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Financial Review

OPERATING RESULTS

Sales

In fiscal 2003, ended March 31, 2003, consolidated net sales of the Yokohama Group increased 0.2%, to ¥400.4 billion, as an increase in Tire Group sales offset a decrease for the MB Group.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales dipped 0.2%, to ¥267.1 billion, as cost-cutting absorbed a rise in raw materials prices. On the other hand, higher commissions and sales promotion expenses raised selling, general and administrative expenses 0.7%, to ¥110.2 billion.

Operating Income

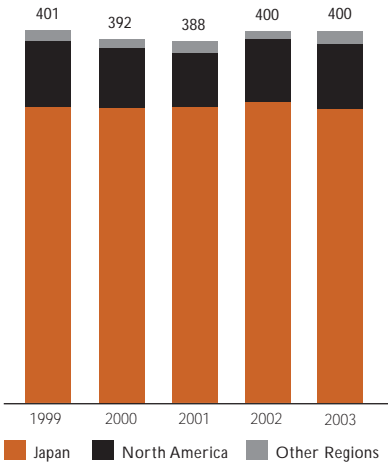
Progress in improving the profitability of U.S. tire operations boosted operating income 2.1%, to ¥23.2 billion. The operating margin expanded 0.1 percentage point, to 5.8%.

Net Income

Higher operating income and a reduced interest expense from lower interest rates caused net income to soar 37.8%, to ¥10.1 billion. The return on shareholders' equity stood at 8.9%, up 2.4 percentage points from a year earlier.

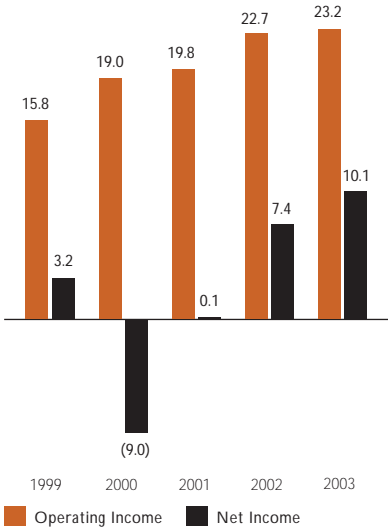
Sales by Region

(Billions of Yen)



Net Income (Loss) and Operating Income

(Billions of Yen)



SEGMENT INFORMATION

Business Groups

Sales of the Tire Group increased 1.0%, to ¥287.0 billion, while operating income grew 10.8%, to ¥17.3 billion. Exports of tires expanded, especially to Asia and Europe, and initiatives to improve profitability proceeded at such overseas subsidiaries as YTC and Yokohama Tire Philippines.

MB Group sales decreased 1.8%, to ¥113.5 billion, with operating income falling 13.4%, to ¥6.3 billion. The primary causes of this decline were reduced public- and private-sector investment, which constrained demand for conveyor belts and antiseismic rubber bearings for bridges. The lasting effects of 9/11 cut aircraft production and thus dampened demand for aircraft components.

Regions

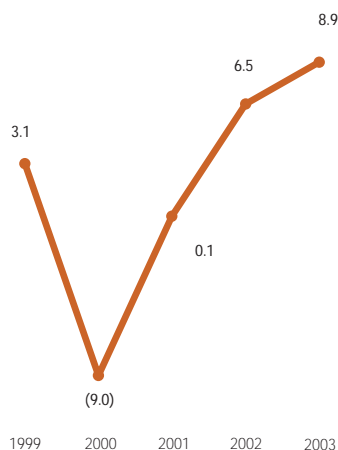
Sales in Japan decreased 2.2%, to ¥315.9 billion, reflecting lower sales in the MB Group. Operating profit dropped 12.7%, to ¥19.3 billion. In North America, profitability improved at YTC. Sales rose 4.6%, to ¥70.6 billion, and operating income rocketed 362.3%, to ¥2.5 million. Sales in other regions advanced 49.0%, to ¥13.9 billion, owing to favorable demand in Asia and Europe. Operating income expanded 46.4%, to ¥1.2 billion.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures grew ¥5.8 billion, to ¥22.7 billion, and depreciation decreased ¥207 million, to ¥19.0 billion. Capital expenditures included ¥17.3 billion to expand production of Inch-Up tires and a compound mixing line in the Tire Group. The MB Group spent ¥5.2 billion to reinforce production of hoses, sealants, and aircraft components. Yokohama forecasts capital expenditures of ¥25.2 billion and depreciation of ¥19.6 billion in fiscal 2004.

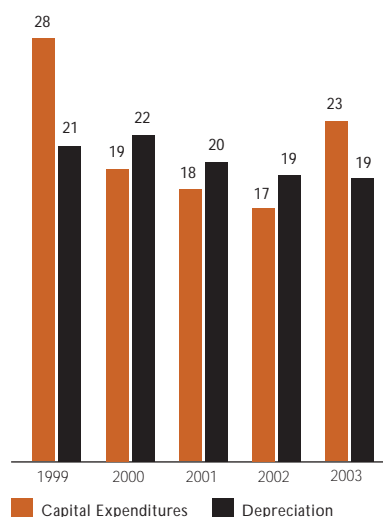
Return on Shareholders' Equity

(Percentage)



Capital Expenditures and Depreciation

(Billions of Yen)



FINANCIAL POSITION AND CASH FLOWS

Assets

Total assets of the Yokohama Group amounted to ¥412.6 billion at March 31, 2003, a drop of ¥25.1 billion from a year earlier. This owed mainly to a reduction in trade receivables—the main component in a ¥6.1 billion drop in current assets—to ¥190.5 billion. In addition, total investments and other assets fell ¥17.8 billion, to ¥71.2 billion, reflecting such factors as a decline in the market valuation of investment securities.

Liabilities, Minority Interests and Shareholders' Equity

Total current and long-term liabilities at fiscal year-end fell ¥23.7 billion, to ¥297.9 billion, primarily because of a ¥11.3 billion reduction in interest-bearing debt. Total shareholders' equity decreased ¥2.3 billion, to ¥112.2 billion, as unrealized gains on securities declined despite a jump in retained earnings in line with the rise in net income.

Cash Flows

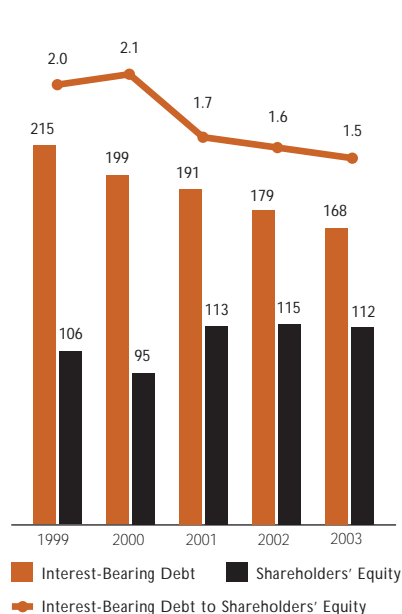
Net cash provided by operating activities increased 15.8%, to ¥26.4 billion, owing to drops in interest and income tax payments and a rise in income before income taxes. Net cash used in investing activities expanded 52.2%, to ¥19.0 billion, centered on ¥19.7 billion for purchases of property, plant and equipment. Net cash used in financing activities decreased 41.1%, to ¥10.2 billion, mainly because the Company focused on repaying bank loans. As a result, cash and cash equivalents at year-end amounted to ¥15.8 billion, down 14.0%.

FORECAST FOR FISCAL 2004

For fiscal 2004, ending March 31, 2004, the Yokohama Group estimates that net sales will expand 2.4%, to ¥410.0 billion, operating income will advance 3.5%, to ¥24.0 billion, and that net income will decline 1.4%, to ¥10.0 billion.

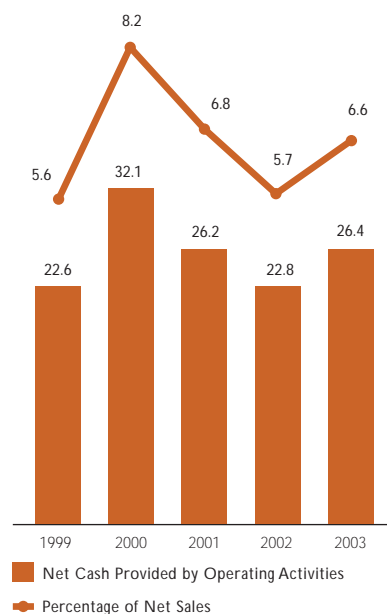
Interest-Bearing Debt, Shareholders' Equity, and Interest-Bearing Debt to Shareholders' Equity

(Billions of Yen, Times)



Net Cash Provided by Operating Activities and Percentage of Net Sales

(Billions of Yen, Percentage)



Five-Year Summary

FISCAL YEARS ENDED MARCH 31

	Millions of Yen				
	2003	2002	2001	2000	1999
Net Sales	¥400,448	¥399,824	¥387,855	¥392,193	¥401,183
Operating Income	23,184	22,701	19,845	19,043	15,809
Income (Loss) before Income Taxes	18,778	16,076	7,052	(13,692)	7,731
Net Income (Loss)	10,144	7,363	96	(9,009)	3,233
Depreciation	19,040	19,247	20,083	21,922	21,141
Capital Expenditures	22,708	16,940	18,118	19,470	28,216
R&D Expenditures	12,520	12,298	11,827	11,626	13,300
Interest-Bearing Debt	167,832	179,098	191,289	198,931	215,245
Shareholders' Equity	112,243	114,502	112,651	94,743	105,984
Total Assets	412,626	437,771	448,130	425,927	432,457
Per Share (Yen):					
Net Income (Loss): Basic	¥ 29.38	¥ 21.49	¥ 0.28	¥ (26.30)	¥ 9.44
Shareholders' Equity	327.61	334.24	328.81	276.54	309.36
Cash Dividends	8.00	6.00	—	6.00	6.00
Key Financial Ratios:					
Operating Margin (%)	5.8	5.7	5.1	4.9	3.9
Return on Shareholders' Equity (%)	8.9	6.5	0.1	(9.0)	3.1
Interest-Bearing Debt to Shareholders' Equity ratio (times)	1.5	1.6	1.7	2.1	2.0
Interest Coverage (times)	7.9	4.9	3.5	3.7	2.7
Share Price (Yen):					
High	¥ 350	¥ 352	¥ 312	¥ 368	¥ 351
Low	235	228	200	197	255
Fiscal Year-End	304	296	235	287	314
Common Stock Issued	342,598,162	342,598,162	342,598,162	342,598,162	342,598,162
Number of Employees	12,979	13,130	13,362	13,764	12,107

Notes:

1. Since fiscal 2000, R&D expenditures have been based on new accounting standards.
2. The rise in the number of employees in fiscal 2000 reflected the additional consolidation of 174 companies under new accounting standards.

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Current Assets:			
Cash and cash equivalents (Note 9)	¥ 15,769	¥ 18,332	\$ 131,196
Time deposits	135	291	1,119
Trade receivables:			
Notes and accounts (Notes 4 and 6)	101,434	106,761	843,879
Allowance for doubtful receivables	(2,190)	(2,784)	(18,228)
Inventories (Note 3)	62,511	60,697	520,059
Deferred income taxes (Note 14)	6,874	6,473	57,189
Other current assets	5,950	6,790	49,508
Total current assets	190,483	196,560	1,584,722
Property, Plant and Equipment, at Cost (Notes 4 and 5):			
Land	32,225	30,972	268,095
Buildings and structures	113,009	112,716	940,178
Machinery and equipment	322,313	320,486	2,681,470
Construction in progress	6,018	5,855	50,069
	473,565	470,029	3,939,812
Less accumulated depreciation	(322,589)	(317,809)	(2,683,768)
Total property, plant and equipment, net	150,976	152,220	1,256,044
Investments and Other Assets:			
Investment securities (Notes 4 and 11)	43,671	60,945	363,322
Long-term loans receivable	1,655	2,013	13,768
Deferred income taxes (Note 14)	3,536	2,458	29,422
Other investments and other assets	24,280	25,261	201,995
Allowance for doubtful receivables	(1,975)	(1,686)	(16,439)
Total investments and other assets	71,167	88,991	592,068
Total assets	¥412,626	¥437,771	\$3,432,834

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Current Liabilities:			
Bank loans	¥ 94,235	¥114,936	\$ 783,982
Current maturities of long-term debt (Note 4)	25,604	15,852	213,014
Commercial paper	14,000	2,000	116,472
Trade notes and accounts payable	60,213	65,587	500,939
Accrued income taxes	5,489	4,749	45,670
Accrued expenses	20,720	20,397	172,383
Other current liabilities	12,028	10,707	100,066
Total current liabilities	232,289	234,228	1,932,526
Long-Term Liabilities:			
Long-term debt (Note 4)	33,994	46,310	282,809
Deferred income taxes (Note 14)	1,846	6,646	15,362
Reserve for pension and severance payments (Note 13)	20,581	26,339	171,220
Other long-term liabilities	9,197	8,112	76,513
Total long-term liabilities	65,618	87,407	545,904
Minority Interests	2,476	1,634	20,596
Contingent liabilities (Note 6)			
Shareholders' Equity:			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 342,598,162 shares	38,909	38,909	323,703
Capital surplus	31,893	31,893	265,331
Retained earnings (Note 8)	36,562	29,983	304,182
Accumulated other comprehensive income			
Unrealized gains on securities	12,796	20,033	106,461
Foreign currency translation adjustments	(7,850)	(6,309)	(65,305)
	112,310	114,509	934,372
Treasury stock, at cost: 235,304 shares in 2002	(67)	(7)	(564)
Total shareholders' equity	112,243	114,502	933,808
Total liabilities, minority interests and shareholders' equity	¥412,626	¥437,771	\$3,432,834

Consolidated Statements of Income

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Net sales	¥400,448	¥399,824	¥387,855	\$3,331,520
Cost of sales	267,070	267,734	260,466	2,221,880
Gross profit	133,378	132,090	127,389	1,109,640
Selling, general and administrative expenses	110,194	109,389	107,544	916,761
Operating income	23,184	22,701	19,845	192,879
Other income (expenses)				
Interest and dividends income	756	797	832	6,289
Interest expense	(3,044)	(4,831)	(5,971)	(25,328)
Lump-sum amortization of goodwill	—	—	(4,156)	—
Other—net	(2,118)	(2,591)	(3,498)	(17,614)
	(4,406)	(6,625)	(12,793)	(36,653)
Income before income taxes	18,778	16,076	7,052	156,226
Income taxes (Note 2):				
Current	9,141	8,266	8,520	76,056
Deferred	(766)	355	(1,579)	(6,376)
	8,375	8,621	6,941	69,680
Minority interests in net income of consolidated subsidiaries	(259)	(92)	(15)	(2,149)
Net income	¥ 10,144	¥ 7,363	¥ 96	\$ 84,397

Per share amounts:	Yen			U.S. Dollars (Note 1)
Net income: Basic	¥ 29.38	¥ 21.49	¥ 0.28	\$ 0.24
Net income: Diluted	—	—	—	—
Cash dividends	¥ 8.00	¥ 6.00	¥ —	\$ 0.07

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003, 2002, 2001 and 2000

	Millions of Yen						
	Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2000	342,598,162	¥38,909	¥31,893	¥23,941	¥ (8,792)	¥ (0)	¥ 85,951
Net income	—	—	—	96	—	—	96
Cash dividends paid	—	—	—	(1,027)	—	—	(1,027)
Other comprehensive income							
Unrealized gains on securities	—	—	—	—	26,394	—	26,394
Foreign currency translation adjustments	—	—	—	—	1,237	—	1,237
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

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2002	\$323,703	\$265,331	\$249,445	\$114,177	\$ (63)	\$952,593
Decrease in retained earnings due to change in scope of consolidation	—	—	(1,261)	—	—	(1,261)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	(10,795)	—	—	(10,795)
Net income	—	—	84,397	—	—	84,397
Cash dividends paid	—	—	(17,100)	—	—	(17,100)
Bonuses to directors and statutory auditors	—	—	(504)	—	—	(504)
Purchase of treasury stock	—	—	—	—	(501)	(501)
Other comprehensive income						
Unrealized losses on securities	—	—	—	(60,205)	—	(60,205)
Foreign currency translation adjustments	—	—	—	(12,816)	—	(12,816)
Balance at March 31, 2003	\$323,703	\$265,331	\$304,182	\$ 41,156	\$(564)	\$933,808

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, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Operating Activities:				
Income before income taxes	¥ 18,778	¥ 16,076	¥ 7,052	\$ 156,226
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation	19,040	19,247	20,083	158,410
Reserve for pension and severance payments	(1,188)	(943)	(2,145)	(9,887)
Lump-sum amortization of goodwill	—	—	4,156	—
Other, net	3,316	4,492	6,686	27,588
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	3,847	1,547	(5,338)	32,006
Inventories	(3,095)	(306)	394	(25,755)
Notes and accounts payable	(5,256)	(90)	3,130	(43,730)
Other, net	1,722	(2,957)	2,096	14,333
Interest and dividends received	726	693	830	6,040
Interest paid	(3,065)	(4,834)	(5,903)	(25,499)
Income taxes paid	(8,403)	(10,100)	(4,827)	(69,915)
Net cash provided by operating activities	26,421	22,825	26,214	219,817
Investing Activities:				
Purchases of property, plant and equipment	(19,732)	(14,884)	(17,280)	(164,167)
Purchases of marketable securities and investment securities	(3,619)	(1,779)	(492)	(30,108)
Proceeds from sales of marketable securities, investment securities and properties	5,209	3,109	4,035	43,339
Other, net	(830)	1,085	(1,561)	(6,908)
Net cash used in investing activities	(18,972)	(12,469)	(15,298)	(157,844)
Financing Activities:				
Increase (decrease) in short-term bank loans and current maturities of long-term debt	(18,502)	(14,269)	2,946	(153,927)
Increase (decrease) in commercial paper	12,000	2,000	(8,000)	99,834
Proceeds from long-term debt	16,473	13,447	5,277	137,044
Decrease in long-term debt	(18,104)	(18,583)	(10,661)	(150,612)
Payment of cash dividends	(2,054)	(6)	(1,030)	(17,091)
Other, net	(60)	—	—	(499)
Net cash used in financing activities	(10,247)	(17,411)	(11,468)	(85,251)
Effect of exchange rate change on cash and cash equivalents	(153)	(110)	141	(1,274)
Decrease in cash and cash equivalents	(2,951)	(7,165)	(411)	(24,552)
Cash and cash equivalents at beginning of year	18,332	25,046	25,617	152,513
Increase (decrease) in cash and cash equivalents due to addition of consolidated subsidiaries	388	451	(160)	3,235
Cash and cash equivalents at end of year (Note 9)	¥ 15,769	¥ 18,332	¥ 25,046	\$ 131,196

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

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

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 ¥120.20 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2003.

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

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

(5) Derivative Instruments

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

(6) Inventories

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

(7) Allowance for Doubtful Receivables

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

(8) Depreciation

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

(9) Reserve for Severance Payments and Employee Benefit Plans

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

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

Unrecognized actuarial gain and loss are amortized 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 in the accounts upon shipments to customers.

(12) Research and Development Costs

Research and development costs are charged to income as incurred.

(13) Earnings per Share

Effective April 2002, the Companies adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The effect of this adoption was not material.

Basic net income per share for the year ended March 31, 2003 was computed in accordance with the new standard. Diluted net income per share is not disclosed because it is anti-dilutive.

(14) Leases

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

3. Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Finished products	¥44,538	¥44,848	\$370,527
Work-in-process	9,348	6,676	77,774
Raw materials and supplies	8,625	9,173	71,758
	¥62,511	¥60,697	\$520,059

4. Long-Term Debt

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
2.65% straight bonds due 2004	¥10,000	¥10,000	\$ 83,195
2.2% straight bonds due 2003	10,000	10,000	83,195
1.3425% straight bonds due 2007	10,000	10,000	83,195
Loans, principally from banks and insurance companies	29,598	32,162	246,238
	59,598	62,162	495,823
Less current maturities	25,604	15,852	213,014
	¥33,994	¥46,310	\$282,809

Assets pledged to secure bank loans and long-term debt at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investment securities	¥ —	¥ 248	\$ —
Notes receivable	500	1,326	4,167
Property, plant and equipment	78,024	83,057	649,115
	¥78,524	¥84,631	\$653,282

5. Depreciation

Depreciation charges were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Selling, general and administrative expenses	¥ 2,913	¥ 2,951	¥ 2,784	\$ 24,238
Manufacturing costs	¥16,127	¥ 16,296	¥17,299	\$134,172

6. Contingent Liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Notes discounted and endorsed	¥1,276	¥2,052	\$10,620
Guarantees	¥1,717	¥1,669	\$14,292

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, 2003 and 2002 were ¥12,520 million (\$104,160 thousand) and ¥12,298 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. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and time deposits	¥15,904	¥18,623	\$132,315
Time deposits with a maturity of over three months	(135)	(291)	(1,119)
Cash and cash equivalents	¥15,769	¥18,332	\$131,196

10. Leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition costs	¥7,329	¥5,457	\$60,978
Accumulated depreciation	3,045	3,051	25,333
Net book value	¥4,284	¥2,406	\$35,645

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Within one year	¥1,183	¥1,026	\$ 9,840
After one year	3,101	1,380	25,802
	¥4,284	¥2,406	\$35,642

Lease expenses under finance leases for the years ended March 31, 2003 and 2002 aggregated approximately ¥1,258 million (\$10,473 thousand) and ¥1,312 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Within one year	¥1,719	¥2,024	\$14,304
After one year	5,821	6,663	48,428
	¥7,540	¥8,687	\$62,732

11. Securities

Cost, carrying amounts and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen							Thousands of U.S. Dollars				
	2003			2002				2003				
	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	¥15,529	¥36,964	¥21,933	¥(498)	¥21,898	¥56,226	¥36,644	¥(2,316)	\$129,199	\$307,521	\$182,471	\$(4,149)

12. Derivative Instruments

Fair value information of derivative instruments at March 31, 2003 and 2002 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses
Forward exchange contracts:									
EURO	¥2,438	¥2,550	¥(112)	¥1,908	¥1,985	¥(77)	\$20,284	\$21,219	\$ (935)
U.S. dollar	1,218	1,234	(16)	1,169	1,181	(12)	10,133	10,268	(135)
Others	1,168	1,205	(37)	947	1,000	(53)	9,722	10,022	(300)
	¥4,824	¥4,989	¥(165)	¥4,024	¥4,166	¥(142)	\$40,139	\$41,509	\$(1,370)

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Interest rate swap agreements	¥43	¥(0)	¥(0)	¥5,223	¥(48)	¥(48)	\$358	\$ (5)	\$ (5)
Interest rate option (cap) contracts written	—	—	—	2,144	4	4	—	—	—
	¥—	¥(0)	¥(0)	¥ —	¥(44)	¥(44)	\$ —	\$ (5)	\$ (5)

13. Pension and Severance Plans

1. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligations	¥(49,243)	¥(51,176)	\$(409,678)
Fair value of plan assets	17,331	14,999	144,186
Funded status	(31,912)	(36,177)	(265,492)
Unrecognized transition obligation	1,023	1,538	8,518
Unrecognized actuarial losses	10,308	8,300	85,754
Net amount recognized	¥(20,581)	¥(26,339)	\$(171,220)

2. The components of net pension and severance costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥2,548	¥2,376	\$21,196
Interest cost	1,122	1,513	9,338
Expected return on plan assets	(84)	(216)	(701)
Amortization of transition obligation	514	514	4,278
Recognized actuarial losses	836	161	6,959
Net periodic benefit cost	¥4,936	¥4,348	\$41,070

3. Assumptions used as of March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected return rate on plan assets	1.5%	4.0%

14. Deferred Income Taxes

1. Significant components of the deferred income tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Liabilities for pension and severance payments	¥13,825	¥14,053	\$115,017
Net operating loss carryforwards	9,929	11,047	82,609
Unrealized profits	4,345	4,447	36,155
Accrued expenses	1,734	1,405	14,430
Other	3,407	2,898	28,336
Gross deferred tax assets	33,240	33,850	276,547
Less valuation allowance	(9,824)	(11,238)	(81,734)
Total deferred tax assets	23,416	22,612	194,813
Deferred tax liabilities:			
Unrealized gains on securities	(8,603)	(14,271)	(71,576)
Liabilities for pension and severance payments	(3,446)	(3,558)	(28,669)
Property, plant and equipment	(2,380)	(2,135)	(19,805)
Other	(459)	(417)	(3,813)
Total deferred tax liabilities	(14,888)	(20,381)	(123,863)
Net deferred tax assets	¥ 8,528	¥ 2,231	\$ 70,950

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

	Years ended March 31	
	2003	2002
Statutory income tax rate in Japan	41.6%	41.6%
Valuation allowance recognized on current losses of subsidiaries	(1.0)	7.9
Permanently nondeductible expenses	2.8	3.9
Permanently nontaxable income	(0.7)	(1.2)
Other	1.9	1.4
Effective income tax rate	44.6%	53.6%

As "The Law to Amend the Local Tax Laws" (Law No. 9, March 2003) was enacted on March 31, 2003, the statutory tax rate applied in the calculation of deferred tax assets and deferred tax liabilities to be realized after the fiscal years ending March 31, 2004 will change from 41.6% to 40.2%.

In line with this change, deferred tax assets, net of deferred tax liabilities, decreased by ¥52 million (\$434 thousand), and deferred income taxes and net unrealized gains on marketable securities increased by ¥352 million (\$2,926 thousand) and ¥299 million (\$2,492 thousand), respectively.

15. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2003, 2002 and 2001 are outlined as follows:

Business Segments

	Millions of Yen				
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
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
Year ended March 31, 2001					
Sales to third parties	¥270,594	¥117,261	¥387,855	¥ —	¥387,855
Intergroup sales and transfers	134	7,619	7,753	(7,753)	—
Total sales	270,728	124,880	395,608	(7,753)	387,855
Operating expenses	259,264	116,512	375,776	(7,766)	368,010
Operating income	¥ 11,464	¥ 8,368	¥ 9,832	¥ 13	¥ 19,845
Total assets at end of year	¥302,635	¥120,519	¥423,154	¥ 24,976	¥448,130
Depreciation	¥ 16,020	¥ 3,940	¥ 19,960	¥ 123	¥ 20,083
Capital expenditures	¥ 14,867	¥ 3,420	¥ 18,287	¥ (169)	¥ 18,118
Thousands of U.S. Dollars					
	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2003					
Sales to third parties	\$2,387,581	\$943,939	\$3,331,520	\$ —	\$3,331,520
Intergroup sales and transfers	816	119,421	120,237	(120,237)	—
Total sales	2,388,397	1,063,360	3,451,757	(120,237)	3,331,520
Operating expenses	2,244,765	1,010,707	3,255,472	(116,830)	3,138,640
Operating income	\$ 143,632	\$ 52,653	\$ 196,285	\$ (3,405)	\$ 192,880
Total assets at end of year	\$2,308,984	\$1,218,066	\$3,527,050	\$ (94,216)	\$3,432,834
Depreciation	\$ 126,317	\$ 31,815	\$ 158,132	\$ 278	\$ 158,410
Capital expenditures	\$ 143,840	\$ 42,896	\$ 186,736	\$ 2,186	\$ 188,922

Geographical Areas

Millions of Yen

	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
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

Year ended March 31, 2001						
Sales to third parties	¥317,500	¥61,698	¥ 8,657	¥387,855	¥ —	¥387,855
Interarea sales and transfers	19,407	213	2,603	22,223	(22,223)	—
Total sales	336,907	61,911	11,260	410,078	(22,223)	387,855
Operating expenses	316,333	63,391	10,543	390,267	(22,257)	368,010
Operating income	¥ 20,574	¥ (1,480)	¥ 717	¥ 19,811	¥ 34	¥ 19,845
Total assets at end of year	¥363,656	¥58,558	¥12,578	¥434,792	¥ 13,338	¥448,130

Thousands of U.S. Dollars

	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2003						
Sales to third parties	\$2,628,066	\$587,533	\$115,921	\$3,331,520	\$ —	\$3,331,520
Interarea sales and transfers	187,387	21,933	27,743	237,063	(237,063)	—
Total sales	2,815,453	609,466	143,664	3,568,583	(237,063)	3,331,520
Operating expenses	2,654,823	588,539	133,936	3,377,298	(238,658)	3,138,640
Operating income	\$ 160,630	\$ 20,927	\$ 9,728	\$ 191,285	\$ 1,595	\$ 192,880
Total assets at end of year	\$3,020,398	\$459,163	\$122,738	\$3,602,299	\$(169,465)	\$3,432,834

Overseas Sales

Millions of Yen

	North America	Other	Total
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%

Year ended March 31, 2001

(A) Overseas sales	¥61,727	¥33,880	¥ 95,607
(B) Consolidated net sales			¥387,855
(C) (A)/(B) × 100	15.9%	8.8%	24.7%

Thousands of U.S. Dollars

	North America	Other	Total
Year ended March 31, 2003			
(A) Overseas sales	\$607,190	\$381,682	\$ 988,872
(B) Consolidated net sales			\$3,331,520
(C) (A)/(B) × 100	18.2%	11.5%	29.7%

16. Treasury Stock and Reversal of Legal Reserve

Effective the year ended March 31, 2003, the Company adopted a new accounting standard for treasury stock and reversal of legal reserves issued by the Business Accounting Standard Commission on February 21, 2002. The effect of this adoption was not material.

17. Subsequent Events

On May 14, 2003, the Company issued ¥10 billion (\$83,194 million) in unsecured 0.62% Japanese yen bonds due May 14, 2008, and ¥10 billion (\$83,194 million) in unsecured 0.84% Japanese yen bonds due May 14, 2010.

Independent Auditors' Report



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

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

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

We have audited the consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, 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, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, 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, 2003 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 27, 2003

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

Global Network





OVERSEAS SUBSIDIARIES AND AFFILIATES

- Yokohama Tire Corporation**
 - Production and sales of tires and related products
- Yokohama Tire (Canada) Inc.**
 - Sales of tires and related products
- Hangzhou Yokohama Tire Co., Ltd.**
 - Production and sales of tires and related products
- Yokohama Tire Philippines, Inc.**
 - Production and sales of tires and related products
- Yokohama Tyre Vietnam Company**
 - Production and sales of tires and related products
- GTY Tire Company**
 - Production and sales of tires and related products
- Yokohama Tyre Australia Pty. Ltd.**
 - Sales of tires and related products
- Yokohama HPT Ltd.**
 - Sales of tires and related products
- Yokohama Italia SPA**
 - Sales of tires and related products
- Yokohama (Suisse) SA**
 - Sales of tires and related products
- Yokohama Scandinavia AB**
 - Sales of tires and related products
- Yokohama Reifen GmbH**
 - Sales of tires and related products
- Yokohama Austria GmbH**
 - Sales of tires and related products
- Yokohama Danmark A/S**
 - Sales of tires and related products
- Yokohama Tire Taiwan Co., Ltd.**
 - Sales of tires and related products
- Yokohama Corporation of America**
 - Equity participation in GTY Tire; sales of tires
- Yokohama Corporation of North America**
 - Holding company for shares of YTC and other companies
- Yokohama Rubber (Thailand) Co., Ltd.**
 - Production and sales of windshield sealants and hoses
- YH America, Inc.**
 - Production and sales of windshield sealants and hoses
- SAS Rubber Company**
 - Production and sales of hoses and industrial-use rubber
- SC Kingflex Corporation**
 - Production and sales of hoses
- Yokohama Aerospace America, Inc.**
 - Sales of aircraft components

OVERSEAS REPRESENTATIVE OFFICES

- Düsseldorf Europe Head Office
- Jeddah Office
- Riyadh Office
- Dubai Office
- Panama Office
- Singapore Office
- Asia Representative Office (Bangkok)

Corporate Governance

BASIC APPROACH

The Yokohama Group has long championed transparent and fair management and other aspects of corporate governance as central to its operations. Since 1998, we have gradually decreased the size of our Board of Directors. We promote open discussion at Board meetings. We replaced the Board of Managing Directors with the Management Council, whose primary members include the president and executive directors. This move was in line with efforts to ensure that decision-making is rapid and appropriate. To improve supervision of management, corporate auditors now attend management meetings and other important gatherings. We conduct activities to raise awareness of the importance of corporate governance among employees and directors and strive to ensure that our measures have a real and lasting effect on Group operations.

CORPORATE GOVERNANCE STRUCTURE

The Yokohama Group maintains a system of corporate auditors. Two of our four auditors are external to improve objectivity. Following are profiles of Group corporate governance committees.

1. Compliance Committee

We established the Corporate Activity Committee in January 1998 to ensure that our business observes laws and regulations. After studying contemporary conditions, however, we decided to replace this body with the Compliance Committee as of April 2003. The new organ reinforces the promotion of best practices, for example, by producing and publicizing corporate activity standards and implementing other initiatives to educate employees and management.

2. Risk Management Committee

This committee's missions are to safeguard the Yokohama Group against diverse operational risks and to avoid such risks. We established this body in April 2003, and it is conducting in-house educational activities related to risk management. In addition to this committee, the Central Disaster Prevention and Environmental Preservation Promotion committees work on risk management in their respective fields.

EXTERNAL AUDITORS

Yokohama's Board of Directors does not include directors from outside the Yokohama Group. Currently, our two external auditors are:

Junnosuke Furukawa (chairman and chief executive officer, The Furukawa Electric Co., Ltd.)

Furukawa Electric is Yokohama's second-largest shareholder.

Yuzuru Fujita (president and chief executive officer, Asahi Mutual Life Insurance Co.)

Asahi Mutual Life Insurance is Yokohama's sixth-largest shareholder.

Board of Directors and Corporate Auditors

(As of June 27, 2003)

PRESIDENT

Yasuo Tominaga

VICE PRESIDENT

Hisao Suzuki

EXECUTIVE DIRECTORS

Keimei Kiyoura

Tadanobu Nagumo

MANAGING DIRECTORS

Kohji Ikawa

Seiji Miyashita

Takashi Yamashita

Keigo Ueda

Takashi Sugimoto

Tetsuya Mizoguchi

Takasuke Sato

DIRECTORS

Toshihiko Shiraki

Masamichi Danjo

Tatsunari Kojima

Akihisa Takayama

Michio Yuge

Hiroshi Hosoya

Toshio Izawa

Yasuhiro Mizumoto

CORPORATE AUDITORS

Masaaki Kushida

Seiichi Suzuki

Junnosuke Furukawa

Yuzuru Fujita

Investor Information

(As of March 31, 2003)

COMPANY NAME:

The Yokohama Rubber Co., Ltd.

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

WWW ADDRESS:

<http://www.yrc.co.jp/>

AUTHORIZED NUMBER OF SHARES:

480,000,000

ISSUED NUMBER OF SHARES:

342,598,162 (unchanged from fiscal 2002 year-end)

NUMBER OF SHAREHOLDERS:

20,157 (down 1,290 from fiscal 2002 year-end)

AVERAGE SHARES PER SHAREHOLDER:

16,996

SETTLEMENT DATE:

March 31

GENERAL MEETING OF SHAREHOLDERS:

June

TRANSFER AGENT:

The Chuo Mitsui Trust and Banking Company, Limited

33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

DATE OF RECORD:

March 31

STOCK EXCHANGE LISTINGS:

Tokyo, Osaka, Nagoya