

Financial Section

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Financial Review

Operating Results

SALES

Net sales for fiscal 1998 totaled ¥415,397 million, an increase of 3.2% from fiscal 1997. As the domestic market was hit by an economic slowdown, sales in Japan dropped 2.1% to ¥296,043 million. Overseas sales, boosted by high demand and the depreciation of the yen, amounted to ¥119,354 million, a 19.2% increase. The ratio of overseas sales to net sales rose to 28.7%, from 24.9% in fiscal 1997.

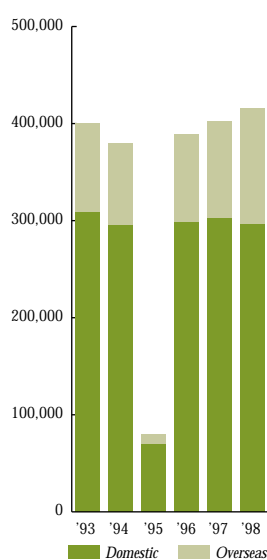
EXPENSES/EARNINGS

During the year under review, the cost of sales increased 3.4% to ¥298,551 million. Growth in promotional and distribution expenses, which rose in line with sales growth, pushed up selling, general and administrative expenses, 5.6% to ¥105,144 million. Operating income amounted to ¥11,702 million, a drop of 18.2%. In fiscal 1997, we reported other income of ¥1,013 million, mainly the result of sales of equity in overseas partners totaling ¥7,639 million. However, in fiscal 1998, owing to the absence of such income we posted ¥6,082 million in other expenses. As a result of these factors, Yokohama recorded a 63.3% decline to ¥5,620 million in income before income taxes. Net income dropped 76.7% to ¥873 million. Primary net income per share of common stock amounted to ¥2.55, down from ¥11.14 in fiscal 1997. We declared cash dividends of ¥8.00 per share, the same amount as the previous year.

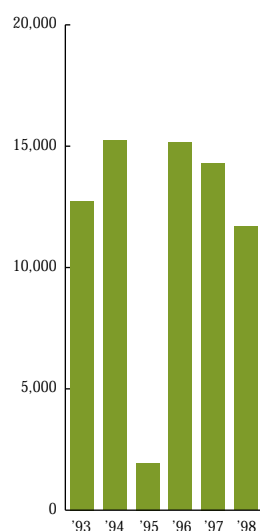
R&D EXPENDITURES

In fiscal 1998, Yokohama invested ¥13,800 million in R&D, which was used primarily by YRC to develop new products in the Tire and MB groups and to improve production procedures and facilities. This amount was at the same level as the ¥13,900 million reported in fiscal 1997.

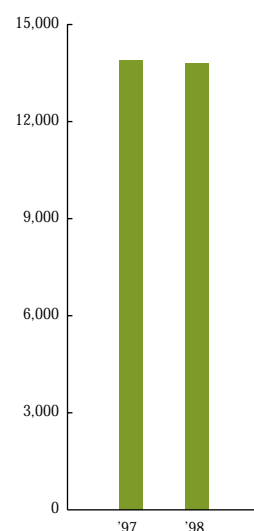
Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



R&D Expenditures
(Millions of yen)



CAPITAL EXPENDITURES

Investments of a total of ¥30,800 million, up 29.4%, were made, mainly by YRC, to reinforce and streamline production facilities in both the Tire and MB groups.

Financial Position

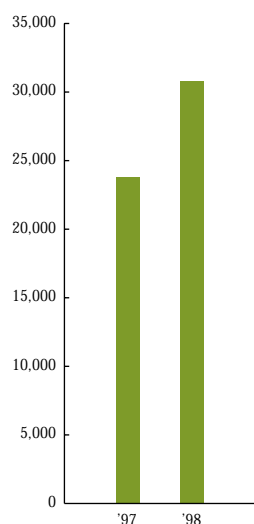
ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

Total assets as of March 31, 1998, stood at ¥440,420 million, an increase of ¥19,481 million. Current assets rose ¥12,699 million, owing in part to a carryover from the management of a March 1998 issue of straight bonds valued at ¥20 billion, which was implemented to prepare for the redemption of ¥14.8 billion worth of convertible bonds due June 1998. Total property, plant and equipment, net, increased ¥9,095 million, owing chiefly to a rise in construction in progress related to the expansion of our sales network and the reinforcement of production facilities, as well as to a significant increase in machinery and equipment. Liabilities increased following the issuance of straight bonds. Total shareholders' equity amounted to ¥105,478 million, down 2.6% from the previous year. The shareholders' equity ratio dropped to 23.9%, from 25.7% in fiscal 1997.

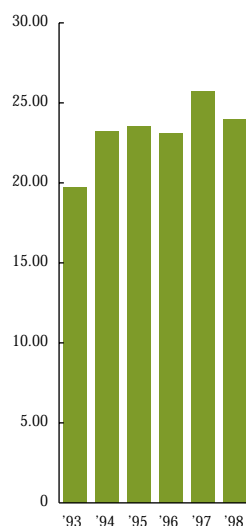
CASH FLOWS

During fiscal 1998, net cash provided by operating activities amounted to ¥14,625 million. Under cash flows from operating activities, depreciation totaled ¥21,566 million. Net cash used in investing activities totaled ¥29,855 million. Net cash provided by financing activities was ¥17,305 million. The net increase in cash amounted to ¥2,075 million. As a result, cash and time deposits at the fiscal year-end were ¥23,462 million.

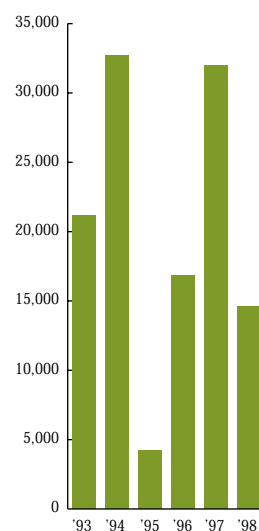
Capital Expenditures
(Millions of yen)



Equity Ratio
(%)



Net Cash Provided by
Operating Activities (Millions of yen)



Segment Information

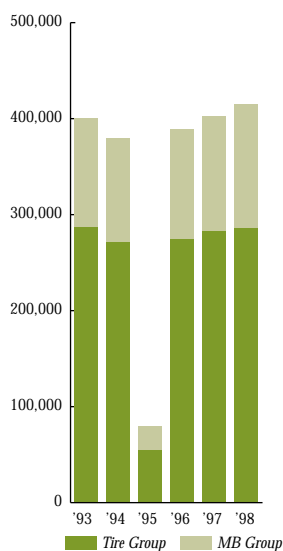
BUSINESS GROUPS

Despite the economic slowdown and sluggish domestic market, the Tire Group's sales rose 0.7% to ¥286,000 million. This rise is attributable to the addition of sales from a new overseas subsidiary added to the consolidated Group, as well as to the depreciation of the yen, which increased the value of sales in local currencies following conversion into yen. Operating income, however, dropped 34.2% to ¥5,268 million, because of an increase in sales-related expenses, particularly promotion costs. In the MB Group, an increase in exports, supported by the low yen and growth in sporting goods sales, contributed to an 8.9% increase in group sales to ¥129,397 million. The MB Group's operating income rose 31.4% to ¥5,540 million.

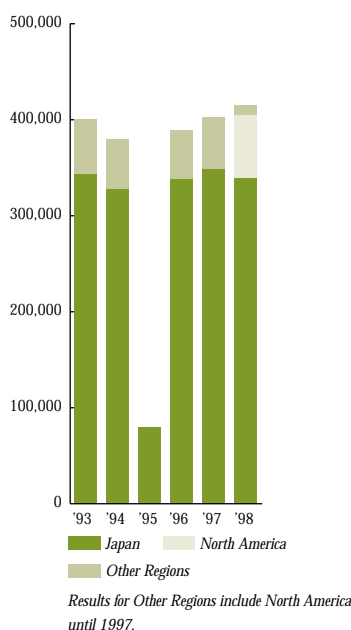
REGIONS

In Japan, the slow economy and sluggish markets resulted in a 2.5% decline in sales to ¥339,882 million. Operating income dropped 19.0% to ¥11,904 million. In North America and other regions, sales amounted to ¥64,966 million and ¥10,549 million, respectively. In North America, we experienced an operating loss of ¥405 million, while we reported operating income of ¥133 million for other regions. As a result, sales outside of Japan rose to ¥75,515 million, compared with ¥53,906 million the previous fiscal year, equivalent to a 40.1% increase. The addition of three subsidiaries outside of Japan to the consolidated Group combined with yen conversion gains to support the increase in these sales. Overseas operating income improved by a total of ¥1,695 million from the previous year. Financial improvements made at YTC contributed to this improvement.

Sales by Group
(Millions of yen)



Sales by Region
(Millions of yen)



Six-Year Summary

Fiscal years ended March 31, 1998, 1997, 1996 and 1995, and December 31, 1994 and 1993

		Millions of yen				
	1998	1997	1996	1995	1994	1993
Net Sales	415,397	402,652	389,304	80,145	379,363	400,192
Sales by Group						
Tires	286,000	283,884	276,003	54,286	271,520	286,805
Multiple Business	129,397	118,768	113,300	25,859	107,842	113,387
Sales by Region						
Japan	339,882	348,746	339,026	80,145	326,922	343,570
North America	64,966	—	—	—	—	—
Other Regions	10,549	53,906	50,277	—	52,440	56,622
Overseas Sales	119,354	100,141	90,350	10,966	84,196	90,789
Operating Income	11,702	14,313	15,155	1,943	15,222	12,734
Income before Income Taxes	5,620	15,326	5,746	205	7,752	5,095
Net Income (Loss)	873	3,753	563	(601)	2,091	(207)
Net Income (Loss) per Share (Yen)	2.55	11.14	1.77	(1.93)	7.18	(0.73)
Cash Dividends per Share (Yen)	8.00	8.00	8.00	2.00	8.00	8.00
Total Assets	440,420	420,939	423,749	407,997	416,351	444,944
Shareholders' Equity	105,478	108,306	97,907	96,012	96,664	87,664
Shareholders' Equity per Share (Yen)	307.88	316.13	302.51	303.21	320.54	308.09
R&D Expenditures	13,800	13,900	—	—	—	—
Capital Expenditures	30,800	23,800	—	—	—	—
Number of Employees	12,325	12,267	12,743	—	13,254	13,663

Notes:

1. The fiscal year ended March 31, 1995, was a special three-month fiscal period resulting from a change in the Company's fiscal year.
2. As of fiscal 1997, results for Other Regions included those for North America. However, from fiscal 1998, results for North America have been calculated separately.
3. The figures for capital expenditures and R&D expenditures have been reported on a consolidated basis since fiscal year 1997.

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 1998 and 1997

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Current Assets:			
Cash and time deposits (Note 4)	¥ 23,462	¥ 21,387	\$ 177,742
Marketable securities (Note 4)	29,213	27,000	221,311
Trade receivables:			
Notes and accounts (Notes 4 and 6)	104,892	106,477	794,636
Unconsolidated subsidiaries and associated companies	8,236	9,158	62,394
Allowance for doubtful receivables	(4,096)	(4,121)	(31,030)
Inventories (Note 3)	63,913	60,015	484,189
Deferred income taxes	4,899	3,767	37,114
Other current assets	14,283	8,420	108,205
Total current assets	244,802	232,103	1,854,561
Property, Plant and Equipment, at Cost (Notes 4 and 5):			
Land	29,694	27,562	224,955
Buildings and structures	100,331	95,777	760,083
Machinery and equipment	297,700	282,429	2,255,303
Construction in progress	10,930	5,341	82,803
	438,655	411,109	3,323,144
Less accumulated depreciation	(284,683)	(266,232)	(2,156,689)
Total property, plant and equipment, net	153,972	144,877	1,166,455
Investments and Other Assets:			
Investment securities:			
Unconsolidated subsidiaries and associated companies	6,202	7,775	46,985
Other	1,879	1,839	14,235
Long-term loans receivable	4,884	7,246	37,000
Other investments and other assets	25,820	22,468	195,606
Allowance for doubtful receivables	(536)	(564)	(4,061)
Total investments and other assets	38,249	38,764	289,765
Foreign currency translation adjustments	3,397	5,195	25,734
Total	¥ 440,420	¥ 420,939	\$ 3,336,515

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S.dollars (Note 1)
	1998	1997	1998
Current Liabilities:			
Bank loans	¥122,460	¥133,609	\$ 927,727
Current maturities of long-term debt (Note 4)	23,021	7,965	174,402
Commercial paper	10,500	3,000	79,545
Trade notes and accounts payable	71,730	68,239	543,409
Accrued income taxes	2,665	7,288	20,189
Accrued expenses	19,431	19,649	147,205
Other current liabilities	14,378	11,742	108,924
Total current liabilities	264,185	251,492	2,001,401
Long-term debt (Note 4)	53,151	43,854	402,659
Other long-term liabilities	4,573	3,960	34,644
Liabilities for severance benefits	11,718	12,046	88,773
Deferred income taxes	234	331	1,773
Minority interests	1,081	950	8,189
Contingent liabilities (Note 6)			
Shareholders' Equity:			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 1998-342,598,162			
1997-342,598,162	38,909	38,909	294,765
Capital surplus	31,893	31,893	241,614
Legal reserve (Note 8)	8,293	7,967	62,826
Retained earnings (Note 9)	26,383	29,537	199,871
Total shareholders' equity	105,478	108,306	799,076
Total	¥440,420	¥420,939	\$ 3,336,515

Consolidated Statements of Income

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1998
Net sales	¥415,397	¥402,652	¥389,304	\$3,146,947
Cost of sales	298,551	288,800	277,401	2,261,750
	116,846	113,852	111,903	885,197
Selling, general and administrative expenses	105,144	99,539	96,748	796,545
Operating income	11,702	14,313	15,155	88,652
Other income (expenses):				
Interest income and dividends received	1,103	1,449	1,278	8,356
Interest expense	(5,533)	(5,790)	(6,272)	(41,917)
Other-net	(1,652)	5,354	(4,415)	(12,515)
	(6,082)	1,013	(9,409)	(46,076)
Income before income taxes	5,620	15,326	5,746	42,576
Income taxes (Note 2):				
Current	5,945	10,229	5,670	45,038
Deferred	(1,111)	(221)	(214)	(8,417)
	4,834	10,008	5,456	36,621
Minority interests in net income of consolidated subsidiaries	22	(47)	(16)	167
Amortization of excess of cost over net assets acquired, net	(34)	(1,632)	(19)	(258)
Equity in earnings of unconsolidated subsidiaries and associated companies	99	114	308	750
Net income	¥ 873	¥ 3,753	¥ 563	\$ 6,614

Per share amounts:

	Yen			U.S. dollars
Net income: Primary	¥2.55	¥11.14	¥1.77	\$0.02
Net income: Fully diluted	—	¥11.10	¥1.76	—
Cash dividends	¥8.00	¥8.00	¥8.00	\$0.06

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Shares of common stock	Millions of yen			
		Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 1995	316,655,465	¥32,510	¥25,494	¥7,508	¥30,500
Decrease resulting mainly from changes in equity in consolidated subsidiaries	—	—	—	(25)	(169)
Net income	—	—	—	—	563
Cash dividends paid	—	—	—	—	(1,583)
Directors' and statutory auditors' bonuses	—	—	—	—	(17)
Transfer to legal reserve	—	—	—	175	(175)
Common stock issued upon exercise of warrants	6,987,208	1,723	1,723	—	—
Foreign currency translation adjustments	—	—	—	—	(320)
Balance at March 31, 1996	323,642,673	34,233	27,217	7,658	28,799
Increase resulting from changes in equity in consolidated subsidiaries	—	—	—	5	—
Net income	—	—	—	—	3,753
Cash dividends paid	—	—	—	—	(2,636)
Directors' and statutory auditors' bonuses	—	—	—	—	(75)
Transfer to legal reserve	—	—	—	304	(304)
Common stock issued upon exercise of warrants	18,955,489	4,676	4,676	—	—
Balance at March 31, 1997	342,598,162	38,909	31,893	7,967	29,537
Decrease resulting from changes in equity in consolidated subsidiaries	—	—	—	—	(885)
Net income	—	—	—	—	873
Cash dividends paid	—	—	—	—	(2,741)
Directors' and statutory auditors' bonuses	—	—	—	—	(75)
Transfer to legal reserve	—	—	—	326	(326)
Balance at March 31, 1998	342,598,162	¥38,909	¥31,893	¥8,293	¥26,383

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 1997	\$294,765	\$241,614	\$60,356	\$223,765
Decrease resulting from changes in equity in consolidated subsidiaries	—	—	—	(6,705)
Net income	—	—	—	6,614
Cash dividends paid	—	—	—	(20,765)
Directors' and statutory auditors' bonuses	—	—	—	(568)
Transfer to legal reserve	—	—	2,470	(2,470)
Balance at March 31, 1998	\$294,765	\$241,614	\$62,826	\$199,871

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1998
Operating Activities:				
Net income	¥ 873	¥ 3,753	¥ 563	\$ 6,613
Adjustments to reconcile net income to net cash:				
Depreciation	21,566	21,167	21,146	163,378
Provision for severance benefits, less payments	(328)	141	480	(2,485)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	99	(114)	(308)	750
Deferred income taxes — non-current	(70)	(111)	(18)	(530)
Increase (decrease) in working capital:				
Trade notes and accounts receivable	(2,213)	(2,021)	(7,951)	(16,765)
Inventories	(3,898)	556	(5,270)	(29,530)
Other current assets	(2,690)	5,008	(4,315)	(20,378)
Notes and accounts payable	3,491	(2,460)	8,832	26,446
Other current liabilities	(2,205)	6,080	3,655	(16,704)
Net cash provided by operating activities	14,625	31,999	16,814	110,795
Investing Activities:				
Additions to property, plant and equipment	(27,060)	(20,323)	(20,015)	(205,000)
Increase in investments	(553)	(2,763)	(4,463)	(4,189)
Proceeds from sales of investment securities and properties	2,052	7,542	5,618	15,545
Other, net	(4,294)	(6,626)	1,417	(32,530)
Net cash used in investing activities	(29,855)	(22,170)	(20,277)	(226,174)
Financing Activities:				
Increase in short-term bank loans and current maturities of long-term debt	(10,893)	(15,212)	36,437	(82,523)
Increase (decrease) in commercial paper	7,500	3,000	(8,000)	56,818
Proceeds from long-term debt	33,644	8,420	1,018	254,878
Decrease in long-term debt	(10,205)	(10,900)	(27,466)	(77,310)
Common stock issued upon exercise of warrants	—	9,351	3,446	—
Payment of cash dividends	(2,741)	(2,635)	(1,583)	(20,765)
Net cash provided by (used in) financing activities	17,305	(7,976)	3,852	131,098
Increase in cash	2,075	1,853	389	15,719
Cash at beginning of year	21,387	19,534	19,145	162,023
Cash and time deposits at end of year	¥ 23,462	¥21,387	¥ 19,534	\$177,742

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company") have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from the consolidated financial statements filed with the Ministry of Finance in Japan.

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

The U.S. dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥132.00=U.S.\$1, the approximate exchange rate prevailing on March 31, 1998.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

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

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

(2) Foreign Currency Translation

Current foreign currency receivables and payables are translated at the year-end rates, and non-current receivables and payables at historical rates.

(3) Marketable Securities and Investment Securities

Marketable securities are carried at the lower of cost or market and investment securities are carried at cost. Costs are determined by the moving average method.

(4) Inventories

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

(5) Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus the maximum amount which could be deductible under the Japanese income tax law.

(6) Depreciation

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

(7) Liabilities for Severance Payments and Employee Benefit Plans

Employees who terminate their services with the Companies are, under most circumstances, entitled to lump-sum severance payments determined by reference to their current basic rate of pay and length of service. The Companies generally provide for this liability at 40% of the amount (the maximum amount permitted to be deducted for income tax purposes) which would be required to be paid if all employees voluntarily terminated their service at the balance sheet date.

The Company and certain consolidated subsidiaries have non-contributory pension plans for their termination caused by age limit. Payments to the pension fund are charged to income when made.

The liabilities also include provisions for retirement payments for directors and statutory auditors determined according to the Company's internal rules.

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

(8) Income Taxes

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

The income tax effect of timing differences resulting from the elimination of intercompany profits and other consolidation entries is recognized as deferred income taxes. Although current and deferred enterprise tax is charged to selling, general and administrative expenses in conformity with accounting practices in Japan, a reclassification has been made to present income taxes in their entirety in the accompanying consolidated financial statements.

Enterprise tax for 1996, 1997 and 1998 totaled ¥1,135 million, ¥2,123 million and ¥928 million (\$7,030 thousand), respectively.

(9) Revenue Recognition

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

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) Net income (loss) per share

The computation of net income per share is based on the weighted average number of shares outstanding.

(12) Leases

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

3. Inventories

Inventories at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Finished products	¥48,035	¥44,743	\$363,902
Work in process	7,930	7,359	60,076
Raw materials and supplies	7,948	7,913	60,212
	¥63,913	¥60,015	\$484,189

4. Long-term Debt

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
1.7% convertible bonds due 1998	¥14,800	¥14,800	\$112,121
2.65% straight bonds due 2004	10,000	-	75,758
2.175% straight bonds due 2002	10,000	-	75,758
Loans, principally from banks and insurance companies	41,372	37,019	313,424
	76,172	51,819	577,061
Less current maturities	23,021	7,965	174,402
	¥53,151	¥43,854	\$402,659

Assets pledged to secure bank loans and long-term debt at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Time deposits	¥ 18	¥ 40	\$ 136
Marketable securities	331	331	2,508
Notes receivable	1,119	568	8,477
Property, plant and equipment	86,283	86,232	653,659
	¥87,751	¥87,171	\$664,780

5. Depreciation

Depreciation charges were as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Selling, general and administrative expenses	¥ 2,342	¥ 2,202	¥ 2,425	\$ 17,742
Manufacturing costs	¥19,224	¥18,965	¥18,721	\$145,636

6. Contingent Liabilities

Contingent liabilities at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Notes discounted and endorsed	¥3,196	¥2,734	\$24,212
Guarantees	¥5,625	¥1,922	\$42,614

7. Leases

Annual rental expenses for the year ended March 31, 1998 were ¥1,113 million (\$8,432 thousand).

8. Legal Reserve

The Commercial Code of Japan provides that an amount equal to at least 10% of the amount paid as appropriations of retained earnings, including cash dividends and directors' and statutory auditors' bonuses paid, shall be appropriated as a legal reserve until such reserve equals 25% of capital stock. This reserve may be used to reduce a deficit or may be transferred to capital stock, but is not available for distribution as dividends. The legal reserve includes a proportionate share of the changes in the legal reserves of consolidated subsidiaries since their respective dates of acquisition.

9. Retained Earnings and Dividends

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

On June 26, 1998, the shareholders authorized payment of a cash dividend to shareholders of record on March 31, 1998 of ¥5.00 (\$0.04) per share, or a total of ¥1,712 million (\$12,970 thousand).

10. Segment Information

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 1998 and 1997 is outlined as follows :

Business Segments

Year ended March 31, 1998

	Tires	Multiple Business	Total	Eliminations	Consolidated
Millions of yen					
Sales to third parties	¥ 286,000	¥129,397	¥415,397	—	¥ 415,397
Intergroup sales and transfers	126	8,900	9,026	¥(9,026)	—
Total sales	286,126	138,297	424,423	(9,026)	415,397
Operating expenses	280,858	132,757	413,615	(9,920)	403,695
Operating income	¥ 5,268	¥ 5,540	¥ 10,808	¥ 894	¥ 11,702
Total assets	¥ 292,743	¥114,428	¥407,171	¥33,249	¥ 440,420
Depreciation	¥ 17,314	¥ 4,009	¥ 21,323	¥ 243	¥ 21,566
Capital expenditure	¥ 19,569	¥ 6,465	¥ 26,034	¥ 1,195	¥ 27,229

	Thousands of U.S. dollars				
Sales to third parties	\$2,166,667	\$ 980,280	\$3,146,947	—	\$ 3,146,947
Intergroup sales and transfers	954	67,424	68,378	\$ (68,378)	—
Total sales	2,167,621	1,047,704	3,215,325	(68,378)	3,146,947
Operating expenses	2,127,712	1,005,735	3,133,447	(75,152)	3,058,295
Operating income	\$ 39,909	\$ 41,969	\$ 81,878	\$ 6,774	\$ 88,652
Total assets	\$2,217,750	\$ 866,879	\$3,084,629	\$ 251,886	\$ 3,336,515
Depreciation	\$ 131,167	\$ 30,371	\$ 161,538	\$ 1,840	\$ 163,378
Capital expenditure	\$ 148,250	\$ 48,977	\$ 197,227	\$ 9,053	\$ 206,280

Year ended March 31, 1997

	Tires	Multiple Business	Total	Eliminations	Consolidated
Millions of yen					
Sales to third parties	¥ 283,884	¥118,768	¥402,652	—	¥ 402,652
Intergroup sales and transfers	128	7,949	8,077	¥(8,077)	—
Total sales	284,012	126,717	410,729	(8,077)	402,652
Operating expenses	276,010	122,502	398,512	(10,173)	388,339
Operating income	¥ 8,002	¥ 4,215	¥ 12,217	¥ 2,096	¥ 14,313
Total assets	¥ 279,607	¥108,070	¥387,677	¥33,262	¥420,939
Depreciation	¥ 17,485	¥ 3,453	¥ 20,938	¥ 229	¥ 21,167
Capital expenditure	¥ 16,387	¥ 3,717	¥ 20,104	¥ 212	¥ 20,316

Geographical Areas

Year ended March 31, 1998

	Japan	North America	Other	Total	Eliminations	Consolidated
Millions of yen						
Sales to third parties	¥339,882	¥64,966	¥10,549	¥415,397	—	¥415,397
Intergroup sales and transfers	22,436	2,818	—	25,254	¥(25,254)	—
Total sales	362,318	67,784	10,549	440,651	(25,254)	415,397
Operating expenses	350,414	68,189	10,416	429,019	(25,324)	403,695
Operating income (loss)	¥ 11,904	¥ (405)	¥ 133	¥ 11,632	¥ 70	¥ 11,702

Thousands of U.S. dollars

Sales to third parties	\$2,574,863	\$492,167	\$79,917	\$3,146,947	—	\$3,146,947
Intergroup sales and transfers	169,970	21,348	—	191,318	\$(191,318)	—
Total sales	2,744,833	513,515	79,917	3,338,265	(191,318)	3,146,947
Operating expenses	2,654,652	516,583	78,909	3,250,144	(191,849)	3,058,295
Operating income (loss)	\$ 90,181	\$ (3,068)	\$ 1,008	\$ 88,121	\$ 531	\$ 88,652

Year ended March 31, 1997

	Japan	Foreign	Total	Eliminations	Consolidated
Millions of yen					
Sales to third parties	¥348,746	¥53,906	¥402,652	—	¥402,652
Intergroup sales and transfers	13,155	1,068	14,223	¥(14,223)	—
Total sales	361,901	54,974	416,875	(14,223)	402,652
Operating expenses	347,211	56,941	404,152	(15,813)	388,339
Operating income (loss)	¥ 14,690	¥(1,967)	¥ 12,723	¥ 1,590	¥ 14,313

Overseas Sales

Year ended March 31, 1998

	North America	Other	Total
Millions of yen (Thousands of U.S. dollars)			
(A) Overseas sales	¥68,101	¥51,253	¥119,354
	\$(515,917)	\$(388,280)	\$(904,197)
(B) Net sales			¥415,397
			\$(3,146,947)
(C) (A)/(B) × 100	16.4%	12.3%	28.7%

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, totaled ¥100,141 million (\$807,589 thousand), or 24.9% of consolidated net sales, for the year ended March 31, 1997.

Report of Independent Certified Public Accountants

Showa Ota & Co.
CERTIFIED PUBLIC ACCOUNTANTS

HIBIYA KOKUSAI BUILDING
2-3, UCHISAIWAH-CHO 2-CHOME,
CHIYODA-KU TOKYO
100-0011, JAPAN,
PHONE: 03-3503-1100
TELEX: 02224127 SACTOK J

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

We have examined the consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 1998, 1997 and 1996 expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, expressed in Japanese yen, present fairly the financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 1998 and 1997 and the results of their operations and their cash flows for the years ended March 31, 1998, 1997 and 1996, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1998 are presented solely for convenience. Our examination also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 26, 1998

Showa Ota & Co.

Corporate Data

as of March 31, 1998

COMPANY NAME:	The Yokohama Rubber Company, Limited
ESTABLISHED:	October 13, 1917
PAID-IN CAPITAL:	¥38,909 million
HEAD OFFICE:	36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
PRODUCTION FACILITIES:	Hiratsuka Factory and Mie, Mishima, Shinshiro, Ibaraki and Onomichi plants

Stock Information

AUTHORIZED NUMBER OF SHARES:	480,000,000
ISSUED NUMBER OF SHARES:	342,598,162 (unchanged from fiscal 1997 year-end)
NUMBER OF SHAREHOLDERS:	17,496 (up 2,808 from fiscal 1997 year-end)
AVERAGE SHARES PER SHAREHOLDER:	19,582

Composition of Shareholders

Classification	Number of shareholders	Number of shares	Ratio
Individual & Other	16,786	45,909,191	13.40%
Central and Local Governments	1	1,000	0.00
Financial Institutions	107	168,582,682	49.21
Other Domestic Corporations	355	97,988,672	28.60
Overseas Shareholders	168	27,881,203	8.14
Securities Companies	79	2,235,414	0.65
Total	17,496	342,598,162	100.00

Investor Information

SETTLEMENT DATE:	March 31
GENERAL MEETING OF SHAREHOLDERS:	June
TRANSFER AGENT:	The Chuo Trust & Banking Co., Ltd. 7-1, Kyobashi 1-chome, Chuo-ku, Tokyo, Japan
DATE OF RECORD:	March 31

Board of Directors and Corporate Auditors

as of June 26, 1998

CHAIRMAN:	Kazuo Motoyama	
PRESIDENT:	Seiji Hagiwara	
EXECUTIVE DIRECTOR:	Yasuo Tominaga	Tire Group President and CEO, Yokohama Tire Corporation
MANAGING DIRECTORS:	Ryohei Tsunokuma	Tire Group Vice President, TPM Promotion and Original Equipment Tire Sales Div.
	Kenzo Nakanishi	Corporate Finance & Accounting Dept., Internal Audit Dept. and Corporate Purchasing Dept.
	Tadahiro Ikeda	Tire Production Technology Development Dept.
	Hiroshi Hirakawa	New Business Development Dept., Intellectual Property Dept., Environmental Conservation Dept., Hiratsuka Factory and R&D Group
	Toshihiko Hiyama	Tire Overseas Sales Div.
	Yoshiro Naitoh	Multiple Business Group and Sports Group
DIRECTORS:	Kazuhisa Akutagawa	Business Process Reengineering Dept., MIS Dept. and Tire Logistics Control Dept.
	Atsushi Furukoshi	MB Production Div.
	Hisao Suzuki	Tire Domestic Sales Div.
	Koji Ikawa	Tire Production Div.
	Masaaki Kushida	MB Planning Div.
	Yasuyuki Ohno	Secretariat, Corporate Planning Dept., Corporate Personnel Dept., Human Resources Development Dept. and Corporate General Affairs Dept.
	Keimei Kiyoura	Corporate Communications Dept. and Tire Planning Div.
	Kazuo Okamoto	Tire Technical Div. and TCT Development Dept.
	Noriaki Tateno	Corporate Purchasing Dept.
	Koji Amano	MB Products Development Div.
	Seiji Miyashita	Tire Domestic Sales Div.
	Takashi Yamashita	Tire Marketing Div.
CORPORATE AUDITORS:	Eika Yamagata	
	Susumu Fukuda	
	Yasuyuki Wakahara	
	Kengo Tomomatsu	

Network

Overseas Representative Offices

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C/O Mitsubishi Corporation Services Office,
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50 Raffles Place, #22-05, Singapore Land Tower,
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Tel: 226-1022 Fax: 221-9722 Tlx: 25763 YRC SIN

Seattle Office

6406 South 196th Street Kent, WA 98032-1169, U.S.A.
Tel: 253-395-9487 Fax: 253-395-9488

Overseas Subsidiaries and Affiliates

YOKOHAMA TIRE CORPORATION

Corporate Headquarters & Western Division

601 South Acacia Avenue, Fullerton, CA 92831, U.S.A.
Tel: (714)870-3800 Fax: (714)870-3899
Toll Free: (800)423-4544

Southern Division

2800 Vista Ridge Drive Suwanee, GA 30174, U.S.A.
Tel: (770)271-0900 Fax: (770)932-0560
Toll Free: (800)241-7051

Northern Division

6101 Cane Run Road, Louisville, KY 40258, U.S.A.
Tel: (502)933-5600 Fax: (502)937-8961
Toll Free: (800)368-8852

Plant

1500 Indiana Avenue, Salem, VA 24153, U.S.A.
Tel: (540)389-5426 Fax: (540)375-0213

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2445 Canoe Avenue, Coquitlam, B.C. V3K 6A9,
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Western Regional Office & Distribution Center

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Toll Free: 1-800-663-8464

Central Regional Office & Distribution Center

6310 B Vipond Drive Mississauga, Ontario L5T 1G2,
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Tel: (905)795-0800 Fax: (905)795-0105
Toll Free: 1-800-387-4924

Eastern Regional Office & Distribution Center

10555 Henri-Bourassa Blvd. West, Saint-Laurent,
Quebec H4S 1A1, CANADA
Tel: (514)332-9656 Fax: (514)332-8476
Toll Free: 1-800-361-9444

YOKOHAMA TIRE PHILIPPINES, INC.

1E5, Clark Special Economic Zone Clark Field,
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Plant

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Eastern Region

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Cédex, FRANCE
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