | 269,030 | 267,070 | **2,647,999** |
| Gross profit | **135,420** | 132,688 | 133,378 | **1,261,015** |
| Selling, general and administrative expenses | **114,465** | 111,615 | 110,194 | **1,065,885** |
| Operating income | **20,955** | 21,073 | 23,184 | **195,130** |
| Other income (expenses) | | | | |
| Interest and dividend income | **930** | 852 | 756 | **8,658** |
| Interest expense | **(1,948)** | (2,384) | (3,044) | **(18,141)** |
| Other—net | **(3,600)** | (2,610) | (2,118) | **(33,511)** |
| | **(4,618)** | (4,142) | (4,406) | **(42,994)** |
| Income before income taxes | **16,337** | 16,931 | 18,778 | **152,136** |
| Income taxes (Note 2): | | | | |
| Current | **4,390** | 7,481 | 9,141 | **40,883** |
| Deferred | **215** | (1,095) | (766) | **2,004** |
| | **4,605** | 6,386 | 8,375 | **42,887** |
| Minority interests in net income of consolidated subsidiaries | **410** | (214) | (259) | **3,814** |
| Net income | **¥ 11,322** | ¥ 10,331 | ¥ 10,144 | **$ 105,435** |

| **Per Share Amounts:** | Yen | | | U.S. Dollars (Note 1) |
|---|---|---|---|---|
| Net income: Basic | **¥ 32.95** | ¥ 29.95 | ¥ 29.38 | **$ 0.31** |
| Net income: Diluted | **—** | — | — | **—** |
| Cash dividends | **¥ 8.00** | ¥ 8.00 | ¥ 8.00 | **$ 0.07** |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Shareholders' Equity

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005, 2004 and 2003

| | | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
| Balance at March 31, 2002 | 342,598,162 | ¥38,909 | ¥31,893 | ¥29,983 | ¥13,724 | ¥ (7) | ¥114,502 |
| Decrease in retained earnings due to change in scope of consolidation | — | — | — | (152) | — | — | (152) |
| Adjustment for excess of additional pension liability over unrecognized prior service cost | — | — | — | (1,298) | — | — | (1,298) |
| Net income | — | — | — | 10,144 | — | — | 10,144 |
| Cash dividends paid | — | — | — | (2,055) | — | — | (2,055) |
| Bonuses to directors and corporate auditors | — | — | — | (60) | — | — | (60) |
| Purchase of treasury stock | — | — | — | — | — | (60) | (60) |
| Other comprehensive income | | | | | | | |
| Unrealized losses on securities | — | — | — | — | (7,237) | — | (7,237) |
| Foreign currency translation adjustments | — | — | — | — | (1,541) | — | (1,541) |
| Balance at March 31, 2003 | 342,598,162 | 38,909 | 31,893 | 36,562 | 4,946 | (67) | 112,243 |
| Decrease in retained earnings due to change in scope of consolidation | — | — | — | (45) | — | — | (45) |
| Adjustment for excess of additional pension liability over unrecognized prior service cost | — | — | — | (168) | — | — | (168) |
| Net income | — | — | — | 10,331 | — | — | 10,331 |
| Cash dividends paid | — | — | — | (2,738) | — | — | (2,738) |
| Bonuses to directors and corporate auditors | — | — | — | (76) | — | — | (76) |
| Purchase of treasury stock | — | — | — | — | — | (22) | (22) |
| Other comprehensive income | | | | | | | |
| Unrealized gains on securities | — | — | — | — | 10,019 | — | 10,019 |
| Foreign currency translation adjustments | — | — | — | — | (1,711) | — | (1,711) |
| Balance at March 31, 2004 | 342,598,162 | 38,909 | 31,893 | 43,866 | 13,254 | (89) | 127,833 |
| Increase in capital surplus due to merger | — | — | 60 | — | — | — | 60 |
| Decrease in retained earnings due to change in scope of consolidation | — | — | — | (1) | — | — | (1) |
| Adjustment for excess of additional pension liability over unrecognized prior service cost | — | — | — | (256) | — | — | (256) |
| Net income | — | — | — | 11,322 | — | — | 11,322 |
| Cash dividends paid | — | — | — | (2,738) | — | — | (2,738) |
| Bonuses to directors and corporate auditors | — | — | — | (77) | — | — | (77) |
| Decrease in retained earnings due to merger | — | — | — | (60) | — | — | (60) |
| Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary | — | — | — | (122) | — | — | (122) |
| Purchase of treasury stock | — | — | — | — | — | (50) | (50) |
| Other comprehensive income | | | | | | | |
| Unrealized gains on securities | — | — | — | — | 783 | — | 783 |
| Foreign currency translation adjustments | — | — | — | — | (382) | — | (382) |
| Balance at March 31, 2005 | 342,598,162 | ¥38,909 | ¥31,952 | ¥51,934 | ¥13,655 | ¥(138) | ¥136,312 |

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
| Balance at March 31, 2004 | $362,316 | $296,982 | $408,477 | $123,423 | $ (828) | $1,190,371 |
| Increase in capital surplus due to merger | — | 559 | — | — | — | 559 |
| Decrease in retained earnings due to change in scope of consolidation | — | — | (9) | — | — | (9) |
| Adjustment for excess of additional pension liability over unrecognized prior service cost | — | — | (2,383) | — | — | (2,383) |
| Net income | — | — | 105,435 | — | — | 105,435 |
| Cash dividends paid | — | — | (25,503) | — | — | (25,503) |
| Bonuses to directors and corporate auditors | — | — | (718) | — | — | (718) |
| Decrease in retained earnings due to merger | — | — | (559) | — | — | (559) |
| Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary | — | — | (1,136) | — | — | (1,136) |
| Purchase of treasury stock | — | — | — | — | (466) | (466) |
| Other comprehensive income | | | | | | |
| Unrealized gains on securities | — | — | — | 7,291 | — | 7,291 |
| Foreign currency translation adjustments | — | — | — | (3,557) | — | (3,557) |
| Balance at March 31, 2005 | $362,316 | $297,541 | $483,604 | $127,158 | $(1,294) | $1,269,325 |

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, 2005, 2004 and 2003

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| **Operating Activities:** | | | | |
| Income before income taxes | **¥ 16,337** | ¥ 16,931 | ¥ 18,778 | **$ 152,136** |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation (Note 5) | **19,616** | 19,199 | 19,040 | **182,666** |
| Reserve for pension and severance payments | **(832)** | (236) | (1,188) | **(7,746)** |
| Other, net | **656** | 2,673 | 3,316 | **6,110** |
| Changes in operating assets and liabilities: | | | | |
| Trade notes and accounts receivable | **(1,596)** | (2,286) | 3,847 | **(14,865)** |
| Inventories | **1,165** | (2,815) | (3,095) | **10,852** |
| Notes and accounts payable | **3,089** | 2,757 | (5,256) | **28,764** |
| Other, net | **2,290** | 89 | 1,722 | **21,309** |
| Interest and dividends received | **1,002** | 786 | 726 | **9,333** |
| Interest paid | **(1,951)** | (2,362) | (3,065) | **(18,166)** |
| Income taxes paid | **(6,167)** | (8,844) | (8,403) | **(57,427)** |
| Net cash provided by operating activities | **33,609** | 25,892 | 26,421 | **312,966** |
| **Investing Activities:** | | | | |
| Purchases of property, plant and equipment | **(26,493)** | (23,496) | (19,732) | **(246,703)** |
| Purchases of marketable securities and investment securities | **(411)** | (1,211) | (3,619) | **(3,824)** |
| Proceeds from sales of marketable securities, investment securities and property | **3,278** | 4,345 | 5,209 | **30,525** |
| Other, net | **(611)** | (872) | (830) | **(5,690)** |
| Net cash used in investing activities | **(24,237)** | (21,234) | (18,972) | **(225,692)** |
| **Financing Activities:** | | | | |
| Decrease in short-term bank loans and current maturities of long-term debt | **(18,281)** | (3,122) | (18,502) | **(170,226)** |
| (Decrease) increase in commercial paper | **(9,000)** | (5,000) | 12,000 | **(83,807)** |
| Proceeds from long-term debt | **26,026** | 8,512 | 16,473 | **242,350** |
| Decrease in long-term debt | **(5,977)** | (6,388) | (18,104) | **(55,657)** |
| Payment of cash dividends | **(2,733)** | (2,733) | (2,054) | **(25,446)** |
| Other, net | **(2,042)** | 3,982 | (60) | **(19,024)** |
| Net cash used in financing activities | **(12,007)** | (4,749) | (10,247) | **(111,810)** |
| Effect of exchange rate changes on cash and cash equivalents | **(8)** | (202) | (153) | **(78)** |
| Decrease in cash and cash equivalents | **(2,643)** | (293) | (2,951) | **(24,614)** |
| Cash and cash equivalents at beginning of year | **16,473** | 15,769 | 18,332 | **153,399** |
| Increase in cash and cash equivalents due to addition of consolidated subsidiaries | **6** | 997 | 388 | **54** |
| Cash and cash equivalents at end of year | **¥ 13,836** | ¥ 16,473 | ¥ 15,769 | **$ 128,839** |

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") and domestic consolidated subsidiaries are 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 Securities and Exchange Law of Japan. The Company's subsidiaries in the United States of America (the "USA") prepare 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 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 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 ¥107.39=U.S.$1.00, the approximate exchange rate prevailing on March 31, 2005.

## 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"). 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 has been fully written off when acquired.

### (2) 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.

The resulting exchange adjustments are recorded in shareholders' equity and minority interests.

### (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.

### (4) Marketable Securities and Investment Securities
Securities classified as available-for-sale, whose fair value is readily determinable, are carried at fair value with unrealized gains or losses included as a component of shareholders' equity, 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.

### (5) Derivative Instruments
Derivative instruments, whose fair value is 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 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.

The transition obligation of consolidated subsidiaries is amortized over 5 years. The transition obligation of the Company was 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."

**(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 upon shipments to customers.

**(12) Research and Development Costs**
Research and development costs are charged to income as incurred.

**(13) 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 for the years ended March 31, 2005, 2004 and 2003.

**(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.

**(15) New Accounting Standards**
A new Japanese accounting standard, "Impairment of Fixed Assets," was issued in August 2002, and is effective for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and an application from fiscal years ending March 31, 2004 to March 30, 2005 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The company would be required to recognize an impairment loss in its statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

## 3. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Finished products | **¥42,175** | ¥42,500 | **$392,730** |
| Work-in-process | **10,704** | 11,882 | **99,677** |
| Raw materials and supplies | **9,571** | 9,534 | **89,119** |
| | **¥62,450** | ¥63,916 | **$581,526** |

## 4. Long-Term Debt

Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| 1.3425% straight bonds due 2007 | **¥10,000** | ¥10,000 | **$ 93,119** |
| 0.62% straight bonds due 2008 | **10,000** | 10,000 | **93,119** |
| 0.84% straight bonds due 2010 | **10,000** | 10,000 | **93,119** |
| Loans, principally from banks and insurance companies | **50,757** | 31,049 | **472,643** |
| | **80,757** | 61,049 | **752,000** |
| Less current maturities | **9,305** | 5,593 | **86,650** |
| | **¥71,452** | ¥55,456 | **$665,350** |

Assets pledged to secure bank loans and long-term debt at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Notes receivable | **¥ 541** | ¥ 693 | **$ 5,040** |
| Property, plant and equipment | **73,688** | 76,888 | **686,171** |
| | **¥74,229** | ¥77,581 | **$691,211** |

## 5. Depreciation

Depreciation charges were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| Selling, general and administrative expenses | **¥ 2,819** | ¥ 2,856 | ¥ 2,913 | **$ 26,250** |
| Manufacturing costs | **¥16,797** | ¥16,343 | ¥16,127 | **$156,416** |

## 6. Contingent Liabilities

Contingent liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Notes discounted and endorsed | **¥481** | ¥841 | **$4,477** |
| Guarantees | **¥112** | ¥395 | **$1,039** |

## 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, 2005 and 2004 were ¥14,265 million ($132,833 thousand) and ¥13,818 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, semiannual interim dividends may be made by resolution of the Board of Directors, subject to the limitations imposed by the Commercial Code.

## 9. Leases

An analysis of leased property under finance leases, which are accounted for as operating leases, was as follows :

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Acquisition costs | **¥6,065** | ¥6,963 | **$56,476** |
| Accumulated depreciation | **2,823** | 3,209 | **26,285** |
| Net book value | **¥3,242** | ¥3,754 | **$30,191** |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Within one year | **¥ 906** | ¥1,088 | **$ 8,440** |
| After one year | **2,336** | 2,666 | **21,751** |
| | **¥3,242** | ¥3,754 | **$30,191** |

Lease expenses under finance leases, which are accounted for as operating leases, for the years ended March 31, 2005 and 2004 aggregated approximately ¥1,182 million ($11,006 thousand) and ¥1,331 million, respectively.

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Within one year | **¥1,188** | ¥1,611 | **$11,059** |
| After one year | **4,171** | 4,117 | **38,840** |
| | **¥5,359** | ¥5,728 | **$49,899** |

## 10. Securities

Cost, carrying amounts and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | | | | 2004 | | | |
| | Cost | Carrying amount | Unrealized gains | Unrealized losses | Cost | Carrying amount | Unrealized gains | Unrealized losses |
| Securities classified as: | | | | | | | | |
| Available-for-sale: | | | | | | | | |
| Stocks | **¥14,427** | **¥54,003** | **¥39,583** | **¥(7)** | ¥15,381 | ¥53,650 | ¥38,433 | ¥(164) |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | **2005** | | | |
| | Cost | Carrying amount | Unrealized gains | Unrealized losses |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Stocks | **$134,344** | **$502,868** | **$368,591** | **$(67)** |

Sales of securities classified as available-for-sale securities amounted to ¥2,334 million ($21,736 thousand), with an aggregate gain of ¥1,636 million ($15,236 thousand) and an aggregate loss of ¥16 million ($157 thousand) for the year ended March 31, 2005. The corresponding amounts for the year ended March 31, 2004 were ¥3,365 million, ¥1,394 million and ¥39 million.

Investment securities in the consolidated balance sheets at March 31, 2005 included securities lent to others of ¥2,430 million ($22,632 thousand) and deposits received as collateral of ¥2,010 million ($18,724 thousand), which are included in other current liabilities.

## 11. Derivative Instruments

Fair value information of derivative instruments at March 31, 2005 and 2004 was as follows:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2005** | | | 2004 | | | **2005** | | |
| | Contract amount | Fair value | Unrealized losses | Contract amount | Fair value | Unrealized gains (losses) | Contract amount | Fair value | Unrealized losses |
| Forward exchange contracts: | | | | | | | | | |
| Euro | **¥3,660** | **¥3,731** | **¥ (72)** | ¥3,924 | ¥3,775 | ¥149 | **$34,078** | **$34,747** | **$ (673)** |
| U.S. dollar | **2,228** | **2,278** | **(50)** | 2,542 | 2,443 | 99 | **20,751** | **21,213** | **(462)** |
| Others | **1,466** | **1,518** | **(50)** | 1,197 | 1,203 | (6) | **13,659** | **14,137** | **(475)** |
| | **¥7,354** | **¥7,527** | **¥(172)** | ¥7,663 | ¥7,421 | ¥242 | **$68,488** | **$70,097** | **$(1,610)** |

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2005** | | | 2004 | | | **2005** | | |
| | Contract amount | Fair value | Unrealized losses | Contract amount | Fair value | Unrealized losses | Contract amount | Fair value | Unrealized losses |
| Interest rate swap agreements | **¥73** | **¥(2)** | **¥(2)** | ¥15 | ¥(0) | ¥(0) | **$680** | **$(22)** | **$(22)** |
| | **¥—** | **¥(2)** | **¥(2)** | ¥— | ¥(0) | ¥(0) | **$ —** | **$(22)** | **$(22)** |

## 12. Pension and Severance Plans

1. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Projected benefit obligations | **¥(46,437)** | ¥(47,491) | **$(432,419)** |
| Fair value of plan assets | **25,096** | 23,958 | **233,687** |
| Funded status | **(21,341)** | (23,533) | **(198,732)** |
| Unrecognized transition obligation | **—** | 509 | **—** |
| Unrecognized actuarial losses | **237** | 2,181 | **2,204** |
| Unrecognized prior service cost | **419** | — | **3,907** |
| Net amount recognized | **¥(20,685)** | ¥(20,843) | **$(192,621)** |

2. The components of net pension and severance costs for the years ended March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Service cost | **¥2,465** | ¥2,482 | **$22,957** |
| Interest cost | **1,033** | 1,075 | **9,621** |
| Expected return on plan assets | **(39)** | (32) | **(362)** |
| Amortization of transition obligation | **510** | 514 | **4,745** |
| Recognized actuarial losses | **432** | 1,140 | **4,022** |
| Recognized prior service cost | **22** | — | **205** |
| Net periodic benefit cost | **¥4,423** | ¥5,179 | **$41,188** |

3. Assumptions used as of March 31, 2005 and 2004 were as follows:

| | **2005** | 2004 |
|---|---|---|
| Discount rate | **2.5%** | 2.5% |
| Expected return rate on plan assets | **0.75%** | 0.75% |

## 13. Deferred Income Taxes

1. Significant components of the deferred income tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Deferred tax assets: | | | |
| Liabilities for pension and severance payments | **¥14,721** | ¥14,440 | **$137,081** |
| Net operating loss carryforwards | **8,304** | 8,548 | **77,326** |
| Unrealized profits | **3,950** | 3,972 | **36,780** |
| Accrued expenses | **2,300** | 2,177 | **21,415** |
| Other | **2,841** | 3,701 | **26,461** |
| Gross deferred tax assets | **32,116** | 32,838 | **299,063** |
| Less valuation allowance | **(8,163)** | (8,476) | **(76,014)** |
| Total deferred tax assets | **23,953** | 24,362 | **223,049** |
| Deferred tax liabilities: | | | |
| Unrealized gains on securities | **(15,931)** | (15,402) | **(148,348)** |
| Liabilities for pension and severance payments | **(3,455)** | (3,454) | **(32,169)** |
| Property, plant and equipment | **(2,175)** | (2,324) | **(20,251)** |
| Other | **(320)** | (361) | **(2,987)** |
| Total deferred tax liabilities | **(21,881)** | (21,541) | **203,755** |
| Net deferred tax assets | **¥ 2,071** | ¥ 2,821 | **$ 19,294** |

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

| | Years ended March 31 | |
|---|---|---|
| | **2005** | 2004 |
| Statutory income tax rate in Japan | **40.3%** | 41.6% |
| Valuation allowance recognized on current losses of subsidiaries | **(2.0)** | 1.1 |
| Permanently nondeductible expenses | **3.0** | 3.1 |
| Permanently nontaxable income | **(1.1)** | (1.0) |
| Tax credits | **(1.8)** | (4.7) |
| Current tax deductible of writing-off subsidiary securities | **(10.9)** | — |
| Other | **0.7** | (2.4) |
| Effective income tax rate | **28.2%** | 37.7% |

## 14. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2005, 2004 and 2003 are outlined as follows:

### Business Segments

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Tires | Multiple Business | Total | Eliminations and Corporate | Consolidated |
| | **Year ended March 31, 2005** | | | | |
| Sales to third parties | **¥307,861** | **¥111,928** | **¥419,789** | **¥ —** | **¥419,789** |
| Intergroup sales and transfers | **30** | **17,606** | **17,636** | **(17,636)** | **—** |
| Total sales | **307,891** | **129,534** | **437,425** | **(17,636)** | **419,789** |
| Operating expenses | **289,714** | **126,757** | **416,471** | **(17,637)** | **398,834** |
| Operating income | **¥ 18,177** | **¥ 2,777** | **¥ 20,954** | **¥ 1** | **¥ 20,955** |
| Total assets at end of year | **¥297,900** | **¥140,147** | **¥438,048** | **¥ (5,330)** | **¥432,717** |
| Depreciation | **¥ 15,323** | **¥ 3,940** | **¥ 19,263** | **¥ 354** | **¥ 19,616** |
| Capital expenditures | **¥ 22,659** | **¥ 4,456** | **¥ 27,115** | **¥ 418** | **¥ 27,533** |
| | **Year ended March 31, 2004** | | | | |
| Sales to third parties | ¥288,629 | ¥113,089 | ¥401,718 | ¥ — | ¥401,718 |
| Intergroup sales and transfers | 75 | 15,224 | 15,299 | (15,299) | — |
| Total sales | 288,704 | 128,313 | 417,017 | (15,299) | 401,718 |
| Operating expenses | 273,424 | 122,554 | 395,978 | (15,333) | 380,645 |
| Operating income | ¥ 15,280 | ¥ 5,759 | ¥ 21,039 | ¥ 34 | ¥ 21,073 |
| Total assets at end of year | ¥289,696 | ¥147,742 | ¥437,438 | ¥ (8,088) | ¥429,350 |
| Depreciation | ¥ 15,040 | ¥ 3,839 | ¥ 18,879 | ¥ 320 | ¥ 19,199 |
| Capital expenditures | ¥ 19,607 | ¥ 3,776 | ¥ 23,383 | ¥ 352 | ¥ 23,735 |
| | **Year ended March 31, 2003** | | | | |
| Sales to third parties | ¥286,987 | ¥113,461 | ¥400,448 | ¥ — | ¥400,448 |
| Intergroup sales and transfers | 98 | 14,354 | 14,452 | (14,452) | — |
| Total sales | 287,085 | 127,815 | 414,900 | (14,452) | 400,448 |
| Operating expenses | 269,821 | 121,486 | 391,307 | (14,043) | 377,264 |
| Operating income | ¥ 17,264 | ¥ 6,329 | ¥ 23,593 | ¥ (409) | ¥ 23,184 |
| Total assets at end of year | ¥277,539 | ¥146,411 | ¥423,950 | ¥(11,324) | ¥412,626 |
| Depreciation | ¥ 15,183 | ¥ 3,824 | ¥ 19,007 | ¥ 33 | ¥ 19,040 |
| Capital expenditures | ¥ 17,289 | ¥ 5,156 | ¥ 22,445 | ¥ 263 | ¥ 22,708 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | Tires | Multiple Business | Total | Eliminations and Corporate | Consolidated |
| | **Year ended March 31, 2005** | | | | |
| Sales to third parties | **$2,866,754** | **$1,042,260** | **$3,909,014** | **$ —** | **$3,909,014** |
| Intergroup sales and transfers | **278** | **163,944** | **164,222** | **(164,222)** | **—** |
| Total sales | **2,867,032** | **1,206,204** | **4,073,236** | **(164,222)** | **3,909,014** |
| Operating expenses | **2,697,767** | **1,180,345** | **3,878,112** | **(164,229)** | **3,713,884** |
| Operating income | **$ 169,265** | **$ 25,859** | **$ 195,124** | **$ 7** | **$ 195,130** |
| Total assets at end of year | **$2,774,006** | **$1,305,033** | **$4,079,039** | **$ (49,632)** | **$4,029,406** |
| Depreciation | **$ 142,688** | **$ 36,686** | **$ 179,374** | **$ 3,292** | **$ 182,666** |
| Capital expenditures | **$ 210,999** | **$ 41,492** | **$ 252,491** | **$ 3,896** | **$ 256,387** |

## Geographical Areas

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other | Total | Eliminations and Corporate | Consolidated |
| | **Year ended March 31, 2005** | | | | | |
| Sales to third parties | **¥329,282** | **¥72,086** | **¥18,421** | **¥419,789** | **¥ —** | **¥419,789** |
| Interarea sales and transfers | **30,644** | **1,529** | **3,953** | **36,126** | **(36,126)** | **—** |
| Total sales | **359,926** | **73,615** | **22,374** | **455,915** | **(36,126)** | **419,789** |
| Operating expenses | **342,590** | **71,510** | **21,294** | **435,394** | **(36,560)** | **398,834** |
| Operating income | **¥ 17,336** | **¥ 2,105** | **¥ 1,080** | **¥ 20,521** | **¥ 434** | **¥ 20,955** |
| Total assets at end of year | **¥379,330** | **¥50,496** | **¥26,325** | **¥456,151** | **¥(23,434)** | **¥432,717** |
| | **Year ended March 31, 2004** | | | | | |
| Sales to third parties | ¥319,152 | ¥67,078 | ¥15,488 | ¥401,718 | ¥ — | ¥401,718 |
| Interarea sales and transfers | 28,182 | 1,986 | 3,535 | 33,703 | (33,703) | — |
| Total sales | 347,334 | 69,064 | 19,023 | 435,421 | (33,703) | 401,718 |
| Operating expenses | 328,368 | 67,932 | 18,224 | 414,524 | (33,879) | 380,645 |
| Operating income | ¥ 18,966 | ¥ 1,132 | ¥ 799 | ¥ 20,897 | ¥ 176 | ¥ 21,073 |
| Total assets at end of year | ¥380,392 | ¥50,472 | ¥19,434 | ¥450,298 | ¥(20,948) | ¥429,350 |
| | **Year ended March 31, 2003** | | | | | |
| Sales to third parties | ¥315,893 | ¥70,621 | ¥13,934 | ¥400,448 | ¥ — | ¥400,448 |
| Interarea sales and transfers | 22,524 | 2,636 | 3,335 | 28,495 | (28,495) | — |
| Total sales | 338,417 | 73,257 | 17,269 | 428,943 | (28,495) | 400,448 |
| Operating expenses | 319,110 | 70,742 | 16,099 | 405,951 | (28,687) | 377,264 |
| Operating income | ¥ 19,307 | ¥ 2,515 | ¥ 1,170 | ¥ 22,992 | ¥ 192 | ¥ 23,184 |
| Total assets at end of year | ¥363,052 | ¥55,191 | ¥14,753 | ¥432,996 | ¥(20,370) | ¥412,626 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other | Total | Eliminations and Corporate | Consolidated |
| | **Year ended March 31, 2005** | | | | | |
| Sales to third parties | **$3,066,228** | **$671,251** | **$171,535** | **$3,909,014** | **$ —** | **$3,909,014** |
| Interarea sales and transfers | **285,353** | **14,241** | **36,804** | **336,398** | **(336,398)** | **—** |
| Total sales | **3,351,581** | **685,492** | **208,339** | **4,245,412** | **(336,398)** | **3,909,014** |
| Operating expenses | **3,190,150** | **665,890** | **198,284** | **4,054,324** | **(340,440)** | **3,713,884** |
| Operating income | **$ 161,431** | **$ 19,602** | **$ 10,055** | **$ 191,088** | **$ 4,042** | **$ 195,130** |
| Total assets at end of year | **$3,532,270** | **$470,210** | **$245,137** | **$4,247,617** | **$(218,211)** | **$4,029,406** |

## Overseas Sales

| | Millions of Yen | | |
|---|---|---|---|
| | North America | Other | Total |
| | **Year ended March 31, 2005** | | |
| (A) Overseas sales | **¥75,651** | **¥64,919** | **¥140,570** |
| (B) Consolidated net sales | | | **¥419,789** |
| (C) (A)/(B) × 100 | **18.0%** | **15.5%** | **33.5%** |
| | **Year ended March 31, 2004** | | |
| (A) Overseas sales | ¥69,259 | ¥53,825 | ¥123,084 |
| (B) Consolidated net sales | | | ¥401,718 |
| (C) (A)/(B) × 100 | 17.2% | 13.4% | 30.6% |
| | **Year ended March 31, 2003** | | |
| (A) Overseas sales | ¥72,984 | ¥45,878 | ¥118,863 |
| (B) Consolidated net sales | | | ¥400,448 |
| (C) (A)/(B) × 100 | 18.2% | 11.5% | 29.7% |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | North America | Other | Total |
| | **Year ended March 31, 2005** | | |
| (A) Overseas sales | **$704,455** | **$604,515** | **$1,308,970** |
| (B) Consolidated net sales | | | **$3,909,014** |
| (C) (A)/(B) × 100 | **18.0%** | **15.5%** | **33.5%** |

# Report of Independent Auditors

Ernst & Young ShinNihon

**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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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 financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 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

June 29, 2005