Financial Section

Financial Review

OPERATING RESULTS

Sales

Net sales increased 0.3%, to ¥401.7 billion. Positive factors included strong overseas sales of tires and firm demand for hoses, sealants, and golf products. Partially offsetting these gains were declines in sales of antiseismic rubber bearings for bridges and aircraft components, and currency fluctuations.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales rose 0.7%, to ¥269.0 billion. Although Yokohama Rubber reduced costs by improving the productivity and profitability of domestic sales companies, it was unable to fully compensate for rising raw materials costs, especially for natural rubber. Management estimates that higher raw materials prices raised the cost of sales by ¥5.7 billion.

Selling, general and administrative expenses grew 1.3%, to ¥111.6 billion, mainly because of higher freight costs and surging tire exports.

R&D expenses, which are part of the cost of sales and selling, general and administrative expenses expenses, jumped 10.4%, to ¥13.8 billion.

Operating Income

As a result of these factors, operating income declined 9.1%, to ¥21.1 billion. Within this total, operating income of the Tire Group dropped 11.5%, to ¥15.3 billion, and that of the MB Group fell 9.0%, to ¥5.8 billion. The operating margin slipped 0.6 percentage point, to 5.2%.

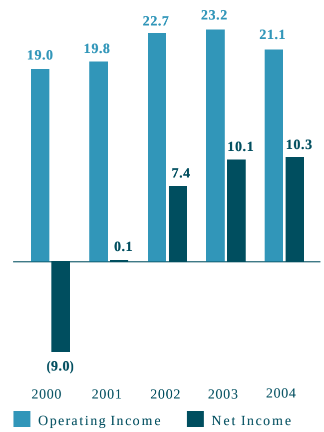
Other Income and Expenses

Yokohama Rubber incurred net other expenses of ¥4.1 billion. This was a ¥264 million improvement, stemming from a decline in interest expense and the absence of a loss on devaluation of bank stocks and other investment securities, which was substantial in the previous fiscal year.

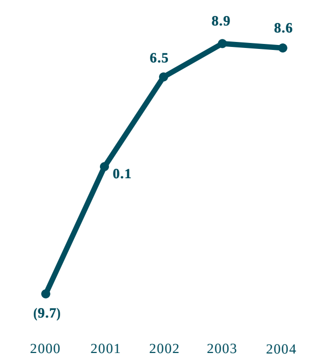
Net Income

After a fall in income taxes from deductions for trial research expenses and a decline in income before income taxes, net income increased 1.8%, to ¥10.3 billion.

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



Return on Shareholders' Equity
(Percentage)



SEGMENT INFORMATION

By Business Group

Sales of the Tire Group gained 0.6%, to ¥288.6 billion, reflecting to solid overseas sales, especially in Europe, Asia, and Oceania. Operating income, however, fell 11.5%, to ¥15.3 billion, because of rising raw materials costs.

The MB Group reported sales of ¥113.1 billion, down 0.3%, and ¥5.8 billion in operating income, a decline of 9.0%. Sluggish public-sector spending weakened the market for rubber bearings for bridges, while lower aircraft production dampened sales of aircraft components.

By Region

Sales in Japan grew 1.0%, to ¥319.2 billion, supported by higher tire exports. Domestic operating income slipped 1.8%, to ¥19.0 billion, owing to rising raw materials costs.

In North America, sales fell 5.0%, to ¥67.1 billion, because of a decline in dollar-denominated sales from the yen's appreciation. Operating income dropped 55.0%, to ¥1.1 billion, the result of increased raw materials costs.

Sales in other regions advanced 11.2%, to ¥15.5 billion. This was due largely to solid demand for tires in Europe and Oceania. Operating income declined 31.7%, to ¥799 million, however, owing to startup expenses at Hangzhou Yokohama Tire in China and rising materials costs.

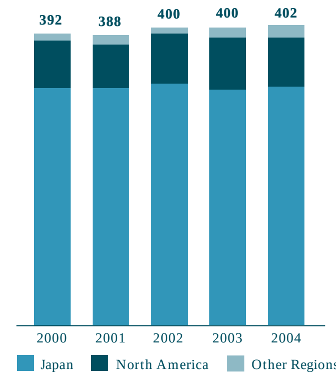
CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures were ¥23.7 billion, up 4.5%. The Tire Group spent a total of ¥19.6 billion, including ¥10.9 billion in parent allocations, mainly on production facilities for new radial tires for passenger cars and on plant upgrades for truck and bus tires. Expenditure included ¥1.9 billion at Hangzhou Yokohama Tire, primarily for a new plant to make radial tires for passenger cars.

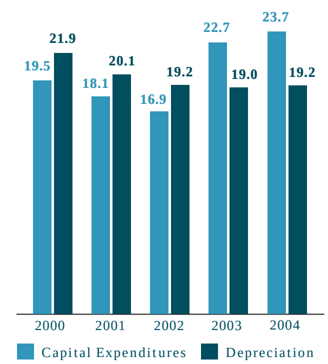
Capital expenditures by the MB Group totaled ¥3.8 billion, mainly to upgrade and streamline production facilities for sealants and aircraft components.

Depreciation was ¥19.2 billion, up 0.8%.

SALES BY REGION
(Billions of Yen)



CAPITAL EXPENDITURES AND DEPRECIATION
(Billions of Yen)



SOURCES OF FUNDS AND LIQUIDITY

Financial Position

As of March 31, 2004, total assets stood at ¥429.4 billion, up ¥16.7 billion from a year earlier, largely because of a rise in investment securities.

Interest-bearing debt declined ¥8.1 billion, to ¥159.7 billion.

Total shareholders' equity grew ¥15.6 billion, to ¥127.8 billion, owing to higher net income and the increase in investment securities, which boosted unrealized gains on securities. The equity ratio rose 2.6 percentage points, to 29.8%.

Cash Flows

Net cash provided by operating activities totaled ¥25.9 billion, down ¥529 million, or 2.0%. This was due mainly to the decline in income before income taxes.

Net cash used in investing activities rose ¥2.3 billion, or 11.9%, to ¥21.2 billion, mainly because of a ¥3.8 billion increase in purchases of property, plant and equipment, centered on facilities in China.

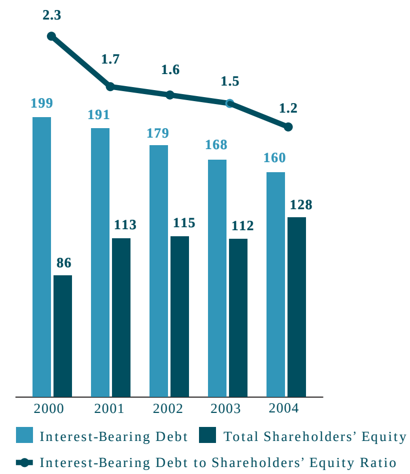
As a result, free cash flow totaled ¥4.7 billion. Management allocated this amount mainly to pay cash dividends and repay loans.

Consequently, cash and cash equivalents at year-end amounted to ¥16.5 billion, up ¥704 million, or ¥4.5%, from a year earlier.

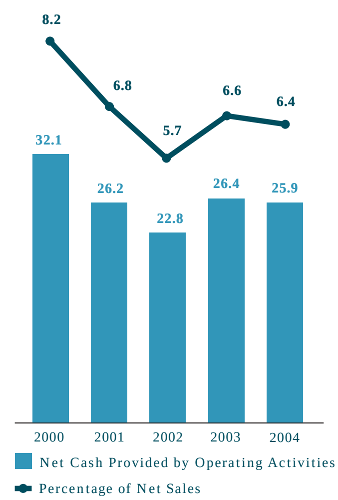
OUTLOOK

In fiscal 2005, the Yokohama Group expects the operating environment to remain difficult, owing mainly to continued increases in raw materials costs and concerns about the yen's appreciation. Taking these factors into account, we forecast net sales of ¥410 billion, up 2.1%, operating income of ¥20 billion, down 5.1%, and net income of ¥9 billion, down 12.9%.

INTEREST-BEARING DEBT, TOTAL SHAREHOLDERS' EQUITY, AND INTEREST-BEARING DEBT TO SHAREHOLDERS' EQUITY RATIO
(Billions of Yen, Times)



NET CASH PROVIDED BY OPERATING ACTIVITIES AND PERCENTAGE OF NET SALES
(Billions of Yen, Percentage)



PERFORMANCE RISKS

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

Economic Conditions

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

Exchange Rates

The Yokohama Group deals mainly in yen for general commercial transactions and investments, but also uses the dollar and other currencies. Consistent with the Company's basic policy of operating globally, the proportion of overseas business should grow in line with expansion in the sales network and production outside Japan.

As a result, the use of foreign currencies in commercial transactions and investments should increase, and exchange rate fluctuations may significantly affect performance and financial position. Exchange contracts and other instruments should minimize risks from such fluctuations, but it is impossible to completely avoid risks.

Seasonal Factors

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

Raw Materials Prices

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

Fund-Raising Ability and Costs

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

Interest-Bearing Debt

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

Securities Holdings

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

Investment-Related Factors

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

Retirement Benefit Obligations

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

Natural Disasters

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

Five-Year Summary

Fiscal Years Ended March 31

Millions of Yen

	2004	2003	2002	2001	2000
Net Sales	**¥401,718**	¥400,448	¥399,824	¥387,855	¥392,193
Operating Income	**21,073**	23,184	22,701	19,845	19,043
Income (Loss) before Income Taxes	**16,931**	18,778	16,076	7,052	(13,692)
Net Income (Loss)	**10,331**	10,144	7,363	96	(9,009)
Depreciation	**19,199**	19,040	19,247	20,083	21,922
Capital Expenditures	**23,735**	22,708	16,940	18,118	19,470
R&D Expenditures	**13,818**	12,520	12,298	11,827	11,626
Interest-Bearing Debt	**159,700**	167,832	179,098	191,289	198,931
Total Shareholders' Equity	**127,833**	112,243	114,502	112,651	85,951
Total Assets	**429,350**	412,626	437,771	448,130	416,702
Per Share (Yen):					
Net Income (Loss): Basic	**¥ 29.95**	¥ 29.38	¥ 21.32	¥ 0.28	¥ (26.30)
Shareholders' Equity	**373.23**	327.61	334.24	328.81	250.88
Cash Dividends	**8.00**	8.00	6.00	—	6.00
Key Financial Ratios:					
Operating Margin (%)	**5.2**	5.8	5.7	5.1	4.9
Return on Shareholders' Equity (%)	**8.6**	8.9	6.5	0.1	(9.7)
Interest-Bearing Debt to Shareholders' Equity Ratio (times)	**1.2**	1.5	1.6	1.7	2.3
Interest Coverage (times)	**9.2**	7.9	4.9	3.5	3.7
Number of Employees	**13,264**	12,979	13,130	13,362	13,764

CONSOLIDATED BALANCE SHEETS

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2004**	2003	**2004**
Current Assets:			
Cash and cash equivalents	**¥ 16,473**	¥ 15,769	**$ 155,870**
Time deposits	**43**	135	**401**
Trade receivables:			
Notes and accounts (Notes 4 and 6)	**102,577**	101,434	**970,548**
Inventories (Note 3)	**63,916**	62,511	**604,757**
Deferred income taxes (Note 13)	**7,385**	6,874	**69,877**
Other current assets	**7,024**	5,950	**66,452**
Allowance for doubtful receivables	**(3,289)**	(2,190)	**(31,126)**
Total current assets	**194,129**	190,483	**1,836,779**
Property, Plant and Equipment, at Cost (Notes 4 and 5)**:**			
Land	**32,913**	32,225	**311,413**
Buildings and structures	**113,742**	113,009	**1,076,183**
Machinery and equipment	**331,807**	322,313	**3,139,435**
Construction in progress	**6,248**	6,018	**59,122**
	484,710	473,565	**4,586,153**
Less accumulated depreciation	**(331,942)**	(322,589)	**(3,140,710)**
Total property, plant and equipment, net	**152,768**	150,976	**1,445,443**
Investments and Other Assets:			
Investment securities (Note 10)	**59,293**	43,671	**561,009**
Long-term loans receivable	**1,409**	1,655	**13,331**
Deferred income taxes (Note 13)	**2,838**	3,536	**26,852**
Other investments and other assets	**20,942**	24,280	**198,147**
Allowance for doubtful receivables	**(2,029)**	(1,975)	**(19,206)**
Total investments and other assets	**82,453**	71,167	**780,133**
Total assets	**¥ 429,350**	¥ 412,626	**$ 4,062,355**

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
Current Liabilities:			
Bank loans	**¥ 89,651**	¥ 94,235	**$ 848,244**
Current maturities of long-term debt (Note 4)	**5,593**	25,604	**52,923**
Commercial paper	**9,000**	14,000	**85,155**
Trade notes and accounts payable	**63,219**	60,213	**598,154**
Accrued income taxes	**4,123**	5,489	**39,007**
Accrued expenses	**21,241**	20,720	**200,978**
Other current liabilities	**14,810**	12,028	**140,125**
Total current liabilities	**207,637**	232,289	**1,964,586**
Long-Term Liabilities:			
Long-term debt (Note 4)	**55,456**	33,994	**524,709**
Deferred income taxes (Note 13)	**7,340**	1,846	**69,445**
Reserve for pension and severance payments (Note 12)	**20,843**	20,581	**197,212**
Other long-term liabilities	**7,452**	9,197	**70,506**
Total long-term liabilities	**91,091**	65,618	**861,872**
Minority Interests	**2,789**	2,476	**26,392**
Contingent liabilities (Note 6)			
Shareholders' Equity:			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 342,598,162 shares	**38,909**	38,909	**368,143**
Capital surplus	**31,893**	31,893	**301,760**
Retained earnings (Note 8)	**43,866**	36,562	**415,048**
Accumulated other comprehensive income			
Unrealized gains on securities	**22,815**	12,796	**215,865**
Foreign currency translation adjustments	**(9,561)**	(7,850)	**(90,463)**
	127,922	112,310	**1,210,353**
Treasury stock, at cost: 304,357 shares in 2004	**(89)**	(67)	**(848)**
Total shareholders' equity	**127,833**	112,243	**1,209,505**
Total liabilities, minority interests and shareholders' equity	**¥429,350**	¥412,626	**$4,062,355**

CONSOLIDATED STATEMENTS OF INCOME

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	**2004**
Net sales	**¥401,718**	¥400,448	¥399,824	**$3,800,915**
Cost of sales	**269,030**	267,070	267,734	**2,545,465**
Gross profit	**132,688**	133,378	132,090	**1,255,450**
Selling, general and administrative expenses	**111,615**	110,194	109,389	**1,056,056**
Operating income	**21,073**	23,184	22,701	**199,394**
Other income (expenses)				
Interest and dividends income	**852**	756	797	**8,063**
Interest expense	**(2,384)**	(3,044)	(4,831)	**(22,564)**
Other—net	**(2,610)**	(2,118)	(2,591)	**(24,695)**
	(4,142)	(4,406)	(6,625)	**(39,196)**
Income before income taxes	**16,931**	18,778	16,076	**160,198**
Income taxes (Note 2):				
Current	**7,481**	9,141	8,266	**70,786**
Deferred	**(1,095)**	(766)	355	**(10,364)**
	6,386	8,375	8,621	**60,422**
Minority interests in net income of consolidated subsidiaries	**(214)**	(259)	(92)	**(2,019)**
Net income	**¥ 10,331**	¥ 10,144	¥ 7,363	**$ 97,757**

Per Share Amounts:	Yen			U.S. Dollars (Note 1)
Net income: Basic	**¥ 29.95**	¥ 29.38	¥ 21.32	**$ 0.28**
Net income: Diluted	**—**	—	—	**—**
Cash dividends	**¥ 8.00**	¥ 8.00	¥ 6.00	**$ 0.08**

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, 2004, 2003, 2002 and 2001

		Millions of Yen					
	Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2001	342,598,162	¥38,909	¥31,893	¥23,010	¥18,839	¥ (0)	¥112,651
Increase in retained earnings due to addition of consolidated subsidiaries	—	—	—	181	—	—	181
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(571)	—	—	(571)
Net income	—	—	—	7,363	—	—	7,363
Purchase of treasury stock	—	—	—	—	—	(7)	(7)
Other comprehensive income							
Unrealized losses on securities	—	—	—	—	(6,361)	—	(6,361)
Foreign currency translation adjustments	—	—	—	—	1,246	—	1,246
Balance at March 31, 2002	342,598,162	38,909	31,893	29,983	13,724	(7)	114,502
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(152)	—	—	(152)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(1,298)	—	—	(1,298)
Net income	—	—	—	10,144	—	—	10,144
Cash dividends paid	—	—	—	(2,055)	—	—	(2,055)
Bonuses to directors and statutory auditors	—	—	—	(60)	—	—	(60)
Purchase of treasury stock	—	—	—	—	—	(60)	(60)
Other comprehensive income							
Unrealized losses on securities	—	—	—	—	(7,237)	—	(7,237)
Foreign currency translation adjustments	—	—	—	—	(1,541)	—	(1,541)
Balance at March 31, 2003	342,598,162	38,909	31,893	36,562	4,946	(67)	112,243
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(45)	—	—	(45)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(168)	—	—	(168)
Net income	—	—	—	10,331	—	—	10,331
Cash dividends paid	—	—	—	(2,738)	—	—	(2,738)
Bonuses to directors and statutory auditors	—	—	—	(76)	—	—	(76)
Purchase of treasury stock	—	—	—	—	—	(22)	(22)
Other comprehensive income							
Unrealized gains on securities	—	—	—	—	10,019	—	10,019
Foreign currency translation adjustments	—	—	—	—	(1,711)	—	(1,711)
Balance at March 31, 2004	342,598,162	¥38,909	¥31,893	¥43,866	¥13,254	¥(89)	¥127,833

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2003	$368,143	$301,760	$345,936	$ 46,797	$(634)	$1,062,002
Decrease in retained earnings due to change in scope of consolidation	—	—	(422)	—	—	(422)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	(1,590)	—	—	(1,590)
Net income	—	—	97,757	—	—	97,757
Cash dividends paid	—	—	(25,914)	—	—	(25,914)
Bonuses to directors and statutory auditors	—	—	(719)	—	—	(719)
Purchase of treasury stock	—	—	—	—	(214)	(214)
Other comprehensive income						
Unrealized gains on securities	—	—	—	94,797	—	94,797
Foreign currency translation adjustments	—	—	—	(16,192)	—	(16,192)
Balance at March 31, 2004	$368,143	$301,760	$415,048	$125,402	$(848)	$1,209,505

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, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2004	2003	2002	**2004**
Operating Activities:				
Income before income taxes	**¥ 16,931**	¥ 18,778	¥ 16,076	**$ 160,198**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation (Note 5)	**19,199**	19,040	19,247	**181,657**
Reserve for pension and severance payments	**(236)**	(1,188)	(943)	**(2,236)**
Other, net	**2,673**	3,316	4,492	**25,296**
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	**(2,286)**	3,847	1,547	**(21,634)**
Inventories	**(2,815)**	(3,095)	(306)	**(26,637)**
Notes and accounts payable	**2,757**	(5,256)	(90)	**26,094**
Other, net	**89**	1,722	(2,957)	**851**
Interest and dividends received	**786**	726	693	**7,442**
Interest paid	**(2,362)**	(3,065)	(4,834)	**(22,357)**
Income taxes paid	**(8,844)**	(8,403)	(10,100)	**(83,687)**
Net cash provided by operating activities	**25,892**	26,421	22,825	**244,987**
Investing Activities:				
Purchases of property, plant and equipment	**(23,496)**	(19,732)	(14,884)	**(222,320)**
Purchases of marketable securities and investment securities	**(1,211)**	(3,619)	(1,779)	**(11,465)**
Proceeds from sales of marketable securities, investment securities and properties	**4,345**	5,209	3,109	**41,114**
Other, net	**(872)**	(830)	1,085	**(8,241)**
Net cash used in investing activities	**(21,234)**	(18,972)	(12,469)	**(200,912)**
Financing Activities:				
Decrease in short-term bank loans and current maturities of long-term debt	**(3,122)**	(18,502)	(14,269)	**(29,545)**
Decrease (increase) in commercial paper	**(5,000)**	12,000	2,000	**(47,308)**
Proceeds from long-term debt	**8,512**	16,473	13,447	**80,544**
Decrease in long-term debt	**(6,388)**	(18,104)	(18,583)	**(60,445)**
Payment of cash dividends	**(2,733)**	(2,054)	(6)	**(25,865)**
Other, net	**3,982**	(60)	—	**37,683**
Net cash used in financing activities	**(4,749)**	(10,247)	(17,411)	**(44,936)**
Effect of exchange rate change on cash and cash equivalents	**(202)**	(153)	(110)	**(1,913)**
Decrease in cash and cash equivalents	**(293)**	(2,951)	(7,165)	**(2,774)**
Cash and cash equivalents at beginning of year	**15,769**	18,332	25,046	**149,208**
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	**997**	388	451	**9,436**
Cash and cash equivalents at end of year	**¥ 16,473**	¥ 15,769	¥ 18,332	**$ 155,870**

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company") and domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The Company's subsidiaries in the United States of America (the "USA") prepare their financial statements in accordance with accounting principles generally accepted in the USA.

In preparing these statements, certain reclassifications and rearrangements have been made to the consolidated financial statements prepared domestically in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles 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 ¥105.69=U.S.$1.00, the approximate exchange rate prevailing on March 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

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

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

(2) Foreign Currency Translation

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

The assets and liabilities of the consolidated subsidiaries outside Japan are translated at the fiscal year-end rates of those companies, and the income and expense accounts of those companies are translated at the average rates of those companies.

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

(3) Cash Equivalents

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

(4) Marketable Securities and Investment Securities

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

Securities, whose fair value is not readily determinable, are carried at cost. Costs are determined by the moving average method.

(5) Derivative Instruments

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

(6) Inventories

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

(7) Allowance for Doubtful Receivables

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

(8) Depreciation

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

(9) Reserve for Severance Payments and Employee Benefit Plans

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

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

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

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

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

(10) Income Taxes

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

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

(11) Revenue Recognition

Sales of products are recognized upon shipments to customers.

(12) Research and Development Costs

Research and development costs are charged to income as incurred.

(13) Earnings per Share

Basic net income per share is computed by dividing net income available to common shareholders by the average number of common shares outstanding during each period.

Diluted net income per share is not disclosed because there were no dilutive securities for the years ended March 31, 2004, 2003 and 2002.

(14) Leases

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

(15) New Accounting Standards

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

3. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Finished products	**¥42,500**	¥44,538	**$402,117**
Work-in-process	**11,882**	9,348	**112,426**
Raw materials and supplies	**9,534**	8,625	**90,214**
	¥63,916	¥62,511	**$604,757**

4. LONG-TERM DEBT

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
2.65% straight bonds due 2004	**¥ —**	¥10,000	**$ —**
2.2% straight bonds due 2003	**—**	10,000	**—**
1.3425% straight bonds due 2007	**10,000**	10,000	**94,616**
0.62% straight bonds due 2008	**10,000**	—	**94,616**
0.84% straight bonds due 2010	**10,000**	—	**94,616**
Loans, principally from banks and insurance companies	**31,049**	29,598	**293,784**
	61,049	59,598	**577,632**
Less current maturities	**5,593**	25,604	**52,923**
	¥55,456	¥33,994	**$524,709**

Assets pledged to secure bank loans and long-term debt at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Notes receivable	**¥ 693**	¥ 500	**$ 6,566**
Property, plant and equipment	**76,888**	78,024	**727,485**
	¥77,581	¥78,524	**$734,051**

5. DEPRECIATION

Depreciation charges were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Selling, general and administrative expenses	**¥ 2,856**	¥ 2,913	¥ 2,951	**$ 27,030**
Manufacturing costs	**¥16,343**	¥16,127	¥16,296	**$154,627**

6. Contingent Liabilities

Contingent liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Notes discounted and endorsed	**¥841**	¥1,276	**$7,958**
Guarantees	**¥395**	¥1,717	**$3,743**

7. Research and Development Expenses

Research and development expenses charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2004 and 2003 were ¥13,818 million ($130,749 thousand) and ¥12,520 million, respectively.

8. Retained Earnings and Dividends

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

9. Leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Acquisition costs	**¥6,963**	¥7,329	**$65,886**
Accumulated depreciation	**3,209**	3,045	**30,367**
Net book value	**¥3,754**	¥4,284	**$35,519**

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Within one year	**¥1,088**	¥1,183	**$10,298**
After one year	**2,666**	3,101	**25,221**
	¥3,754	¥4,284	**$35,519**

Lease expenses under finance leases, which are accounted for as operating leases, for the years ended March 31, 2004 and 2003 aggregated approximately ¥1,331 million ($12,594 thousand) and ¥1,258 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Within one year	**¥1,611**	¥1,719	**$15,245**
After one year	**4,117**	5,821	**38,959**
	¥5,728	¥7,540	**$54,204**

10. Securities

Cost, carrying amounts and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2004				2003				2004			
	Cost	Carrying amount	Unrealized gains	Unrealized losses	Cost	Carrying amount	Unrealized gains	Unrealized losses	Cost	Carrying amount	Unrealized gains	Unrealized losses
Securities classified as:												
Available-for-sale:												
Stocks	**¥15,381**	**¥53,650**	**¥38,433**	**¥(164)**	¥15,529	¥36,964	¥21,933	¥(498)	**$145,534**	**$507,618**	**$363,640**	**$(1,556)**

Sales of securities classified as available-for-sale securities amounted to ¥3,365 million ($31,838 thousand), with an aggregate gain of ¥1,394 million ($13,190 thousand) and an aggregate loss of ¥39 million ($369 thousand) for the year ended March 31, 2004. The corresponding amounts for the year ended March 31, 2003 were ¥1,311 million, ¥810 million and ¥3 million.

Investment securities in the consolidated balance sheets at March 31, 2004 included securities lent to others of ¥5,754 million ($54,442 thousand) and deposits received as collateral of ¥4,004 million ($37,884 thousand), which are included in other current liabilities.

11. Derivative Instruments

Fair value information of derivative instruments at March 31, 2004 and 2003 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized gains (losses)
Forward exchange contracts:									
EURO	**¥3,924**	**¥3,775**	**¥149**	¥2,438	¥2,550	¥(112)	**$37,136**	**$35,718**	**$1,418**
U.S. dollar	**2,542**	**2,443**	**99**	1,218	1,234	(16)	**24,052**	**23,120**	**932**
Others	**1,197**	**1,203**	**(6)**	1,168	1,205	(37)	**11,320**	**11,384**	**(64)**
	¥7,663	**¥7,421**	**¥242**	¥4,824	¥4,989	¥(165)	**$72,508**	**$70,222**	**$2,286**

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses
Interest rate swap agreements	**¥15**	**¥(0)**	**¥(0)**	¥43	¥(0)	¥(0)	**$142**	**$(1)**	**$(1)**
	¥—	**¥(0)**	**¥(0)**	¥—	¥(0)	¥(0)	**$ —**	**$(1)**	**$(1)**

12. Pension and Severance Plans

1. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligations	**¥(47,491)**	¥(49,243)	**$(449,346)**
Fair value of plan assets	**23,958**	17,331	**226,677**
Funded status	**(23,533)**	(31,912)	**(222,669)**
Unrecognized transition obligation	**509**	1,023	**4,822**
Unrecognized actuarial losses	**2,181**	10,308	**20,635**
Net amount recognized	**¥(20,843)**	¥(20,581)	**$(197,212)**

2. The components of net pension and severance costs for the year ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥2,482**	¥2,548	**$23,484**
Interest cost	**1,075**	1,122	**10,179**
Expected return on plan assets	**(32)**	(84)	**(307)**
Amortization of transition obligation	**514**	514	**4,865**
Recognized actuarial losses	**1,140**	836	**10,788**
Net periodic benefit cost	**¥5,179**	¥4,936	**$49,009**

3. Assumptions used as of March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate	**2.5%**	2.5%
Expected return rate on plan assets	**0.75%**	1.5%

13. Deferred Income Taxes

1. Significant components of the deferred income tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Liabilities for pension and severance payments	**¥ 14,440**	¥ 13,825	**$ 136,627**
Net operating loss carryforwards	**8,548**	9,929	**80,878**
Unrealized profits	**3,972**	4,345	**37,587**
Accrued expenses	**2,177**	1,734	**20,599**
Other	**3,701**	3,407	**35,016**
Gross deferred tax assets	**32,838**	33,240	**310,707**
Less valuation allowance	**(8,476)**	(9,824)	**(80,201)**
Total deferred tax assets	**24,362**	23,416	**230,506**
Deferred tax liabilities:			
Unrealized gains on securities	**(15,402)**	(8,603)	**(145,728)**
Liabilities for pension and severance payments	**(3,454)**	(3,446)	**(32,686)**
Property, plant and equipment	**(2,324)**	(2,380)	**(21,994)**
Other	**(361)**	(459)	**(3,406)**
Total deferred tax liabilities	**(21,541)**	(14,888)	**(203,814)**
Net deferred tax assets	**¥ 2,821**	¥ 8,528	**$ 26,692**

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

	Years ended March 31	
	2004	2003
Statutory income tax rate in Japan	**41.6%**	41.6%
Valuation allowance recognized on current losses of subsidiaries	**1.1**	(1.0)
Permanently nondeductible expenses	**3.1**	2.8
Permanently nontaxable income	**(1.0)**	(0.7)
Tax credits	**(4.7)**	—
Other	**(2.4)**	1.9
Effective income tax rate	**37.7%**	44.6%

14. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2004, 2003 and 2002 are outlined as follows:

Business Segments

	Millions of Yen				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2004				
Sales to third parties	**¥288,629**	**¥113,089**	**¥401,718**	**¥ —**	**¥401,718**
Intergroup sales and transfers	**75**	**15,224**	**15,299**	**(15,299)**	**—**
Total sales	**288,704**	**128,313**	**417,017**	**(15,299)**	**401,718**
Operating expenses	**273,424**	**122,554**	**395,978**	**(15,333)**	**380,645**
Operating income	**¥ 15,280**	**¥ 5,759**	**¥ 21,039**	**¥ 34**	**¥ 21,073**
Total assets at end of year	**¥289,696**	**¥147,742**	**¥437,438**	**¥ (8,088)**	**¥429,350**
Depreciation	**¥ 15,040**	**¥ 3,839**	**¥ 18,879**	**¥ 320**	**¥ 19,199**
Capital expenditures	**¥ 19,607**	**¥ 3,776**	**¥ 23,383**	**¥ 352**	**¥ 23,735**
	Year ended March 31, 2003				
Sales to third parties	¥286,987	¥113,461	¥400,448	¥ —	¥400,448
Intergroup sales and transfers	98	14,354	14,452	(14,452)	—
Total sales	287,085	127,815	414,900	(14,452)	400,448
Operating expenses	269,821	121,486	391,307	(14,043)	377,264
Operating income	¥ 17,264	¥ 6,329	¥ 23,593	¥ (409)	¥ 23,184
Total assets at end of year	¥277,539	¥146,411	¥423,950	¥(11,324)	¥412,626
Depreciation	¥ 15,183	¥ 3,824	¥ 19,007	¥ 33	¥ 19,040
Capital expenditures	¥ 17,289	¥ 5,156	¥ 22,445	¥ 263	¥ 22,708
	Year ended March 31, 2002				
Sales to third parties	¥284,253	¥115,571	¥399,824	¥ —	¥399,824
Intergroup sales and transfers	91	14,431	14,522	(14,522)	—
Total sales	284,344	130,002	414,346	(14,522)	399,824
Operating expenses	268,768	122,697	391,465	(14,342)	377,123
Operating income	¥ 15,576	¥ 7,305	¥ 22,881	¥ (180)	¥ 22,701
Total assets at end of year	¥304,077	¥142,213	¥446,290	¥ (8,519)	¥437,771
Depreciation	¥ 15,306	¥ 3,822	¥ 19,128	¥ 119	¥ 19,247
Capital expenditures	¥ 12,652	¥ 4,073	¥ 16,725	¥ 215	¥ 16,940

	Thousands of U.S. Dollars				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2004				
Sales to third parties	**$ 2,730,902**	**$ 1,070,013**	**$ 3,800,915**	**$ —**	**$ 3,800,915**
Intergroup sales and transfers	**719**	**144,049**	**144,768**	**(144,768)**	**—**
Total sales	**2,731,621**	**1,214,062**	**3,945,683**	**(144,768)**	**3,800,915**
Operating expenses	**2,587,044**	**1,159,567**	**3,746,611**	**(145,090)**	**3,601,521**
Operating income	**$ 144,577**	**$ 54,495**	**$ 199,072**	**$ 322**	**$ 199,394**
Total assets at end of year	**$ 2,741,005**	**$ 1,397,883**	**$ 4,138,888**	**$ (76,533)**	**$ 4,062,355**
Depreciation	**$ 142,301**	**$ 36,330**	**$ 178,631**	**$ 3,026**	**$ 181,657**
Capital expenditures	**$ 185,510**	**$ 35,729**	**$ 221,239**	**$ 3,334**	**$ 224,573**

Geographical Areas

	Millions of Yen					
	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
			Year ended March 31, 2004			
Sales to third parties	**¥319,152**	**¥67,078**	**¥15,488**	**¥401,718**	**¥ —**	**¥401,718**
Interarea sales and transfers	**28,182**	**1,986**	**3,535**	**33,703**	**(33,703)**	**—**
Total sales	**347,334**	**69,064**	**19,023**	**435,421**	**(33,703)**	**401,718**
Operating expenses	**328,368**	**67,932**	**18,224**	**414,524**	**(33,879)**	**380,645**
Operating income	**¥ 18,966**	**¥ 1,132**	**¥ 799**	**¥ 20,897**	**¥ 176**	**¥ 21,073**
Total assets at end of year	**¥380,392**	**¥50,472**	**¥19,434**	**¥450,298**	**¥(20,948)**	**¥429,350**
			Year ended March 31, 2003			
Sales to third parties	¥315,893	¥70,621	¥13,934	¥400,448	¥ —	¥400,448
Interarea sales and transfers	22,524	2,636	3,335	28,495	(28,495)	—
Total sales	338,417	73,257	17,269	428,943	(28,495)	400,448
Operating expenses	319,110	70,742	16,099	405,951	(28,687)	377,264
Operating income	¥ 19,307	¥ 2,515	¥ 1,170	¥ 22,992	¥ 192	¥ 23,184
Total assets at end of year	¥363,052	¥55,191	¥14,753	¥432,996	¥(20,370)	¥412,626
			Year ended March 31, 2002			
Sales to third parties	¥322,940	¥67,534	¥ 9,350	¥399,824	¥ —	¥399,824
Interarea sales and transfers	20,909	1,876	3,041	25,826	(25,826)	—
Total sales	343,849	69,410	12,391	425,650	(25,826)	399,824
Operating expenses	321,743	68,866	11,592	402,201	(25,078)	377,123
Operating income	¥ 22,106	¥ 544	¥ 799	¥ 23,449	¥ (748)	¥ 22,701
Total assets at end of year	¥363,764	¥63,377	¥14,167	¥441,308	¥ (3,537)	¥437,771

	Thousands of U.S. Dollars					
	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
			Year ended March 31, 2004			
Sales to third parties	**$3,019,700**	**$634,673**	**$146,542**	**$3,800,915**	**$ —**	**$3,800,915**
Interarea sales and transfers	**266,654**	**18,795**	**33,441**	**318,890**	**(318,890)**	**—**
Total sales	**3,286,354**	**653,468**	**179,983**	**4,119,805**	**(318,890)**	**3,800,915**
Operating expenses	**3,106,898**	**642,756**	**172,421**	**3,922,075**	**(320,554)**	**3,601,521**
Operating income	**$ 179,456**	**$ 10,712**	**$ 7,562**	**$ 197,730**	**$ 1,664**	**$ 199,394**
Total assets at end of year	**$3,599,131**	**$477,556**	**$183,871**	**$4,260,558**	**$(198,203)**	**$4,062,355**

Overseas Sales

	Millions of Yen		
	North America	Other	Total
	Year ended March 31, 2004		
(A) Overseas sales	**¥69,259**	**¥53,825**	**¥123,084**
(B) Consolidated net sales			**¥401,718**
(C) (A)/(B) × 100	**17.2%**	**13.4%**	**30.6%**
	Year ended March 31, 2003		
(A) Overseas sales	¥72,984	¥45,878	¥118,863
(B) Consolidated net sales			¥400,448
(C) (A)/(B) × 100	18.2%	11.5%	29.7%
	Year ended March 31, 2002		
(A) Overseas sales	¥70,148	¥39,459	¥109,607
(B) Consolidated net sales			¥399,824
(C) (A)/(B) × 100	17.5%	9.9%	27.4%

	Thousands of U.S. Dollars		
	North America	Other	Total
	Year ended March 31, 2004		
(A) Overseas sales	**$655,307**	**$509,273**	**$1,164,580**
(B) Consolidated net sales			**$3,800,915**
(C) (A)/(B) × 100	**17.2%**	**13.4%**	**30.6%**

INDEPENDENT AUDITORS' REPORT

Shin Nihon & Co.

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

We have audited the consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly, in all material respects, the financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shin Nihon & Co.

June 29, 2004