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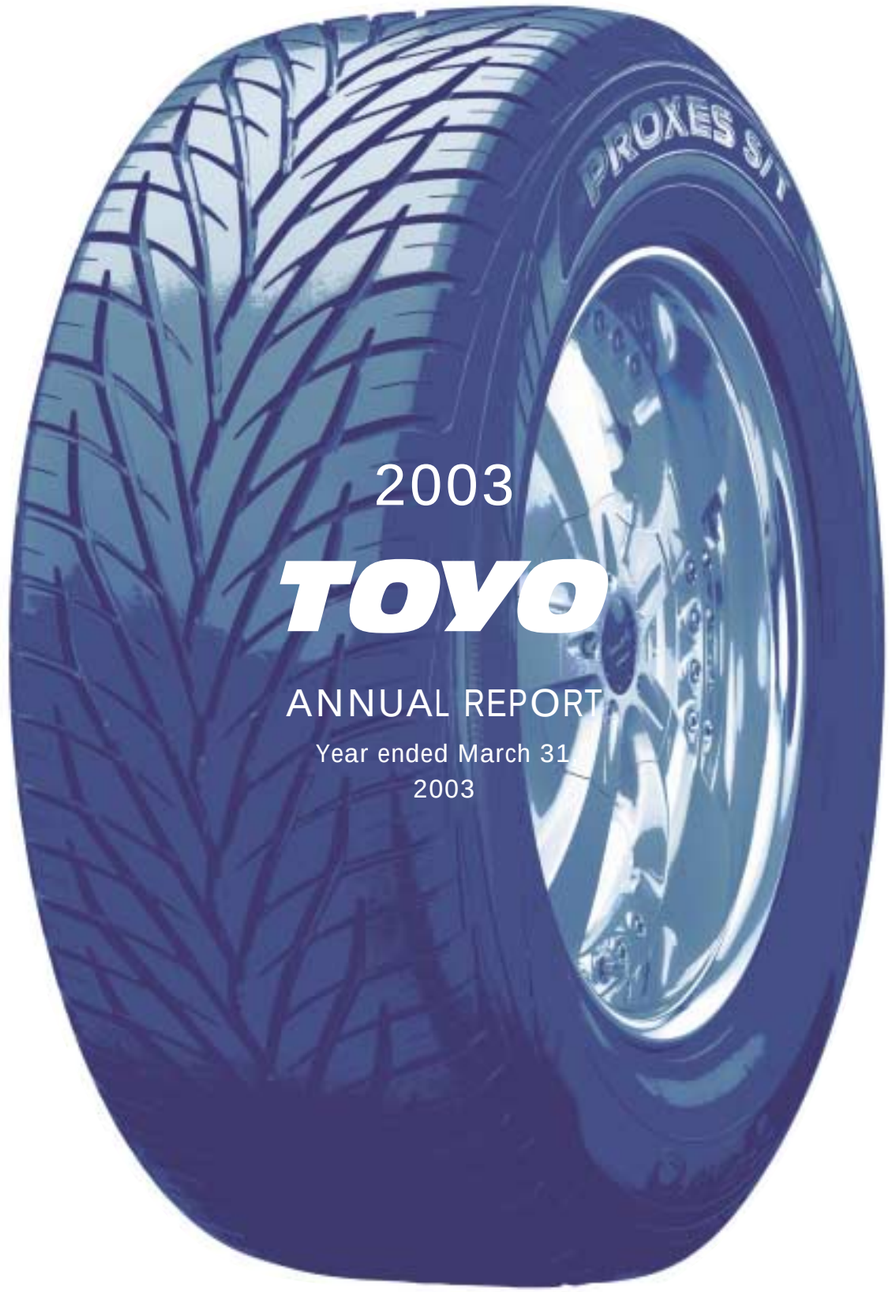

2003

TOYO

ANNUAL REPORT

Year ended March 31
2003

TOYO TIRE & RUBBER CO.,LTD.

Profile

Toyo Tire & Rubber Co., Ltd. is one of the world's leading manufacturers of rubber and polyurethane products. Founded in 1945, the Company continues to contribute to society by providing high-quality products and services which are based on the leading technology in the field.

Toyo operates on a global scale under the concept of "environment and safety." It has an extensive and strategic range of businesses encompassing tires, and rubber and plastics, including manufacturing of automotive parts, chemical/industrial products, sports-related products and housing-related products.

Toyo provides mobility and amenity to meet customer satisfaction - Toyo's top priority. Toyo also is environmentally conscious in its operations, with a commitment to local communities on a global scale.

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Financial Highlights

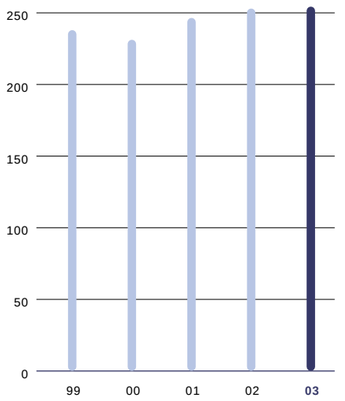
Toyo Tire & Rubber Co.,Ltd and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
FOR THE YEAR			
Net sales	¥253,811	¥255,158	$2,122,779
Tires	156,080	159,237	1,324,767
Chemical & Industrial Products	46,049	39,089	325,200
Automotive Parts	50,864	55,315	460,191
Others	818	1,517	12,621
Operating income	15,404	13,543	112,671
Income before income taxes	5,446	6,938	57,720
Net income	3,261	3,657	30,424
AT YEAR-END			
Total assets	¥256,410	¥259,206	$2,156,456
Current assets	116,265	110,305	917,679
Property, plant and equipment	95,567	107,022	890,366
Investments and other assets	44,578	41,879	348,411
Shareholders' equity	58,637	58,314	485,141
PER SHARE OF COMMON STOCK (Yen and dollars)			
Net income	¥15.58	¥17.33	$0.14
Cash dividends	5.00	7.00	0.06

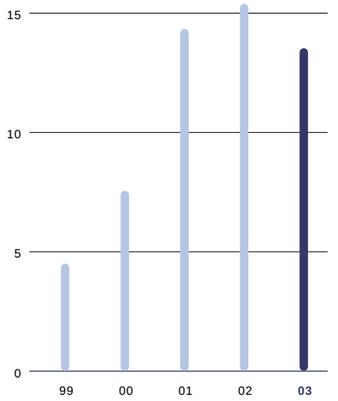
Note:

1. The U.S. dollar amounts above and elsewhere in this Annual Report represent translations of Japanese yen figures calculated, for convenience only, at the exchange rate of ¥120.20 = U.S.$1, prevailing on March 31, 2003.
2. The Company's fiscal year runs from April 1 through March 31 of the following year.
3. The Others segment principally includes financial services and realty businesses.

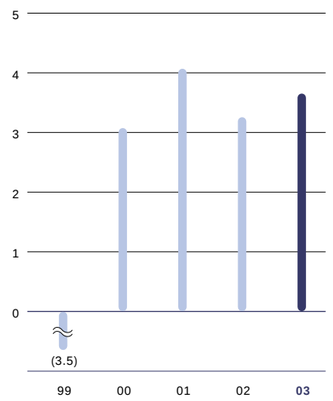
Net Sales \ billion



Operating Income \ billion



Net Income (Loss) \ billion



To Our Shareholders

Yoshio Kataoka

The 21st Century Management Vision that will drive Toyo's new system

Last May, the Toyo Group announced its 21st Century Management Vision for the first five to 10 years of this century. It is the very vision of the corporation the Toyo Group aims to become in the 21st century, and the goal is to increase shareholder satisfaction by maximizing corporate value. It clearly states the group's desire to use world-class, one-of-a-kind technologies in its tires, vibration control and thermal insulation to create a "comfortable environment," and to continue to be a company whose existence is vital to individuals and society.

Based on this new management vision, we will guide the group to generating shareholder value in the long term.

Results from the fiscal year ended in March

In the fiscal year ended March 2003, sales increased by 0.5% to 255.16 billion yen, while operating income declined 12.1% to 13.54 billion yen.

Looking at the results by segment, domestic sales of replacement tires in the Tires Segment fell below previous-year levels. This, however, was off-set for by tire sales in overseas markets, particularly in the North American markets. Overall tire sales amounted to 159.24 billion yen, up 2.0% from a year earlier. However, operating income declined by 8.0% to 12.54 billion yen due to higher natural rubber prices increased advertising and R&D costs, and the increased burden imposed by the change of our depreciation method.

In the Chemical & Industrial Products Segment, sales declined by about 1 billion yen due to stagnation in domestic capital spending and intensified price competition. The segment lost another 6 billion yen in sales because of the disposal of non-core businesses, resulting in sales of 39.09 billion yen, down 15.1% from the previous fiscal year. Meanwhile, operating income for this segment increased by 293 million yen, to 209 million yen.

In the Automotive Parts Segment, sales of components such as seat cushions and bumpers declined, but there was a large increase in sales of anti-vibration rubber products thanks to an increase in domestic auto production volume, the transfer to Toyo of Toyoda Gosei Co.'s automotive anti-vibration systems business, and the expansion of our global production and supply systems. Overall sales rose 8.8% year-on-year to 55.32 billion yen, while operating income declined 59.0% to 703 million yen, largely due to the start-up costs of our North American business.

Medium-Term Business Plan 2002: Challenge for the Future

The Toyo Group promotes its businesses by creating and implementing a medium-term business plan every three years. Last year, in line with the creation of our 21st Century Management Vision, we launched Medium-Term Business Plan 2002, a three-year plan beginning last fiscal year and aimed at realizing our broader vision. We have been working to realize our goals under the slogan, "Challenge for The Future."

In the fiscal year ended March 2003, the business environment was extremely harsh both in Japan and abroad. Worldwide, there were the threat of terrorism, disorder in international society manifesting in conflicts such as the war in Iraq, and stagnation in the world economy, particularly in Japan, Europe and the United States. In Japan, price competition intensified and capital and consumer spending slowed down amid the on-going recession.

Despite the dramatic difficulties of these times, however, we implemented aggressive strategies aimed at increasing profitability to ensure that we seize business opportunities. Such measures included improving our marketing, developing new technologies and production methods, strengthening and expanding core operations through our "select and focus" strategy, boosting cost competitiveness, and developing businesses on a global scale.

We promoted our Tires Segment primarily by enhancing sales capabilities in the domestic replacement tire market, focusing on income, promoting supply-chain management, expanding and developing the technological foundation for pioneering product development and new production methods, and promoting overseas market strategies. In the Chemical & Industrial Products Segment, we focused on big disparities in the earning capacity between our competitors who specialize in industrial products and us. We promoted

Medium-term Company-wide Strategy

Challenge for the Future
=
boosting competitive strength at the global level

Basic Strategy

- Building up new-technology resources (OR new technological resources)
- Creating customer value
- Increasing corporate value
- Solidifying revenue foundation and growth
- Promoting management of consolidated cash flow

▶

Goals

1. Cost reduction
   - TCR30 activities
   - Developing new technologies and production methods
2. Increasing technological strength
   - Reallocation of technological resources
   - Reconfiguration of technical organizations

Projections and Actual Results for Medium-Term Business Plan 2002

	Net sales	Operating income	Total assets	ROA (Return: Operating Income)
FY ended March 2003 (Projection)	254.0	12.0	-	-
FY ended March 2003 (Actual results)	255.2	13.5	259.2	5.2%
FY ended March 2005 (Projection)	270.0	18.5	257.0	6.0%

(\ billion)

measures designed to concentrate management resources into the fields where the Toyo Group is strongest, for example, strengthening our anti-vibration and thermal insulation areas, making high-function products part of our core business, and actively participating in resource development projects.

In the Automotive Parts Segment, we strengthened the global base for our anti-vibration rubber business through such moves as starting production in North America. At the same time, we expanded our domestic anti-vibration rubber business, improved the profitability of our seat cushion business, and enhanced our ongoing quality assurance systems.

As for corporate activities, we engaged in TCR30 (Total Costs Reduction 30) activities through the cross-functional team we created with such missions as reducing procurement costs, improving productivity, and streamlining our balance sheet. In order to improve the quality of our information systems, we formed a strategic partnership with CAC Corporation.

On the technology front, we established a Technology Council and launched a "Technology Navigation Project"to formulate technological strategies looking 10 to 15 years into the future.

In the first year of our Medium-Term Business Plan 2002, we achieved our targets for sales and operating income. We are confident we got off to a respectable start toward achieving our overall goals.

Long-term generation of corporate value that makes individuals and society more comfortable

In the fiscal year ending March 2004, we must be prepared to face even more challenging conditions than last year in the domestic market. Overseas markets, too, remain difficult to predict. In order to further boost corporate value and build a solid management base against this backdrop, I, as president, asked senior executives to pursue four types of reform and four policies at the beginning of the new fiscal year. The four types of reform are "business structure reform " aimed at securing definite dominance over competitors, "technological innovation" aimed at spawning world-class, one-of-a-kind technologies, "business process reform" aimed at improving productivity and pursuing higher quality of work by concentrating and standardizing business, and "procurement system reform" using such means as optimal procurement on a global scale, bulk purchasing, and electronic purchasing.

The first of the four policies is "enhancing marketing capability" which involves responding flexibly to beat the competition at developing and introducing products that meet the needs of the market. The second is "improving communication," with the aim of exchanging technological and marketing information among our in-house companies. The third is "developing management that strongly emphasizes corporate compliance", so that each employee feels a moral obligation to fulfill our responsibilities to society in the course of his or her daily work. And the fourth is to extend the "Five-S" activities comprising Seiri (proper arrangement), Seiton (orderliness), Seiso (cleanliness), Seiketsu (cleaned up), and Shitsuke (discipline) that our group is currently engaged in so that they lead to improvements in quality, environment, safety, hygiene, cost-cutting, and education.

Implementing these improvements without fail and making sure that we achieve the fiscal 2003 goals set forth in our Medium-Term Business Plan 2002 (256 billion yen in sales, 10.5 billion yen in operating income, and 4.1 billion yen in net income) will lead to increasing our competitiveness at the global level and establishing the Toyo Group as the unparalleled leader in the global market.

I believe this is the best way to increase the corporate value of the Toyo Group, and to achieve long-term generation of shareholder value.

Yoshio Kataoka,
President and Chief Executive Officer

Tire Company 06

Challenge for the Future

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Research & Development Division 14

Tire Company

We will introduce pioneering products that respond to increasingly diversified market needs, and use our brand and marketing strengths to win in an increasingly globalized market.

Business Profile and Vision

We handle a wide variety of products, including passenger car tires, commercial vehicle tires, truck and bus tires, studless tires, industrial vehicle tires and large construction vehicle tires. Our sales activities fall into three broad categories handled by an Original Equipment Sales Division, Replacement Tire Operations Division, and Overseas Operations Division.

The guiding concept for Tire Company operations is "to be a top runner in the race to provide frontier products". Based on this, we provide value to customers in the form of innovative products and services that deliver safety, reliability, excitement, comfort, and information. By concentrating on core competencies that respond to customer needs, we build profitable and stable tire operations with good growth potential.

Q. What results were achieved in the first year covered by Medium-Term Business Plan 2002?

Demand has peaked out in the domestic replacement tire market, while price competition is more intense than ever. Since sales were sluggish, we strove to bolster overall sales capacities with an emphasis on profitability. One step we took toward that end was to increase the proportion of specialized tires in our product line, as tires that are distinctly different from general-purpose tires.

This fiscal year, we launched two new tires for passenger cars: "Winter TRANPATH M2", a studless specialized tire that uses water-absorbent crystal rubber to resist ice burn, and "TRANPATH MP3", a third-generation specialized tire that offers on-road driving stability. "TRANPATH MP3" was especially successful; shipments were up by 250% compared to the previous model in the same period a year earlier. Because of this, sales of specialized tires increased to account for more than half of overall tire sales in 2002.

As part of our strategy to boost our brand strength, we unified our logo worldwide, selecting the highly acclaimed logo used in the North American market. In the Japanese market, we introduced new characters for our television commercials.

In addition, we tested an IT-based sales support system by introducing it to about 100 employees in our sales company and increased our sales capacity. In February we introduced a system for optimizing supply and demand plans as part of our SCM (Supply Chain Management) project. This has allowed us to respond appropriately to our customers' needs while reducing our inventory to proper levels.

In the arena of production technology, we worked on two new production methods. One is called "T-Pro," and was developed with assessment support from Toyota Motor Corp. The other new method is unique to Toyo. We are currently in the process of commercializing these methods and considering how to introduce them in the market.

Meanwhile, we continued our global expansion by deciding to build another production base in China: a facility in Xiamen for making radial tires for trucks and buses. We are moving ahead with factory construction with the intention of starting production at the beginning of 2004. Toyo already became the first Japanese tire manufacturer to establish a production base for radial tires for passenger cars in Kunshan, China. We also established a sales company in Shanghai, and are working to build our sales network in China.

We are doing well in North America, where we continued to expand our sales, particularly of UHP / SUV (ultra-high-performance / sport-utility vehicle) tires, which enhance driving pleasure for the discriminating customer.

Q. What specific measures will you concentrate on next term?

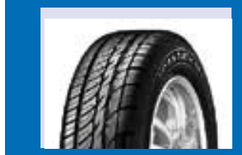
As for the domestic replacement tire business, we need to shift to more profitable areas in terms of our type of operation, distribution channel, and brand. We want to continue efforts to further increase sales, especially of "TRANPATH MP3," which is an extremely popular specialized tire, as we aim at gaining recognition for Toyo as a company that excels in the area of specialized tires.

Today, it has become necessary to debate the operation of tire business itself from the viewpoint of markets and customers, on a global scale. Given the fact that we are already selling more tires overseas than we sell in Japan, we will strive to build our SCM system from a global point of view.

On the technology and production front, we will further refine new production methods that we have already started putting to use, and use them as assets that support our chosen course of growth. North America is one of our key markets, and we intend to further expand sales there with our strong brand of UHP / SUV tires at the core of our business.

In the Chinese market where demand is expected, we will respond by moving ahead with construction of a manufacturing facility in Xiamen that will make radial tires for trucks and buses. Our sales company in Shanghai will engage in marketing activities to build and strengthen the Toyo Tire brand throughout China. Finally, we will boost efficiency for our tire-related product business through active cooperation with other companies.

Yoshio Kataoka
President
Tire Company



Chemical & Industrial Products Company

In our efforts to become a specialized company that offers optimal solutions to meet customer needs and match market trends, we will build a strong operational structure and sound profit structure through a "select-and-focus" strategy.

Business Profile and Vision

The Chemical & Industrial Products Company handles such products as seismic isolation rubber bearings, high-damping seismic rubber bearings for bridges, thermal insulator that make use of rigid polyurethane foam, flexible polyurethane foam, waterproof and sealing sheets, industrial hose, and office equipment components. The guiding concept behind the business is "to be a specialized expert company". We aim to be a company that offers optimal solutions and meets the needs of society in the areas of vibration control, thermal insulation and high-function products by making use of rubber and polyurethane technologies. In order to achieve those ends, we intend to focus our investments in areas with good growth potential, in which we can expect to remain as one of the top two companies in the industry. In addition, we intend to reorganize our production bases, including the use of collaborations, partnerships, and mergers and acquisitions, to transform Toyo into a company that stays far ahead of the competition.

Q. What results were achieved in the first year covered by Medium-Term Business Plan 2002?

The Chemical & Industrial Products Company focused on the three areas that we had positioned at its core: vibration control, thermal insulation, and high-function products. In the vibration control segment, this February our seismic isolation rubber bearings and rubber bridge bearings business introduced the largest transverse stiffness tester in the industry at our Akashi Plant, paving the way for us to respond to a variety of needs on the part of our customers. In the field of air springs for railroad cars, we actively approached a variety of prospective clients, including those involved in the Taiwan high-speed train project, the New York subway authority, and high-speed train projects in Europe, as part of our efforts to develop overseas business.

In the thermal insulation arena, we acquired Soflan U-Board Co., Ltd as part of a drive to strengthen our rigid polyurethane business. This gave a boost to our rigid polyurethane business in eastern Japan.

With respect to high-function products, we expanded production of transfer transport belts and cleaning blades as more and more printers use colored ink.

As a resource development project, we also actively participated in overseas projects such as those related to nickel and other rare metals, for which worldwide demand is rapidly rising.

We were unable to meet our targets for sales or operating income this fiscal year due to the harsh business environment in Japan, but we did succeed in improving our profit picture due to active engagement in overseas projects and improvements in productivity.

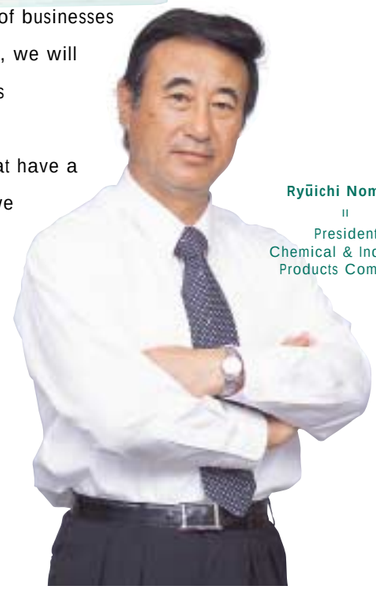
Q. What specific measures will you concentrate on next term?

Although our chemical and industrial products business is about the same size as competing specialized companies, there is a big difference in our profitability. We have already divided the overall company into 16 business units along the lines of product type and business format, and we are tracking the performance of those units individually. However, in order to radically increase the corporate value of the Chemical & Industrial Products Company, we will invest our resources in those businesses and product areas in which we can be one of the best, and carry out "business structure reform" that will quickly establish our dominant position. Toward that end, we will execute an action plan that includes implementing a thorough "select and focus" strategy to pull out of unprofitable and unpredictable businesses. Moreover, we will reorganize our production and sales bases so as to further streamline our organization for more efficient business management. We will also improve our profit picture by establishing new production technologies to reduce costs. To improve our sales and marketing in the vibration control, thermal insulation and high-function products sectors, we will cultivate new customers and new uses for our products, and will generate new products that anticipate our customers' needs.

In light of the fact that an alarming number of businesses are failing due to the ailing domestic economy, we will continue to thoroughly track down our accounts receivable from such businesses.

For air springs and other products of ours that have a competitive edge in the international market, we intend to continue our overseas expansion.

We will increase Chinese production of products related to office equipment, and establish local sales bases. We will aim not only to expand existing accounts, but also to cultivate new customers.



Ryūichi Nomura
"
President
Chemical & Industrial Products Company

Automotive Parts Company

Use “one-of-a-kind” vibration control technology to create the world’s NO.1 vibration control products; build a solid position through competitive functioning, quality, and prices.

Business Profile and Vision

Our Automotive Parts Company handles all types of anti-vibration rubber products, and such products as weather-stripping and seat cushions. We have earned high praise from automobile manufacturers. The concept underlying this business division is “ to be a frontrunner creating the world’s NO.1 vibration control products”. The way to realize this goal is to use vibration control technology—one of Toyo’s core technologies—to provide customers with the best possible functioning, quality, and prices.

We aim to continue to strengthen our business in all types of anti-vibration rubber products that reduce noise and vibration and contribute to operation stability and comfort, and to build a highly profitable, worldwide company.

Q. What results were achieved in the first year covered by Medium-Term Business Plan 2002?

As part of the global supply system for our automotive parts business, we established Toyo Automotive Parts (USA) Inc., a production and sales subsidiary for anti-vibration rubber products located in the state of Kentucky in the United States. Production started there in July of 2002. We have also gotten off to a good start, having achieved our initial aim of being a supplier to America’s Big Three automakers. We also established a representative office in Detroit in order to acquire the latest technical information.

In Europe, we strengthened collaborative ties, especially with Woco Michelin AVS, and actively approached automakers.

In February, Toyota Motor Corp. presented Toyo with the Toyota Quality Control Award. This year, Toyo was one of only eight of Toyota’s suppliers worldwide that was chosen to receive this award.

In our domestic anti-vibration rubber business, we further solidified our position as the number 2 domestic player by joining forces with Kinugawa Rubber Industrial Co., Ltd. and by acquiring Toyoda Gosei Co.’s automotive anti-vibration rubber business. Also, each automaker is working on developing models that they can position as “global strategy vehicles”. In order to take part in these projects, we have introduced new testing equipment and taken other steps to improve our development capabilities.

In our seat cushion business, we shifted toward highly elastic foam, boosted efficiency by shuffling products among production bases, and improved our technological framework.

Q. What specific measures will you concentrate on next term?

As part of our global strategy, we will promote smooth operation and a stronger revenue base for Toyo Automotive Parts (USA) Inc. We will seek to expand orders in North America and to bring down costs by procuring hardware locally. We see this year as a time for solidifying the subsidiary’s foundation in order to start realizing profits as soon as possible. In addition, we intend to reexamine carefully what kinds of supply systems are desirable. In particular, we will start working toward establishing production bases in China and in ASEAN member nations where automobile production is expected to surge. This includes rounding out our overseas support systems, particularly in the field of human resources.

In terms of quality assurance, we plan to make great products even better to gain overwhelming confidence from automakers. Our domestic anti-vibration rubber business will lead to further business opportunities such as in the development of new products and technologies. At the same time, we will efficiently procure more materials and components overseas to enhance our revenue base.

In the past few years, the structure of the industry has been changing greatly due to mergers, acquisitions and overseas expansion. Accordingly, we will have to reorganize our domestic production bases to build efficient production systems fit for the new structure.

As a result of active efforts by our production, sales and technology divisions toward rebuilding our seat cushion business, our business in this field has been rejuvenated. We will build on our strong performance to generate even more profit, aiming to boost productivity by scrapping and building of production equipment, achieve dramatic cost reductions by reforming production methods and further improvements in quality.

Hirokazu Kitagawa
=
President
Automotive Parts
Company

Administrative Division

We will increase efficiency to become a small, yet strong, headquarters. The office will selectively establish measures designed to boost our corporate strength across the whole group of Toyo companies, in such areas as cost-cutting, human resources, and information technology (IT). These efforts are sure to establish Toyo as a global brand.

Business Profile and Vision

As outlined in our Medium-Term Business Plan 2002, the headquarters' administrative division plans to evolve into a "small headquarters" that specializes in corporate strategy and business management meant to increase corporate value. The basic strategies of this division are (1) securing and appropriately distributing resources needed for the execution of business strategies, and (2) evaluating and guiding each in-house company's achievements. The division's activities include promoting the TCR30 company-wide cost-reduction activities, pursuing greater satisfaction among the Group's employees, and tracking compliance issues, including improvement of our corporate governance.

Q. What results were achieved in the first year covered by Medium-Term Business Plan 2002?

Each in-company and the corporate group as a whole have already launched the TCR30 projects aimed at streamlining our balance sheet, raising productivity by 30%, and reducing costs by 30% through rigorous cost-cutting efforts, such as cutting back purchasing costs by eliminating long-standing constraints. Preparations are underway for reaping the benefits of these activities. Some benefits have already been manifested. For example, land, stocks, club memberships and idle assets have been liquidated. For reductions in procurement costs—a major factor in overall cost reductions—one example is that hardware used by the automotive parts segment is now being procured overseas.

In order to strengthen the functioning of the administrative division by supporting our course of global growth, we formed a strategic partnership with CAC Corporation, which has a track record in the IT field. By doing so, we further increased efficiency and improved the quality of our IT operations at the global level.

To develop core human resources, we created a plan that calls for clearly defining the type of human resources our company needs, creating model cases, and conducting actual human assessments to fill in openings. In addition, we adopted a system that uses satellite communication to directly communicate the company's policies to employees at 10 locations within Japan and four locations in North America and China.

Q. What specific measures will you concentrate on next term?

The TCR30 activities are the mainstay of the Medium-Term Business Plan 2002. We are promoting cross-functional efforts among the each in-house company at the same time that we reap the benefits of efforts made during the first year. Toyo introduced an "in-house company" system in the fiscal year ended March 2001, and we are managing our businesses with an eye toward discouraging the companies from relying on each other excessively. We introduced our own version of EVA® as a performance management tool aimed at optimizing the distribution of our resources, speeding up decision-making, and boosting medium- and long-term competitiveness, and we are making this the cornerstone of our future performance management.

Along with the introduction of the in-house company system in the fiscal year ended March 2001, the headquarters' administrative division has been reorganizing along functional lines. As of April 1, 2003, we created three main sections: the Corporate Strategy Planning Dept, which proposes company-wide strategies, the Management Control Center, which provides active support for the companies, and the Business Center, which consists of a team of specialists in practical business matters. Meanwhile, the purchasing section has established a new Purchasing Coordination Center in order to achieve our TCR30 goals while working closely with the materials technology section. This new center will work to improve the efficiency of electronic procurement and local purchasing.

Concerning information systems, by the end of this fiscal year we will use the expertise of CAC Corporation, with whom we formed a strategic partnership last year, to formulate and implement a medium-term blueprint for IT systems tailored to our growth plans.

On the corporate governance front, we intend to improve our responses to last year's revisions to the Commercial Code, implement the plan we made last year for cultivating core human resources, and set up systems that will enable us to manage all types of risk.

Yūsaku Yoshioka
Executive Vice President

Research & Development Division

To promote our one-of-a-kind technology so that when people hear “Toyo,” they think, “technology”

As a manufacturing company, Toyo has technology at its core. We want the name “Toyo” to make people think “technology,” and we have been taking various steps to make this happen. We are making continuous progress toward building an organizational framework that will allow us to make optimal use of resources in order to create new technologies.

The first steps were the establishment of a technology council, along with the launching of our “Technology Navigation Project”, which formulates the basic concepts for the Toyo Group’s long-term base technology over the next 10 to 15 years. As a result of activities through the project, we have identified issues we need to address, and have already begun working on them first as our long-term goals, then medium-term goals and finally, as our goals for the fiscal year ending March 2004.

Next fiscal year, we will link the “Technology Navigation Project” to actual manufacturing technology with the goals of making world-class, appealing products and strengthening our base technology. We will then launch a “Production Navigation Project” in order to build globally competitive manufacturing bases.

More than anything else, our company needs to be unique if it is to gain a competitive edge in today’s environment. We believe that in order to create base technology, we should take care to remain flexible so that we can actively and efficiently take in the valuable parts of external technologies, and we should keep our eyes focused 10 years into the future as we develop our technological capabilities.

In addition to our signature rubber and polyurethane materials, we will strive to develop a third material to revamp our business framework. The key to making our manufacturing costs more competitive in the rubber processing arena is to develop base technologies in tandem with new tire production methods. We have set 2005 as the target year for radically refurbishing our R&D center, materializing our new technological center concept.

With our eyes set on the next 10 years, we are taking efforts to strengthen our base technology and make globally competitive, appealing products one step further — we will be building globally competitive manufacturing bases.

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Management's Discussion and Analysis

Unless otherwise noted, all the financial information contained in this section is based on the consolidated financial statements included in the annual report of Toyo Tire & Rubber Co., Ltd. These financial statements have been prepared according to generally accepted accounting principles in Japan.

Overview

Our consolidated results for the fiscal year ended March 31, 2003 were based on the results of Toyo Tire & Rubber Co., Ltd. and 40 consolidated subsidiaries, as well as six affiliated companies that are accounted for by the equity method.

There are four segments to the Group's operations. The Tires Segment manufactures and sells a variety of tires, inner tubes, aluminum wheels and related products. It accounted for 62.4% of total sales this year. The Chemical & Industrial Products Segment manufactures and sells industrial rubber products and synthetic resin products. It contributed 15.3% to total sales. The Automotive Parts Segment manufactures and sells non-tire-related automobile parts such as anti-vibration rubber products and seat cushions. Its share of sales was 21.7%. Other Operations sales amounted to 0.6%. Sales abroad accounted for 34.8% of total sales in this fiscal year. Sales in North America, including Canada, accounted for 20.9% of our net sales, and sales in other regions, including Europe, the Middle East, Oceania and Southeast Asia, accounted for 13.9%.

Operations

Last year we announced our long-term management plan, which we call "21st Century Management Vision." This fiscal year was the first year of Medium-term Business Plan 2002, which is the first phase of that Vision. With "Challenge for The Future" as our basic strategy, we focused on comprehensive cost-reduction activities aimed at boosting our global competitiveness, and increasing basic technological strength. In addition, we further specialized in our core operations through "select and focus" measures, and set to work on improving our marketing operations.

As a result, our net sales increased slightly this term, operating income declined, and net income rose. Net sales grew 0.5% over the previous year to 255.16 billion yen, marking the third consecutive year of increased earnings. Our operating income decreased 12.1% to 13.54 billion yen, and net income rose 12.1% to 3.66 billion yen.

Net Sales

Net sales this fiscal year increased 0.5% over the previous year to 255.16 billion yen.

This fiscal year, the U.S. economy slowdown cast a dark cloud over the world economy, while Japan's easy money policy failed to stimulate capital investment or consumer spending. In this environment, price competition intensified with no corresponding increase in volume, and our business was affected severely, as were our competitors'. Despite these conditions, our net sales did increase over the previous year, albeit only slightly.

By region, our Japan operations saw sales decrease by 3.4% to 184.00 billion yen while our North American operations saw a 12.7% increase to 53.41 billion yen. Other regions, including Europe and Southeast Asia, saw sales grow 10.6% to 17.74 billion yen

Cost of Goods Sold; Selling, General and Administrative Expenses

In this fiscal year, the cost of goods sold came to 176.74 billion yen, increasing 2.30 billion yen, or 1.3%, from the year-earlier result. Our cost percentage, at 69.3%, increased slightly from the previous year's 68.7%. Selling, general and administrative expenses increased 1.4% to 64.87 billion yen, accounting for 25.4% of net sales, up slightly from the previous year.

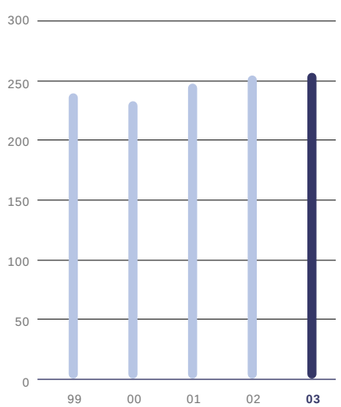
Operating Income

Our operating income this fiscal year decreased 12.1% from the previous year to 13.54 billion yen. As a result, our operating margin also decreased from 6.1% to 5.3%. The main reasons for this decrease in operating income were sales-related factors such as prices, volumes, and composition, along with higher prices for natural rubber and other raw materials, increased advertising costs accompanying stepped-up marketing efforts, higher technical costs as we put more into research and development, and the effects of foreign exchange rate fluctuations.

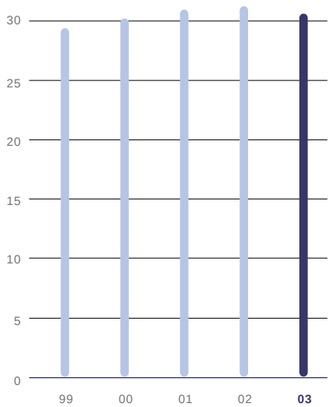
Other Income and Expenses

This fiscal year, other income and expenses resulted in a net loss of 6.61 billion yen, which is 33.6% less than the year-earlier loss of 9.96 billion yen. The main reason for the improvement was a decline in investment securities valuation losses. In the previous fiscal year, such losses amounted to 3.51 billion yen, but this term they declined to 2.02 billion yen. On the expenses side, we also reduced interest payments from 1.87 billion yen to 1.50 billion yen due to reduced interest-bearing liabilities and to lower

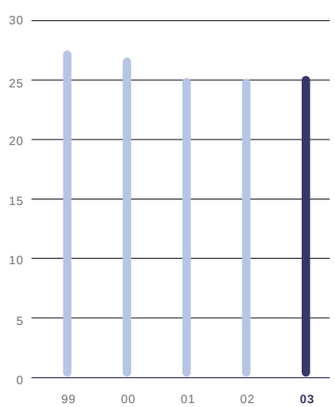
Net Sales \ billion



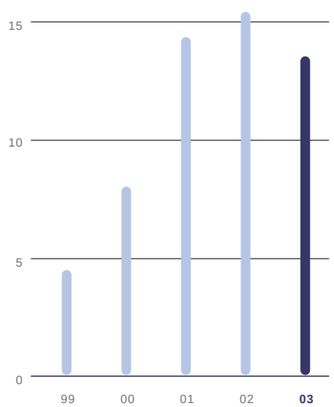
Gross Profit to Net Sales percent



SGA Expenses to Net Sales percent



Operating Income \ billion



interest rates.

On the income side, gains from the sale of a business grew from 43 million yen a year earlier to 741 million yen this fiscal year. Loss on disposal of property, plant and equipment also increased, from 904 million yen to 945 million yen.

Income before Income Taxes

This fiscal year, our income before income taxes increased 27.4% over the previous year's 5.45 billion yen, to 6.94 billion yen.

Income Taxes

We use tax-effect accounting through the asset and liability approach. Details of deferred tax assets and deferred tax liabilities per this accounting system appear in the notes to our financial statements. The total amount of our income tax for this fiscal year increased 1.03 billion yen from the previous year to 3.10 billion yen.

Net Income

Our net income after taxes for this fiscal year was 3.66 billion yen, a 12.1%increase from the previous year's 3.26 billion yen. Along with this increase, our return on shareholders' equity rose from the previous year's 5.6% to 6.3% this fiscal year.

Results by Segment

Tires Segment

Net sales in our Tires Segment this fiscal year increased 2.0% from the previous year to 159.24 billion yen. Operating income decreased 8.0% to 12.54 billion yen, lowering the operating margin for the segment from 8.7% to 7.9%.

Looking at sales by division, sales from our Original Equipment Sales division increased from the previous year. The increase in sales volume was underpinned by aggressive efforts to market specialized tires for recreational vehicles (RVs)—one of our company's fortes—as well as by an increase in the number of cars produced in Japan. The increase in net sales was achieved despite lower unit prices.

Sales by our Replacement Tire Operations division decreased from the previous year. We continued our efforts to enhance sales of domestic consumer tires according to the specialized-tire concept. For passenger cars, we launched "Winter TRANPATH M2", a studless minivan tire that uses water-absorbent crystal rubber to resist ice burn, and "TRANPATH MP3", a third-generation minivan tire that offers greater on-road driving stability. Both received good reviews. For trucks and buses, we responded to users' needs by introducing the environmentally friendly "ZEROSYS M166" and "ZEROSYS M666", which offer greater fuel economy due to reduced rolling resistance. However, because of the decline in domestic demand and deterioration in market conditions, overall domestic replacement tires fell below last-year levels in terms of both volume and net sales.

On the other hand, both volume and net sales increased in overseas markets, particularly in North America. In North America, we further improved our brand position by offering wider ranges of sizes for "Toyo Open Country A/T", which is known as a top brand of tires for RVs, and for "Nitto TerraGrappler A/T" for sport-utility vehicles (SUVs) with lifted suspensions. In the European market, we launched "Toyo H08", an all-season small-truck tire that is good for high-speed driving. This tire responds to changes in the structure of distribution systems as a result of economic integration in Europe.

Chemical & Industrial Products Segment

Net sales from our Chemical & Industrial Products Segment decreased 15.1% from the previous year to 39.09 billion yen. In this segment, we continued to push "select and focus" measures, and improved our profit structure. As a result, operating income came back into the black. We recorded an operating profit of 208 million yen, compared to a loss the previous year. The operating margin was 0.5%.

In the area of rubber industrial materials, our seismic-isolation rubber for buildings and high-damping rubber bearings for bridges have been well received. However, overall sales in this area declined year-on-year due to sluggish domestic capital investment and intensified price competition.

In the area of polyurethane industrial products, sales of flexible polyurethane products for welfare and nursing-related applications grew, but due to decreased demand for building materials, sales of rigid polyurethane boards for insulation decreased. As a result, overall sales in this area declined.

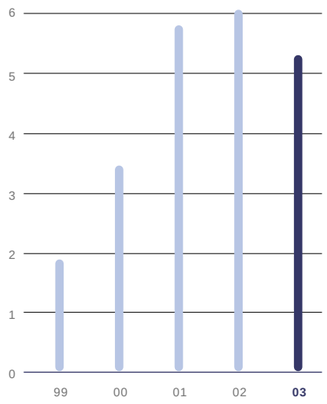
Although the sales volume of sealing sheets increased, net sales of construction and civil engineering materials overall fell below the previous-year level because of decreased demand in this business sector. Sales of sports products also declined due to slow consumer spending.

Automotive Parts Segment

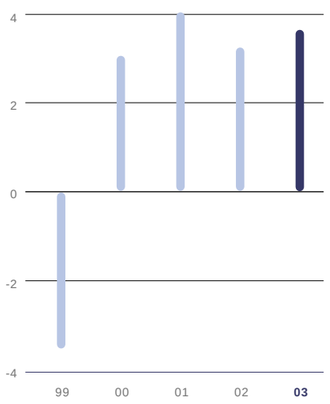
Net sales from our Automotive Parts Segment increased 8.8% from the previous year to 55.31 billion yen. Operating income decreased 59.0% to 0.70 billion yen, resulting in an operating margin of 1.3%.

Sales of seat cushions and bumpers declined, but sales of anti-vibration rubber products increased greatly. As a result,

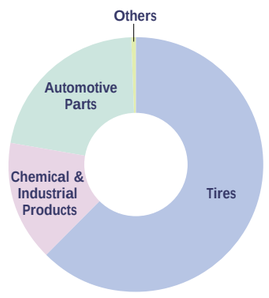
Operating Income to Net Sales percent



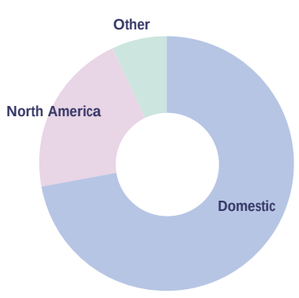
Net Income (Loss) \ billion



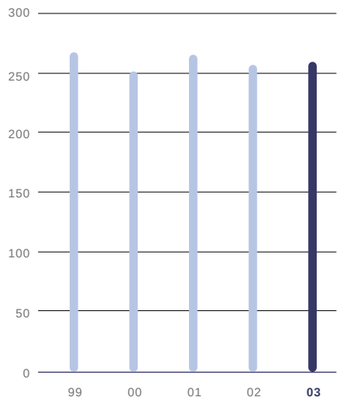
Sales by Segment percent



Sales by geography percent



Total Assets \ billion



overall sales in this segment were higher relative to the previous year. We expanded our global framework for producing and supplying anti-vibration rubber products through such moves as the acquisition of Toyoda Gosei Co.'s anti-vibration rubber business. An increase in the number of vehicles produced in Japan led to the rise in sales of anti-vibration rubber products.

Financial Position

We are actively reducing interest-bearing liabilities. At the end of this fiscal year, the balance of such liabilities stood at 94.57 billion yen. We have succeeded in trimming them by 10.92 billion yen from the previous year, and by 42.79 billion compared to four years earlier.

One of the management targets in our Medium-term Business Plan 2002 is to raise our return on assets (ROA) to 6% by the fiscal year ending March 2005. This year, ROA was 5.2%.

Our total assets at the end of this fiscal year were 259.21 billion yen, up by 2.80 billion yen from the year-earlier result. The main reason for the rise was a 11.46 billion yen increase over the previous year in property, plant and equipment. One major example of this increase was the construction of a new shopping center in Itami, Hyogo Prefecture. Property, plant and equipment, as a result, grew 12.0% to 107.02 billion yen.

In this fiscal year, we reduced current assets by 5.1% from the previous year to 110.30 billion yen, and investments and other assets declined 5.2% to 37.97 billion yen. The main reason for the decline is due to a decrease of 5.34 billion yen in investment securities from lower share prices.

Among liabilities, current liabilities decreased 8.5% from the previous year to 127.36 billion yen. Corporate bonds maturing within one year increased by 8.00 billion yen to 11.00 billion yen, but short-term bank loans decreased from 45.71 billion yen at the end of the previous year to 25.38 billion yen. The outstanding balance of commercial paper issued shrank from 4.00 billion yen a year earlier to zero at the end of this fiscal year.

Long-term liabilities grew 25.6% from the previous year to 72.22 billion yen. The outstanding balance of long-term corporate bonds issued was 11.00 billion yen at the end of the previous year and zero at the end of this term, but long-term bank borrowings increased from 31.12 billion yen to 48.63 billion yen. As a result, current and long-term liabilities combined amounted to a total of 199.59 billion yen in liabilities, up 1.5% from a year earlier.

In our shareholders' equity, retained earnings increased by 2.61 billion yen, but net unrealized gains on securities associated with market-price valuation of our share holdings declined 1.58 billion yen from the previous year. Foreign currency translation adjustments decreased 1.34 billion yen from a year earlier due to the stronger yen relative to the dollar. Consequently, total shareholders' equity decreased 0.6% from the previous year to 58.31 billion yen, and return on equity declined 0.4 points from the previous year to 22.5%.

Liquidity and Capital Resources

We recognize that the continuity with which we generate cash flow from operating activities and invest in new growth fields is an important factor underpinning growth in our corporate value. In this fiscal year, we generated 22.85 billion yen of cash flow from operating activities and 7.37 billion yen of free cash flow. This bolstered our capacity to invest in order to improve shareholder value over the long term, and helped to enhance our balance sheet.

Normally, the primary source of capital is cash flow from operating activities. This fiscal year, our cash flow from operating activities declined by 19.6% from a year earlier to 22.85 billion yen. While we are reporting increases in both income before income taxes and in depreciation, the decrease in notes and accounts receivable shrank to 2.01 billion yen. Inventories rose by 0.43 billion yen, compared to a decline of 3.68 billion yen the previous year.

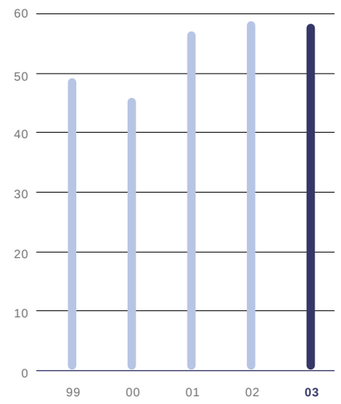
At the same time, cash outflow from investment activities increased 12.5% over the previous year to 15.47 billion yen. Capital investment was accompanied by a large increase of 46.9% in the acquisition of property, plant and equipment to 20.25 billion yen. In addition, there were other outlays such as for long-term prepayments and for business acquisitions, which also led to the increase in cash outflow from investment activities.

In this fiscal year, capital investment totaled 27.62 billion yen. By segment, the amount of capital investment was 12.05 billion yen in the Tires Segment, 1.48 billion yen in the Chemical and Industrial Products Segment, 4.30 billion yen in the Automotive Parts Segment and 9.80 billion yen in Other Operations.

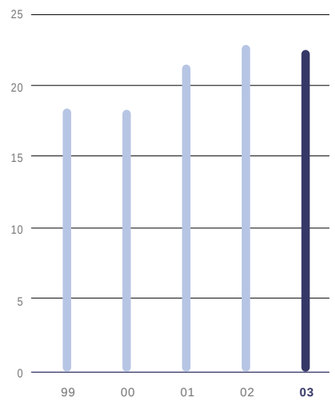
Cash used in financial activities increased 12.4% from the previous year to 11.85 billion yen. This was a result of increased fund-raising through long-term borrowings while greatly reducing fund-raising through short-term borrowings and reducing issuance of commercial paper. As mentioned above, we reduced our outstanding interest-bearing liabilities as of the end of this fiscal year by 10.92 billion yen

Our cash and cash equivalents at the end of this fiscal year came to 11.85 billion yen, down by 4.82 billion yen from the beginning of the fiscal year. The final balance includes a 360 million yen unrealized exchange rate loss owing to appreciation of the yen relative to the dollar, and a 21 million yen gain resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary.

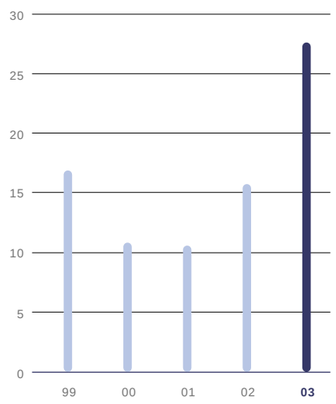
Shareholders' Equity \ billion



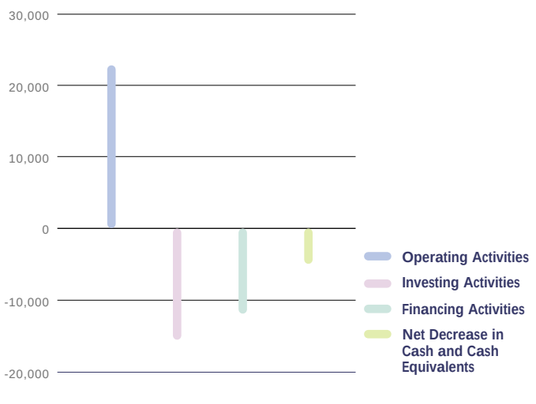
Equity Ratio percent



Capital Expenditure \ billion



Cash Flows \ million



Consolidated Balance Sheets

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2003

ASSETS	Millions of yen 2002	Millions of yen **2003**	Thousands of U.S. dollars (Note 1) **2003**
Current assets :			
Cash and time deposits	¥ 16,693	**¥ 11,854**	**$ 98,619**
Marketable securities (Note 4)	123	**28**	**233**
Notes and accounts receivable:			
Trade	62,234	**59,924**	**498,536**
Unconsolidated subsidiaries and affiliates	3,138	**3,482**	**28,968**
Other	7,688	**8,012**	**66,656**
Allowance for doubtful receivables	(789)	**(666)**	**(5,541)**
	72,271	**70,752**	**588,619**
Inventories (Note 6)	22,534	**22,566**	**187,737**
Deferred tax assets (Note 10)	3,021	**3,200**	**26,622**
Other current assets	1,623	**1,905**	**15,849**
Total current assets	116,265	**110,305**	**917,679**
Property, plant and equipment (Note 8) :			
Land	22,587	**23,445**	**195,050**
Buildings and structures	55,583	**66,209**	**550,823**
Machinery and equipment	185,779	**188,506**	**1,568,270**
Construction in progress	3,415	**3,716**	**30,915**
	267,364	**281,876**	**2,345,058**
Accumulated depreciation	(171,797)	**(174,854)**	**(1,454,692)**
Total property, plant and equipment	95,567	**107,022**	**890,366**
Intangible assets	4,496	**3,905**	**32,488**
Investments and other assets :			
Investment securities (Notes 4 and 8)	26,158	**21,180**	**176,206**
Investments in unconsolidated subsidiaries and affiliates	7,583	**8,788**	**73,111**
Long-term loans receivable	1,724	**1,424**	**11,847**
Deferred tax assets (Note 10)	1,077	**1,480**	**12,313**
Other assets	4,588	**6,117**	**50,891**
Allowance for doubtful receivables	(1,093)	**(1,016)**	**(8,453)**
Total investments and other assets	40,037	**37,973**	**315,915**
Deferred assets	45	**1**	**8**
Total assets	¥ 265,410	**¥ 259,206**	**$ 2,156,456**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen **2003**	Thousands of U.S. dollars (Note 1) **2003**
Current liabilities :			
Short-term bank loans (Notes 7 and 8)	¥ 45,708	**¥ 25,378**	**$ 211,131**
Commercial paper	4,000	**-**	**-**
Current portion of long-term debt (Notes 7 and 8)	13,667	**20,563**	**171,073**
Notes and accounts payable:			
Trade	48,228	**48,081**	**400,008**
Unconsolidated subsidiaries and affiliates	1,323	**1,190**	**9,900**
Other	15,335	**22,153**	**184,302**
	64,886	**71,424**	**594,210**
Accrued expenses	5,523	**5,607**	**46,647**
Income and enterprise taxes payable	2,326	**1,395**	**11,606**
Customers' deposits	2,317	**2,476**	**20,599**
Deferred tax liabilities (Note 10)	4	**-**	**-**
Other current liabilities	767	**520**	**4,327**
Total current liabilities	139,198	**127,363**	**1,059,593**
Long-term liabilities :			
Long-term debt due after one year (Notes 7 and 8)	42,115	**48,626**	**404,542**
Long-term deposits	-	**6,800**	**56,572**
Severance and retirement benefits (Note 9)	14,173	**15,567**	**129,509**
Deferred tax liabilities (Note 10)	1,179	**170**	**1,414**
Other long-term liabilities	26	**1,060**	**8,820**
Total long-term liabilities	57,493	**72,223**	**600,857**
Minority interests in consolidated subsidiaries	1,082	**1,306**	**10,865**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 13) :			
Common stock			
Authorized-400,000,000 shares			
Issued-209,284,712 shares	23,975	**23,975**	**199,459**
Capital surplus	21,997	**21,997**	**183,003**
Retained earnings	6,307	**8,920**	**74,210**
Net unrealized holding gains on securities	6,885	**5,308**	**44,160**
Foreign currency translation adjustments	(525)	**(1,867)**	**(15,533)**
Treasury stock, at cost			
2002-11,554 shares	(2)		
2003-91,474 shares		**(19)**	**(158)**
Total shareholders' equity	58,637	**58,314**	**485,141**
Total liabilities and shareholders' equity	¥ 256,410	**¥ 259,206**	**$ 2,156,456**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Net sales	¥ 253,811	**¥ 255,158**	**$ 2,122,779**
Cost of sales	174,444	**176,741**	**1,470,391**
Gross profit	79,367	**78,417**	**652,388**
Selling, general and administrative expenses	63,963	**64,874**	**539,717**
Operating income	15,404	**13,543**	**112,671**
Other income (expenses) :			
Interest and dividend income	332	**358**	**2,978**
Interest expense	(1,868)	**(1,505)**	**(12,521)**
Loss on disposal of property, plant and equipment	(904)	**(945)**	**(7,862)**
Gain on sale of investment securities	30	**65**	**541**
Amortization of goodwill	-	**(389)**	**(3,236)**
Gain on sale of a business	43	**741**	**6,165**
Loss on write-down of investment securities	(3,512)	**(2,022)**	**(16,822)**
Loss on cessation of unprofitable operations	(572)	**(133)**	**(1,106)**
Equity in net income of unconsolidated subsidiaries and affiliates	830	**811**	**6,747**
Foreign exchange loss	(2,258)	**(1,317)**	**(10,957)**
Amortization of net transition obligation (Note 9)	(2,184)	**(2,154)**	**(17,920)**
Other net	105	**(115)**	**(958)**
Income before income taxes	5,446	**6,938**	**57,720**
Income taxes (Note 10) :			
Current	4,642	**3,403**	**28,311**
Deferred	(2,563)	**(299)**	**(2,488)**
	2,079	**3,104**	**25,823**
Minority interests in income	(106)	**(177)**	**(1,473)**
Net income	¥ 3,261	**¥ 3,657**	**$ 30,424**

	Yen		U.S. dollars (Note 1)
	2002	2003	2003
Net income per share	¥ 15.58	**¥ 17.33**	**$ 0.14**
Dividends per share	5.00	**7.00**	**0.06**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	209,285	¥ 23,975	¥ 21,997	¥ 4,082	¥ 8,593	¥ (1,700)	¥ -
Net income	-	-	-	3,261	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	1,175	-
Decrease in net unrealized holding gains on securities	-	-	-	-	(1,708)	-	-
Increase resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary	-	-	-	35	-	-	-
Cash dividends	-	-	-	(1,047)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(24)	-	-	-
Treasury stock	-	-	-	-	-	-	(2)
Balance at March 31, 2002	209,285	23,975	21,997	6,307	6,885	(525)	(2)
Net income	-	-	-	3,657	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(1,342)	-
Decrease in net unrealized holding gains on securities	-	-	-	-	(1,577)	-	-
Increase resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary	-	-	-	5	-	-	-
Increase resulting from the merger of consolidated subsidiaries	-	-	-	42	-	-	-
Cash dividends	-	-	-	(1,046)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(30)	-	-	-
Decrease resulting from the merger of a consolidated subsidiary with a non- consolidated subsidiary	-	-	-	(5)	-	-	-
Decrease resulting from the sale of stocks in a consolidated subsidiary	-	-	-	(10)	-	-	-
Treasury stock	-	-	-	-	-	-	(17)
Balance at March 31, 2003	209,285	¥ 23,975	¥ 21,997	¥ 8,920	¥ 5,308	¥ (1,867)	¥ (19)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$ 199,459	$ 183,003	$ 52,471	$ 57,280	$ (4,368)	$ (17)
Net income	-	-	30,424	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	(11,165)	-
Decrease in net unrealized holding gains on securities	-	-	-	(13,120)	-	-
Increase resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary	-	-	42	-	-	-
Increase resulting from the merger of consolidated subsidiaries	-	-	350	-	-	-
Cash dividends	-	-	(8,702)	-	-	-
Bonuses to directors and corporate auditors	-	-	(250)	-	-	-
Decrease resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary	-	-	(42)	-	-	-
Decrease resulting from the sale of stocks in a consolidated subsidiary	-	-	(83)	-	-	-
Treasury stock	-	-	-	-	-	(141)
Balance at March 31, 2003	$ 199,459	$ 183,003	$ 74,210	$ 44,160	$ (15,533)	$ (158)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flows from operating activities :			
Income before income taxes	¥ 5,446	**¥ 6,938**	**$ 57,720**
Adjustments to reconcile income before income taxes to net cash provided by operating activities :			
Depreciation and amortization	12,773	**13,964**	**116,173**
Amortization of goodwill	-	**389**	**3,236**
Equity in net income of unconsolidated subsidiaries and affiliates	(830)	**(811)**	**(6,747)**
Foreign exchange loss (gain)	(14)	**438**	**3,644**
Amortization of net transition obligation	2,184	**2,154**	**17,920**
Interest and dividend income	(332)	**(358)**	**(2,978)**
Interest expense	1,868	**1,505**	**12,521**
Loss on disposal of property, plant and equipment	904	**945**	**7,862**
Loss on write-down of investment securities	3,512	**2,022**	**16,822**
Gain on sale of a business	(43)	**(741)**	**(6,165)**
Decrease in notes and accounts receivable	5,000	**2,010**	**16,722**
(Increase) decrease in inventories	3,684	**(434)**	**(3,611)**
Increase (decrease) in notes and accounts payable	38	**(61)**	**(507)**
Other, net	1,074	**27**	**226**
Interest and dividends received	332	**358**	**2,978**
Interest paid	(1,765)	**(1,346)**	**(11,198)**
Income taxes paid	(5,428)	**(4,153)**	**(34,551)**
Net cash provided by operating activities	28,403	**22,846**	**190,067**
Cash flows from investing activities :			
Additions to property, plant and equipment	(13,785)	**(20,249)**	**(168,461)**
Additions to intangible assets	(1,576)	**(429)**	**(3,569)**
Proceeds from sales of investment securities	676	**341**	**2,837**
Proceeds from sales of property, plant and equipment	1,864	**791**	**6,581**
Investments in securities	(240)	**(141)**	**(1,173)**
Additions to investments in unconsolidated affiliates	(122)	**(1,109)**	**(9,226)**
Proceeds from long-term deposits	-	**6,800**	**56,572**
Additions to long-term prepaid expenses	-	**(1,381)**	**(11,489)**
Acquisition of operations (Note 14)	-	**(1,208)**	**(10,050)**
Proceeds from sale of operations (Note 14)	-	**1,361**	**11,323**
Other, net	(568)	**(249)**	**(2,072)**
Net cash used in investing activities	(13,751)	**(15,473)**	**(128,727)**
Cash flows from financing activities :			
Proceeds from long-term debt	17,100	**27,850**	**231,697**
Payments of long-term debt	(18,899)	**(13,917)**	**(115,782)**
Repayments of commercial paper	(6,000)	**(4,000)**	**(33,278)**
Decrease in short-term bank loans	(1,658)	**(20,681)**	**(172,055)**
Dividends paid	(1,046)	**(1,046)**	**(8,702)**
Dividends paid to minority shareholders	(35)	**(38)**	**(316)**
Other, net	(2)	**(17)**	**(141)**
Net cash used in financing activities	(10,540)	**(11,849)**	**(98,577)**
Foreign exchange of cash and cash equivalents	46	**(360)**	**(2,996)**
Increase (decrease) in cash and cash equivalents	4,158	**(4,836)**	**(40,233)**
Cash and cash equivalents at beginning of the year	12,501	**16,664**	**138,635**
Cash and cash equivalents resulting from the merger of consolidated subsidiaries with non-consolidated subsidiaries	5	**21**	**175**
Cash and cash equivalents at end of the year (Note 14)	16,664	**¥ 11,849**	**$ 98,577**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries

Note 1 : Basis of presenting consolidated financial statements

Toyo Tire & Rubber Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2 : Summary of significant accounting policies

Consolidation and investments in affiliates
The accompanying consolidated financial statements include the accounts of the Company and significant companies (together the “Companies”), over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted by the equity method.

The consolidated financial statements include the accounts of the Company and its 40 (43 in 2002) significant majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Investments in 6 (5 in 2002) affiliates are accounted for by the equity method.

Significant differences between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition is, with minor exceptions, amortized over five years.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Allowance for doubtful receivables
Allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based upon the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectable amount has been individually estimated.

Inventories
With respect to the Company and its domestic consolidated subsidiaries, materials are principally stated at the lower of cost or market value. Cost is determined principally by moving-average method. Finished products, work in process and supplies are stated at average cost. With respect to foreign consolidated subsidiaries, inventories are stated principally at the lower of first-in, first-out cost or market value.

Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment, except for buildings, of the Company and its domestic consolidated subsidiaries is computed principally by the declining balance method at rates based on the estimated useful lives of the assets in accordance with the Corporation Tax Law of Japan. Depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed principally by the straight-line method at rates based on the estimated useful lives of the assets.

Depreciation of certain tools and equipment of the Company and its productive consolidated subsidiaries is computed by the straight-line method.

Depreciation of buildings of the Company and its consolidated subsidiaries is computed by the straight-line method.

Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred.

Software costs
Software costs are included in intangible assets and depreciated using the straight-line method over the estimated useful life of five years.

Goodwill
Goodwill is charged to income as incurred.

Securities
The Company classifies securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies

which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Derivatives and hedge accounting
The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

Research and development
Research and development expenses are charged to income as incurred. Such expenses for the years ended March 31, 2002 and 2003 were ¥8,829 million and ¥9,117 million ($75,849 thousand), respectively.

Bond issue discounts
Bond issue discounts are included in deferred assets and amortized to maturity.

Severance and retirement benefits
The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The net transition obligation, arising from the adoption of a new accounting standard, is being recognized in expenses in equal amounts primarily over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service lives commencing with the following period.

With respect to the retirement benefits for directors and corporate auditors, the liability for lump-sum payments is stated at the amount which would be required if they retired as of the balance sheet date. Included in the liability for severance and retirement benefits at March 31, 2002 and 2003 are ¥292 million and ¥297 million ($2,471 thousand), respectively, for directors and statutory auditors of the Companies.

IIncome taxes
The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Translation of foreign currencies
A. Translation of foreign currencies
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

B. Translation of foreign currency statements (accounts of overseas subsidiaries and affiliates)
Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries and affiliates are translated at the year-end rate except for transactions with the Company, which are translated at the rates used by the Company.

Leases
Except for leases with covenants transferring ownership of the properties to lessees, the Company and its domestic consolidated subsidiaries do not capitalize finance leases.

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Consolidated statements of cash flows
In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Accounting standard for treasury stock and reversal of statutory reserves
Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The adoption of the new accounting standard had no impact on the financial statements.

Net income per share
Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each financial period.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Net income per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

	Yen
	2002
Net income per share	¥ 15.44

Dividends per share
In accordance with the Commercial Code of Japan, the declaration of dividends and the appropriation of unappropriated retained earnings are approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the final dividends approved after the end of the relevant fiscal year.

Note 3 : Accounting change

Effective April 1, 2002, the Company adopted the declining balance method of depreciation for the tire production equipment of the Kuwana Plant. Formerly, the straight-line method had been used. This change was made to correspond to the increased use of equipment accompanying the increase of demand for inch-up high performance tires and to recover invested capital at an earlier stage. This change was made to improve the Company's financial structure and correspond to the depreciation method of other equipment. The effect of this change was to increase depreciation by ¥931 million ($7,745 thousand), and to decrease income before taxes by ¥865 million ($7,196 thousand).

The effects of this change on business segment information are described in Note 15.

Note 4 : Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2002 and 2003 :

(a) Available-for-sale securities:
Securities with available fair values exceeding acquisition costs

	Millions of yen		*Thousands of U.S. dollars*
	2002	**2003**	**2003**
Acquisition cost :			
Equity securities	¥ 7,318	**¥ 7,486**	**$ 62,280**
Bonds	11	**10**	**83**
Others	109	**-**	**-**
	7,438	**7,496**	**62,363**
Book value :			
Equity securities	19,362	**17,184**	**142,962**
Bonds	11	**10**	**83**
Others	125	**-**	**-**
	19,498	**17,194**	**143,045**
Difference :			
Equity securities	12,044	**9,698**	**80,682**
Others	16	**-**	**-**
	¥ 12,060	**¥ 9,698**	**$ 80,682**

Securities with available fair values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Acquisition cost :			
Equity securities	¥ 6,172	¥ 4,008	$ 33,344
Bonds	23	13	108
Others	41	128	1,065
	6,236	4,149	34,517
Book value :			
Equity securities	5,990	3,275	27,246
Bonds	22	13	108
Others	26	106	882
	6,038	3,394	28,236
Difference :			
Equity securities	(182)	(733)	(6,098)
Bonds	(1)	-	-
Others	(15)	(22)	(183)
	¥ (198)	¥ (755)	$ (6,281)

B. The following table summarizes book values of securities with no available fair values as of March 31, 2002 and 2003 :

(a) Available-for-sale securities :

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Book value :			
Non-listed equity securities	¥ 602	¥ 600	$ 4,992
Non-listed domestic bonds	143	20	166
	¥ 745	¥ 620	$ 5,158

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2002 and 2003 mature as follows:

(a) 2003 :

	Millions of yen				Thousands of U.S. dollars
	Within one year	Over one year but within five years	Over five years but within ten years	Total	Total
Available-for-sale securities:					
Bonds	¥ 28	¥ 15	¥ -	¥ 43	$ 358
Others	-	40	48	88	732
	¥ 28	¥ 55	¥ 48	¥ 131	$ 1,090

(b) 2002 :

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Available-for-sale securities:				
Bonds	¥ 123	¥ 53	¥ -	¥ 176
Others	-	58	67	125
	¥ 123	¥ 111	¥ 67	¥ 301

D. Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥218 million ($1,814 thousand) and the related gains and losses amounted to ¥89 million ($740 thousand) and ¥24 million ($200 thousand), respectively.

Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥70 million and the related gains and losses amounted to ¥30 million and ¥1 million, respectively.

Note 5 : Derivative financial instruments and hedging transactions

The Company uses derivative transactions to manage effectively future risks of fluctuations in interest rates and foreign currency exchange rates. The Company uses interest rate swap and interest rate option contracts with respect to interest rates to mitigate interest on loans payable and avoid future risks of fluctuations in interest rates.

The Company uses forward foreign currency and currency option contracts to avoid future risks of fluctuations in foreign exchange rates with respect to foreign currency receivables and payables. The Company does not use such transactions for the purposes speculation or short-term dealing.

The following summarizes hedging derivative financial instruments used by the Company and items hedged :

Hedging instruments :	Hedged items :
Forward foreign currency and currency option contracts	Foreign currency receivables and payables
Interest rate swap and interest rate option contracts	Interest on loans payable and bonds

The Company hedges future risks of fluctuations in foreign currency exchange rates and interest rates mainly based on internal management regulations.

The Company evaluates hedge effectiveness for the whole hedge term by comparing the cumulative changes in fair value or the cumulative changes in cash flows from hedging instruments and hedged items and the corresponding changes in the hedging derivative instruments.

The derivative transactions are subject to future risks of interest rate changes and foreign currency exchange rate changes, and credit risks which arise from nonfulfillment of contracts by the collapse of the contract partner of the derivative transactions. Since the Companies execute derivative transactions using only counter parties of high credit rating, the Company believes there is almost no credit risk.

The derivative transactions are executed in accordance with internal management regulations and reported to the Board of Directors.

Note 6 : Inventories

Inventories at March 31, 2002 and 2003 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Finished goods	¥ 17,656	¥ 17,499	$ 145,582
Work in process	1,682	2,013	16,747
Raw materials and supplies	3,196	3,054	25,408
	¥ 22,534	¥ 22,566	$ 187,737

Note 7 : Short-term bank loans and long-term debt

Short-term bank loans at March 31, 2002 and 2003 consisted of short-term notes, generally for 365 days, bearing interest at rates ranging from 0.464 percent to 1.100 percent and 0.476 percent to 0.640 percent, respectively. In the past, these loans have been renewed regularly from time to time as required.

Long-term debt at March 31, 2002 and 2003 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Secured:			
Loans, principally from banks and insurance companies, 0.83 % to 3.20 %, maturing serially through 2009	¥ 29,372	¥ 27,618	$ 229,767
Unsecured:			
Loans, principally from banks, 1.030 % to 2.050%, maturing serially through 2032	12,410	30,571	254,335
2.80% bonds, due 2003	5,000	5,000	41,597
2.17% bonds, due 2003	3,000	3,000	24,958
2.11% bonds, due 2003	2,000	2,000	16,639
Bonds offered through private placement, due 2002	3,000	-	-
Bonds offered through private placement, due 2003	1,000	1,000	8,319
	55,782	69,189	575,615
Less amounts due within one year	13,667	20,563	171,073
	¥ 42,115	¥ 48,626	$ 404,542

Annual maturities of long-term debt at March 31, 2003 are as follows :

Years ended March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 20,563	$ 171,073
2005	11,804	98,203
2006	14,883	123,819
2007 and thereafter	21,939	182,520
	¥ 69,189	$ 575,615

Note 8 : Pledged assets

At March 31, 2003, the following assets were pledged as collateral for short-term bank loans of ¥1,360 million ($11,314 thousand) , long-term debt of ¥27,618 million ($229,767 thousand) and long-term deposits of ¥6,800 million ($56,572 thousand).

	Millions of yen	Thousands of U.S. dollars
Investment securities	**¥ 11,089**	**$ 92,255**
Property, plant and equipment - net of accumulated depreciation	**31,547**	**262,454**
	¥ 42,636	**$ 354,709**

Note 9 : Severance and retirement benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2002 and 2003 consists of the following :

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Employees' retirement benefits			
Projected benefit obligation	¥ 37,258	**¥ 37,191**	**$ 309,409**
Unrecognized actuarial differences	(6,354)	**(9,020)**	**(75,042)**
Less fair value of pension assets	(10,561)	**(8,574)**	**(71,331)**
Less unrecognized net transition obligation	(6,462)	**(4,327)**	**(35,998)**
Directors' and corporate auditors' retirement benefits	292	**297**	**2,471**
Liability for severance and retirement benefits	¥ 14,173	**¥ 15,567**	**$ 129,509**

Included in the consolidated statements of income for the years ended March 31, 2002 and 2003 are severance and retirement benefit expenses, except for directors' and corporate auditors' benefits, comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Service costs - benefits earned during the year	¥ 1,570	**¥ 1,910**	**$ 15,890**
Interest cost on projected benefit obligation	954	**627**	**5,216**
Expected return on plan assets	(21)	**(21)**	**(175)**
Amortization of net transition obligation	2,184	**2,154**	**17,920**
Amortization of actuarial differences	66	**443**	**3,686**
Severance and retirement benefit expenses	¥ 4,753	**¥ 5,113**	**$ 42,537**

The discount rate and the rate of expected return on plan assets used by the Company are 1.8 percent (2.0 percent in 2002) and 1.0 percent, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial losses are recognized in the income statement using the straight-line method mainly over fifteen years.

Note 10 : Income taxes

The Company and its domestic subsidiaries are subject to corporate, inhabitants and enterprise taxes which, in the aggregate, normally would result in a statutory rate of approximately 42.0 percent in 2002 and 2003.

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.6 percent for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥30 million ($250 thousand)) and provision for deferred income taxes increased by ¥150 million ($1,248 thousand) compared with what would be reported using the currently applicable tax rate of 42.0 percent.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2002 and 2003 :

	2002	**2003**
Statutory tax rate	42.0%	**42.0%**
Expenses not deductible for tax purposes	4.2	**3.5**
Inhabitant tax	1.8	**1.3**
Exclusion of dividends received from taxable income	(1.0)	**(0.7)**
Equity in net income of unconsolidated subsidiaries and affiliates	(6.4)	**(4.9)**
Valuation allowance	3.6	**4.2**
Unrealized profits of fixed assets	(0.2)	**(2.9)**
Elimination of dividends received from overseas affiliates	0.9	**2.4**
Reduction of deferred tax assets by tax rate change	-	**2.2**
Deduction for foreign taxes	(0.7)	**(2.3)**
Other	(6.0)	**(0.1)**
Effective tax rate	38.2%	**44.7%**

Significant components of deferred tax assets and liabilities as of March 31, 2002 and 2003 are as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Current deferred tax assets			
Unrealized profits	¥ 1,495	**¥ 1,516**	**$ 12,612**
Accrued bonuses	739	**922**	**7,671**
Enterprise tax	198	**160**	**1,331**
Accrued expenses	325	**367**	**3,053**
Excess of allowance for doubtful receivables	210	**252**	**2,097**
Other	257	**416**	**3,460**
Offset to deferred tax liabilities	(41)	**(32)**	**(266)**
Total current deferred tax assets	3,183	**3,601**	**29,958**
Valuation allowance	(162)	**(401)**	**(3,336)**
Net current deferred tax assets	¥ 3,021	**¥ 3,200**	**$ 26,622**
Current deferred tax liabilities			
Adjustment of allowance for doubtful receivables	¥ (45)	**¥ (32)**	**$ (266)**
Offset to deferred tax assets	41	**32**	**266**
Total current deferred tax liabilities	¥ (4)	**¥ -**	**$ -**

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Non-current deferred tax assets			
Excess of severance and retirement benefits	¥ 3,446	**¥ 4,634**	**$ 38,552**
Unrealized profits	1,672	**1,808**	**15,042**
Loss on write-down of investment securities	1,493	**217**	**1,805**
Loss by having set up the employee retirement benefit trust	585	**566**	**4,709**
Losses carry forward	320	**212**	**1,764**
Loss on write-down of golf club memberships	250	**237**	**1,972**
Excess of allowance for doubtful receivables	162	**87**	**724**
Other	389	**620**	**5,158**
Offset to deferred tax liabilities	(6,394)	**(6,000)**	**(49,917)**
Total non-current deferred tax assets	1,923	**2,381**	**19,809**
Valuation allowance	(846)	**(901)**	**(7,496)**
Net non-current deferred tax assets	¥ 1,077	**¥ 1,480**	**$ 12,313**
Non-current deferred tax liabilities			
Net unrealized gains on securities	¥ (5,000)	**¥ (3,653)**	**$ (30,391)**
Reserves of the Special Taxation Measures Law	(2,314)	**(2,249)**	**(18,710)**
Other	(259)	**(268)**	**(2,230)**
Offset to deferred tax assets	6,394	**6,000**	**49,917**
Total non-current deferred tax liabilities	¥ (1,179)	**¥ (170)**	**$ (1,414)**

Note 11 : Finance leases

Information for non-capitalized finance leases at March 31, 2002 and 2003 was as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Original lease obligations (including finance charges) for machinery, equipment and other	¥ 4,351	**¥ 4,566**	**$ 37,987**
Future minimum payments			
Payments due within one year	¥ 741	**¥ 976**	**$ 8,120**
Payments due after one year	1,205	**1,206**	**10,033**
	¥ 1,946	**¥ 2,182**	**$ 18,153**

Rental expenses under such non-capitalized finance leases for the years ended March 31, 2002 and 2003 were ¥861 million and ¥822 million ($6,839 thousand), respectively.

Note 12 : Contingent liabilities

Contingent liabilities at March 31, 2003 were as follows :

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Loan guarantees:		
Chensin-Toyo Tire & Rubber (China) Co., Ltd., an equity method affiliate	**¥ 2,380**	**$ 19,800**
Others	**244**	**2,030**
	¥ 2,624	**$ 21,830**

Note 13 : Shareholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

Note 14 : Cash flow statements

1. Cash and cash equivalents
Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2002 and 2003 are as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash and time deposits	¥ 16,693	**¥ 11,854**	**$ 98,619**
Less: Time deposits with maturities exceeding three months	(29)	**(5)**	**(42)**
Cash and cash equivalents	¥ 16,664	**¥ 11,849**	**$ 98,577**

2. Significant components of assets that increased by acquisition of operations are as follows :

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Current assets	**¥ 145**	**$ 1,207**
Property, plant and equipment	**473**	**3,935**
Goodwill and patent	**590**	**4,908**
Cash used for acquisition of operations	**¥ 1,208**	**$ 10,050**

Additions to goodwill were ¥389 million ($3,236 thousand). Goodwill is charged to income as incurred.

3. Significant components of assets that decreased by sale of operations are as follows :

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Current assets	**¥ 44**	**$ 367**
Property, plant and equipment	**576**	**4,791**
Goodwill and patent	**741**	**6,165**
Proceeds from sale of operations	**¥ 1,361**	**$ 11,323**

Note 15 : Business segment information

1) Industry segment information

The Companies' businesses are divided into the Tires segment, the Chemical & Industrial Products segment, the Automotive Products segment and the Other Businesses segment. The Tires segment manufactures and sells a range of auto, bus and other vehicle and equipment tires. The Chemical & Industrial Products segment manufactures and sells rubber vibration isolators, waterproof sheets and other products. The Automotive Products segment manufactures and sells rubber vibration isolators, automobile cushion seats, and other products. The Other Businesses segment principally includes financial services and realty businesses.

Industry segment information for the years ended March 31 was as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Net sales			
Tires			
Customers	¥ 156,080	**¥ 159,237**	**$ 1,324,767**
Intersegment	19	**21**	**175**
Total	156,099	**159,258**	**1,324,942**
Chemical & Industrial Products			
Customers	46,049	**39,089**	**325,200**
Intersegment	29	**28**	**233**
Total	46,078	**39,117**	**325,433**
Automotive Parts			
Customers	50,864	**55,315**	**460,191**
Intersegment	-	**-**	**-**
Total	50,864	**55,315**	**460,191**
Other Businesses			
Customers	818	**1,517**	**12,621**
Intersegment	1,210	**1,269**	**10,557**
Total	2,028	**2,786**	**23,178**
Eliminations	(1,258)	**(1,318)**	**(10,965)**
Consolidated net sales	253,811	**255,158**	**2,122,779**
Operating expenses			
Tires	142,466	**146,716**	**1,220,599**
Chemical & Industrial Products	46,162	**38,908**	**323,694**
Automotive Parts	49,149	**54,612**	**454,342**
Other Businesses	1,828	**2,751**	**22,887**
Eliminations	(1,198)	**(1,372)**	**(11,414)**
Consolidated operating expenses	238,407	**241,615**	**2,010,108**
Operating income			
Tires	13,633	**12,542**	**104,343**
Chemical & Industrial Products	(84)	**209**	**1,739**
Automotive Parts	1,715	**703**	**5,849**
Other Businesses	200	**35**	**291**
Consolidating adjustments	(60)	**54**	**449**
Consolidated operating income	¥ 15,404	**¥ 13,543**	**$ 112,671**
Assets			
Tires	156,613	**156,448**	**1,301,564**
Chemical & Industrial Products	29,105	**28,787**	**239,493**
Automotive Parts	28,197	**30,101**	**250,424**
Other Businesses	18,005	**30,934**	**257,354**
Consolidating adjustments and corporate (See Note (a))	24,490	**12,936**	**107,621**
Consolidated assets	¥ 256,410	**¥ 259,206**	**$ 2,156,456**
Depreciation and amortization			
Tires	¥ 9,334	**¥ 10,184**	**$ 84,725**
Chemical & Industrial Products	1,224	**1,511**	**12,571**
Automotive Parts	2,197	**2,394**	**19,917**
Other Businesses	21	**267**	**2,221**
Eliminations	(3)	**(3)**	**(25)**
Consolidated depreciation and amortization	¥ 12,773	**¥ 14,353**	**$ 119,409**
Capital expenditure			
Tires	¥ 11,253	**¥ 12,048**	**$ 100,233**
Chemical & Industrial Products	1,023	**1,475**	**12,271**
Automotive Parts	2,632	**4,299**	**35,765**
Other Businesses	931	**9,796**	**81,498**
Eliminations	(110)	**(3)**	**(25)**
Consolidated capital expenditureNet sales	¥ 15,729	**¥ 27,615**	**$ 229,742**

Note (a) : Corporate assets of ¥31,996 million and ¥23,041 million ($191,689 thousand) at March 31, 2002 and 2003, respectively, are comprised mainly of cash and cash equivalents and investment securities.

Note (b) : As explained in Note 3, the Company changed its depreciation method for the tire production equipment of the Kuwana Plant. The effect of this change for the year ended March 31, 2003 was to increase the operating expense of Tires segment by ¥865 million ($7,196 thousand), and to decrease operating income in the same amount.

2) Geographic segment information

Geographic segment information for the years ended March 31 was as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Net sales			
Domestic operations			
Customers	¥ 190,381	**¥ 184,003**	**$ 1,530,807**
Intersegment	36,720	**44,257**	**368,195**
Total	227,101	**228,260**	**1,899,002**
North America operations			
Customers	47,387	**53,410**	**444,343**
Intersegment	-	**1**	**8**
Total	47,387	**53,411**	**444,351**
Other operations			
Customers	16,043	**17,745**	**147,629**
Intersegment	5	**5**	**42**
Total	16,048	**17,750**	**147,671**
Eliminations	(36,725)	**(44,263)**	**(368,245)**
Consolidated net sales	253,811	**255,158**	**2,122,779**
Operating expenses			
Domestic operations	216,202	**217,702**	**1,811,165**
North America operations	43,505	**51,636**	**429,584**
Other operations	15,221	**16,696**	**138,902**
Eliminations	(36,521)	**(44,419)**	**(369,543)**
Consolidated operating expenses	238,407	**241,615**	**2,010,108**
Operating income			
Domestic operations	10,900	**10,558**	**87,837**
North America operations	3,882	**1,775**	**14,767**
Other operations	827	**1,054**	**8,769**
Consolidating adjustments and corporate	(205)	**156**	**1,298**
Consolidated operating income	¥ 15,404	**¥ 13,543**	**$ 112,671**
Assets			
Domestic	¥ 194,974	**¥ 205,643**	**$ 1,710,840**
North America operations	25,268	**26,349**	**219,210**
Other operations	9,606	**10,259**	**85,349**
Consolidating adjustments and corporate (See Note (a))	26,562	**16,955**	**141,057**
Consolidated assets	¥ 256,410	**¥ 259,206**	**$ 2,156,456**

Note (a) : The main countries or areas included in North America and Other were as follows:

North America : United States of America and Canada
Other : Europe, Oceania and other

Note (b) : As explained in Note 3, the Company changed its depreciation method for the tire production equipment of the Kuwana Plant. The effect of this change for the year ended March 31, 2003 was to increase the domestic operating expense by ¥865 million ($7,196 thousand), and to decrease operating income in the same amount.

3) Overseas sales information

Overseas sales information, which include the export net sales of the Company and domestic subsidiaries and the net sales of its overseas subsidiaries, for the years ended March 31 was as follows :

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Net sales			
North America sales	¥ 47,387	**¥ 53,410**	**$ 444,343**
Other sales	32,518	**35,397**	**294,484**
Total	¥ 79,905	**¥ 88,807**	**$ 738,827**
Consolidated net sales	¥253,811	**¥255,158**	**$ 2,122,779**
Percentage of consolidated net sales	31.5%	**34.8%**	**34.8%**

Note: The main countries or areas included in North America and Other were as follows:
North America : United States of America and Canada
Other : Europe, Oceania and other

Note 16 : Subsequent events

On June 3, 2003, the Company issued the 14th unsecured bonds in order to raise funds for bond redemption based on the approval by the Board of Directors of the Company on April 30, 2003.

The main provisions are as follows :
1. Total issue amount ¥5,000 million
2. Issue price ¥100 per face value of ¥100
3. Rate of interest 0.74%
4. Date of issue June 3, 2003
5. Maturity June 3, 2008

On June 26, 2003, the Company issued the 15th unsecured bonds in order to raise funds for bond redemption based on the approval by the Board of Directors of the Company on June 25, 2003.

The main provisions are as follows :
1. Total issue amount ¥3,000 million
2. Issue price ¥100 per face value of ¥100
3. Rate of interest 0.41%
4. Date of issue June 26, 2003
5. Maturity June 25, 2010

Independent Auditors' Report

Asahi & Co.

To the Board of Directors of
Toyo Tire & Rubber Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Toyo Tire & Rubber Co., Ltd. and subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 present fairly, in all material respects, the consolidated financial position of Toyo Tire & Rubber Co., Ltd. and subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2002, Toyo Tire & Rubber Co., Ltd. changed its method of depreciation for the tire production equipment of the Kuwana Plant.
(2) As discussed in Note 16 to the consolidated financial statements, the Board of Directors of the Company on April 30 & June 25, 2003, approved the issue of the 14th & 15th unsecured bonds, respectively.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Osaka, Japan
June 27, 2003

Asahi & Co.

Five-Year Summary

In millions of yen except per share figures

	1999	2000	2001	2002	**2003**
For the fiscal year ended March 31 :					
Net sales	¥ 238,761	¥ 232,023	¥ 247,281	¥ 253,811	**¥ 255,158**
Tires	143,391	139,773	145,488	156,080	**159,237**
Rubber & Plastics	94,569	91,456	-	-	**-**
Chemical & Industrial Products	-	-	49,414	46,049	**39,089**
Automotive Parts	-	-	51,848	50,864	**55,315**
Others	801	794	531	818	**1,517**
Percentage of sales					
Tires	60.1%	60.2%	58.8%	61.5%	**62.4%**
Rubber & Plastics	39.6%	39.4%	-	-	**-**
Chemical & Industrial Products	-	-	20.0%	18.2%	**15.3%**
Automotive Parts	-	-	21.0%	20.0%	**21.7%**
Others	0.3%	0.4%	0.2%	0.3%	**0.6%**
Sales by market					
Domestic	193,538	190,132	194,722	190,381	**184,003**
Overseas	45,223	41,891	52,559	63,430	**71,155**
Percentage of sales by market					
Domestic	81.1%	81.9%	78.7%	75.0%	**72.1%**
Overseas	18.9%	18.1%	21.3%	25.0%	**27.9%**
Income (loss) before income taxes	(3,747)	3,647	6,303	5,446	**6,938**
Net income (loss)	(3,516)	3,088	4,060	3,261	**3,657**
Capital expenditure	16,912	10,815	10,555	15,729	**27,615**
Per share of common stock					
Net income (loss)	¥ (16.80)	¥ 14.76	¥ 19.40	¥ 15.58	**¥ 17.33**
Cash dividends	-	-	5.00	5.00	**7.00**
At the year end :					
Total assets	¥ 266,977	¥ 250,199	¥ 264,627	¥ 256,410	**¥ 259,206**
Shareholders' equity	49,145	45,918	56,947	58,637	**58,314**
Current ratio	90.9%	87.7%	79.7%	83.5%	**86.6%**
Number of employees	7,570	6,828	6,673	6,320	**6,280**

Note: 1. Since April 2000, we changed our segment method from three industry segments to four industry segments.

Management

Shōzō Katayama
Chairman

Yoshio Kataoka*
President and Chief Executive Officer,Tire Company President

Yūsaku Yoshioka*
Executive Vice President

Ryūichi Nomura
Senior Managing Director, Chemical & Industrial Products Company President

Hirokazu Kitagawa
Managing Director, Automotive Parts Company President

Tōru Matsuo
Managing Director, Tire Company Vice President

Masahiro Ushio
Director, Automotive Parts Company Vice President

Kazuo Nagai
Director, Tire Overseas Operation

Yasuo Onodera
Director, Corporate Strategy Planning

* Representative Director

As of June 27, 2003

SENIOR EXECUTIVE OFFICERS

Kazuo Inoue
Purchasing

Toshio Makiuchi
SCM

EXECUTIVE OFFICERS

Hiroshi Takino
Quality Assurance Control

Naoya Yokoyama
Tire selling charge for large quantity customers

Kusuo Ogawa
General Affairs/Personnel

Shōzō Kibata
President of Toyo Tire (USA) Corp

Kenji Nakakura
Tire Technology

Kenji Takada
Tire Manufacturing, Tire Overseas Production & Planning

Yukio Komai
Chemical & Industrial Products Company Vice President

Yutaka Ebuchi
Replacement Tire Sales

CORPORATE AUDITORS

Takamichi Nagahara

Hideki Komagata

Kazunari Maeda

Overseas Network

North America

Toyo Tire (U.S.A.) Corporation
(Consolidated subsidiary)

6261 Katella Ave. Suite 2B, Cypress, California 90630, U.S.A.
Telephone: 714-236-2080 Fax: 714-229-6199
Distribution centers: California, Texas, Illinois, Georgia

Toyo Tire International, Inc.
(Consolidated subsidiary)

6261 Katella Ave. Suite 2B, Cypress, California 90630, U.S.A.
Telephone: 714-236-2080 Fax: 714-229-6199

GTY Tire Company
(Production base, Joint venture)

Mt. Vernon Plant, P.O. Box 1029, Hishway 142
South Mt. Vernon, IL 62864-1029, U.S.A.
Telephone: 618-246-2263 Fax: 618-246-2493

Toyo Automotive Parts (U.S.A.), Inc.
(Consolidated subsidiary)

512 Page Drive, Franklin, Kentucky 42134, U.S.A.
Telephone: 270-598-4100 Fax: 270-586-4846

Toyo Tire Canada Inc.
(Consolidated subsidiary)

1645 Cliveden Avenue Annacis Island Delta,
B.C. V3M 6V5, Canada
Telephone: 604-540-1331 Fax: 604-517-8610
Distribution centers: Delta, Mississauga, Montreal

Europe

Toyo Reifen GmbH
(Consolidated subsidiary)

Werftstr 47, 40549 Düsseldorf, Germany
Telephone: 0211-5690911
Fax: 0211-5690952

Toyo Tire (U.K.)
(A branch of Toyo Reifen GmbH)

Toyo House, Shipton Way, Rushden, Northants,
NN10 6GL U.K.
Telephone: 01933-411144
Fax: 01933-410945

Liaison Representative in Europe

Werftstr 47, 40549 Düsseldorf, Germany
Telephone: 0211-5690911
Fax: 0211-5690952

Toyo Tire International Finance B.V.
(Financing base)

Foppingadreef 22 1102BS, Amsterdam Zuidoost,
The Netherlands
Telephone: 0165-556475
Fax: 0165-555829

Toyo Banden Nederland B.V.
(Consolidated subsidiary)

Kooldreef 2-6, 4703 RE Roosendaal,
The Netherlands
Telephone: 0165-556475
Fax: 0165-555829

Oceania

Toyo Tire & Rubber Australia Limited
(Consolidated subsidiary)

6-14, Cosgrove Road, Enfield, N.S.W., 2136, Australia
Telephone: 02-9642-0177 Fax: 02-9742-5519
Branch offices: Sydney, Newcastle, Brisbane,
Townsville, Melbourne, Perth, Adelaide

The People's Republic of China

Toyo Tire (Shanghai) Co.,Ltd.
(Consolidated subsidiary)

Room B,23 Floor, Majesty Building 138 Pu-Dong Avenue, Shanghai,
The People's Republic of China
Telephone: 021-5882-0880 Fax: 021-5887-8846

Cheng Shin-Petrel Tire (Xiamen) Co.,Ltd.
(Production base, Joint venture)

Haicang Xinyang Industrial District, Xiamen,
The People's Republic of China
Telephone: 592-6537357 Fax: 592-6537356

Southeast Asia

New Pacific Industry Co., Ltd.
(Production base, Joint venture)

44, Sec. 1, Chung-Shan Road, Chung-Chuang Village,
Hua-Tan, Chang-Hua, Taiwan, R.O.C.
Telephone: 04-7869711 Fax: 04-7863284

Toyo Rubber (Malaysia) Sdn. Bhd.
(Consolidated subsidiary)

Plo 557, Jalan Keluli 3, Kawasan Perindustrian Pasir Gudang,
81700 Pasir Gudang, Johor Darul Takzim, Malaysia
Telephone: 07-2528000 Fax: 07-2518816

As of March 31, 2003

Investor Information

Head Office:
17-18, Edobori 1-chome, Nishi-ku,
Osaka 550-8661, Japan
Telephone: (06) 6441-8801
Fax: (06) 6446-2225

Facilities:
Sales Offices:
The Company, its consolidated subsidiaries, and its affiliates, consolidated and unconsolidated, have 54 sales offices in Japan and 27 sales offices overseas.
Research Institutions:
The Company has 7 research institutions in Japan.
Manufacturing Plants:
The Company, its consolidated subsidiaries, and its affiliates, consolidated and unconsolidated, operate 23 plants in Japan and 8 plants overseas.

Consolidated Subsidiaries:
Toyo Tire & Rubber Co.,Ltd. has a total of 40 consolidated subsidiaries,31 in Japan and 9 overseas.

Establishment:
August 1,1945

Common Stock Listing:
May 1949
Tokyo, Osaka, Nagoya, Kyoto,

Paid-in Capital:
23,975 million yen

Number of Shareholders:
17,803

Common Stocks:
Authorized 400,000,000 shares
Issued 209,284,712 shares

Number of Employees:
6,280

Transfer Agent:
UFJ Trust Bank Limited
4-3, Marunouchi 1-chome, Chiyoda-ku,
Tokyo, Japan

Independent Auditors:
Asahi & Co.

Annual Meeting:
The annual meeting of shareholders of the Company is normally held in June of each year in Osaka, Japan.

Home Page Address:
http://www.toyo-rubber.co.jp

As of March 31, 2003