YOKOHAMA

Annual Report 2004

The Yokohama Rubber Co., Ltd.
Year ended March 31, 2004

Defining High Performance Around the World

P R O F I L E

The Yokohama Rubber Co., Ltd. (Yokohama), is a leading manufacturer of rubber products, including vehicle tires and other rubber products. Established in 1917, Yokohama has developed its business globally, earning a strong reputation for products based on advanced technologies that reflect existing and emerging customer needs in automobiles, civil engineering, construction, marine engineering, aircraft components, and sports products. By reinforcing manufacturing in Japan, the United States, and Asia, and marketing and sales bases in these areas and Europe, Yokohama will maintain the trust of customers around the world.

C O N T E N T S

Note Concerning Forward-Looking Statements

This annual report contains forward-looking estimates and forecasts based on current plans, which are subject to unforeseeable risks and uncertainties. As a result, actual business results may differ from the estimates and forecasts herein.

FINANCIAL HIGHLIGHTS

For the Years Ended March 31, 2004 and 2003

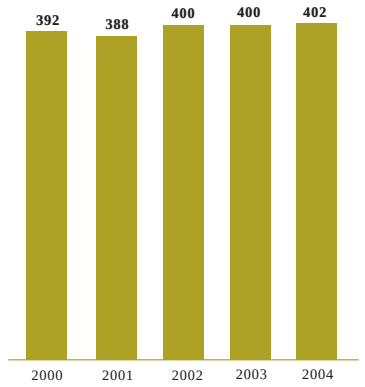
	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	Percentage change (2004/2003)	**2004**
Net Sales	**¥401,718**	¥400,448	0.3%	**$3,800,915**
Operating Income	**21,073**	23,184	(9.1)	**199,394**
Income before Income Taxes	**16,931**	18,778	(9.8)	**160,198**
Net Income	**10,331**	10,144	1.8	**97,757**
			Change (2004-2003)	
Total Assets	**¥429,350**	¥412,626	¥16,724	**$4,062,355**
Total Shareholders' Equity	**127,833**	112,243	15,590	**1,209,505**

	Yen		U.S. Dollars
	2004	2003	**2004**
Per Share:			
Net Income: Basic	**¥ 29.95**	¥ 29.38	**$ 0.28**
Cash Dividends	**8.00**	8.00	**0.08**

Note: Throughout this report, U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥105.69=U.S.$1.00, the approximate exchange rate prevailing on March 31, 2004.

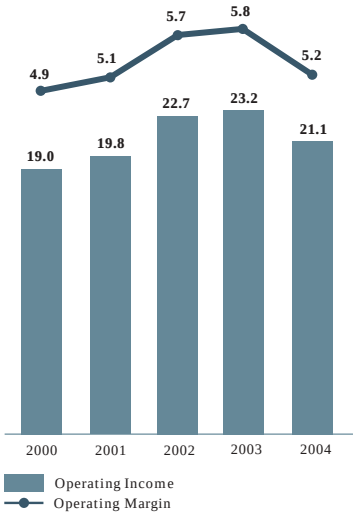
NET SALES

(Billions of Yen)



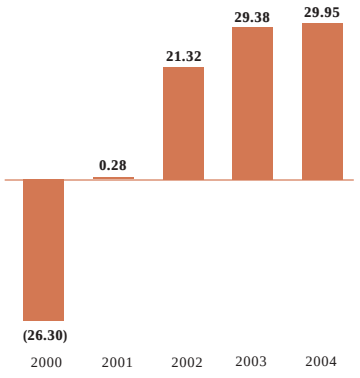
OPERATING INCOME AND OPERATING MARGIN

(Billions of Yen, Percentage)



NET INCOME (LOSS) PER SHARE

(Yen)



To Our Shareholders

Yasuo Tominaga (right) and Tadanobu Nagumo

Profit Dampened by Strong Yen and Rising Materials Costs

We are pleased to report on the business performance of Yokohama Rubber and its consolidated subsidiaries in fiscal 2004, ended March 31, 2004.

The Japanese economy failed to achieve a full-scale recovery, despite a turnaround in the United States and expansion in Asia. The yen's appreciation and rising raw materials prices combined with sluggish domestic demand to create a challenging year for the tire industry.

Despite the strong yen, consolidated net sales in fiscal 2004 edged up 0.3%, to ¥401.7 billion, boosted by favorable overseas sales. Operating income declined 9.1%, however, to ¥21.1 billion, reflecting higher prices of natural rubber and increasing distribution costs associated with growing exports and freight costs. Net income rose 1.8%, to ¥10.3 billion.

Active Investments to Expand Production

Fiscal 2004 marked the first full year of Yokohama's Grand Design, a series of strategies to be implemented through fiscal 2006 based on our business vision over the next decade. Under the plan, we are upgrading production capacity in our core tire business. Our initial goal was to raise annual capacity from 38 million units in March 2003, to

43 million units by March 2006. We have since raised this target to at least 44 million units in line with accelerated expansion at our facilities in China and construction of a new plant for truck and bus tires in Thailand. We aim to increase capacity for high-performance and large-diameter (Inch-Up) tires, for which worldwide demand continues to grow.

In the MB (Multiple Business) Group, we have enjoyed very strong overseas demand for automotive sealants and hoses. In January 2005, we will commence full-scale production at a new automotive sealants plant in China and will boost capacity at facilities in Thailand and the United States. To broaden our hose-related operations under an integrated command chain, we decided to absorb subsidiary YOKOHAMA HYDEX COMPANY, in October 2004.

Fiscal 2005 Outlook

We expect business conditions to remain difficult in fiscal 2005, mainly because of rising materials prices and the strong yen. We therefore forecast consolidated net sales of ¥410 billion, an increase of 2.1%, operating income of ¥20 billion, down 5.1%, and net income of ¥9 billion, a decrease of 12.9%.

It is difficult to fully compensate for rising materials costs through internal efforts alone. We accordingly raised the prices of replacement tires overseas and in Japan.

In fiscal 2004, we decided to introduce a corporate officership system to reinforce corporate governance. In addition to strengthening supervision, the new system will speed up decision-making and implementation.

Grand Design seeks to provide leading products and services based on proprietary technologies to customers around the world. With this in mind, everyone in the Yokohama Rubber Group is determined to maximize customer satisfaction and build a powerful brand.

We look forward to your cooperation and understanding as we embrace new challenges.

June 2004

Yasuo Tominaga
Chairman and Representative Director

Tadanobu Nagumo
President and Representative Director

Expanding Our Presence in Asia

Yokohama has successively upgraded its tire production facilities in Asia. We are now focusing on the booming Chinese market while reinforcing export operations.

Growing Chinese Market

China's Rapid Motorization

In coming years, we forecast massive tire demand in China, where an estimated 4.4 million new automobiles were sold in 2003. In the near future, China is expected to become the world's second-largest automobile market, replacing Japan, where 5.8 million units were sold in 2003. Nomura Securities Financial & Economic Research Center forecasts that annual vehicle sales in China will reach 12.8 million units in 2010.

Production Commences in China

Anticipating solid demand, we established Hangzhou Yokohama Tire Co., Ltd., to manufacture and sell passenger car tires. Located in the city of Hangzhou, next to the major demand center of Shanghai, the new company commenced production in May 2003 with an annual capacity of 700,000 units. To respond swiftly to demand trends, we employ small-scale processing methods that can be put into operation more quickly than conventional large-scale tire plants. For the second construction stage, we initially planned to double annual production by 2006. Unprecedented demand prompted us to bring the schedule forward to the end of 2004. We invested a total of ¥6.0 billion for both construction stages.

Growing Network of Dedicated Sales Outlets

In China, we are positioning Yokohama as a prestigious, high-performance tire brand. Hangzhou Yokohama Tire makes A.V.S V550 tires and other products for high-end passenger vehicles popular in Japan and sells them as replacement tires. After completing the second construction stage, this subsidiary will make large-diameter tires and tires for sports utility vehicles (SUVs). We will market these products to automakers for new vehicles.

In line with increased supply capacity, we are expanding our nationwide sales network in China, centering on dedicated outlets. Around 1,000 stores nationwide sell Yokohama tires. To strengthen our up-market image, we plan to develop stores that sell our brand exclusively. As of March 31, 2004, we had opened 10 such stores.

Hangzhou Yokohama Tire Co., Ltd.

Strengthening Export Operations

Tire Exports Solid

In the three years through fiscal 2004, we enjoyed consecutive year-on-year gains in the volume and value of tire exports. Recently, demand has been particularly strong for high-performance and SUV models.

Upgrading High-Performance and SUV Tire Operations

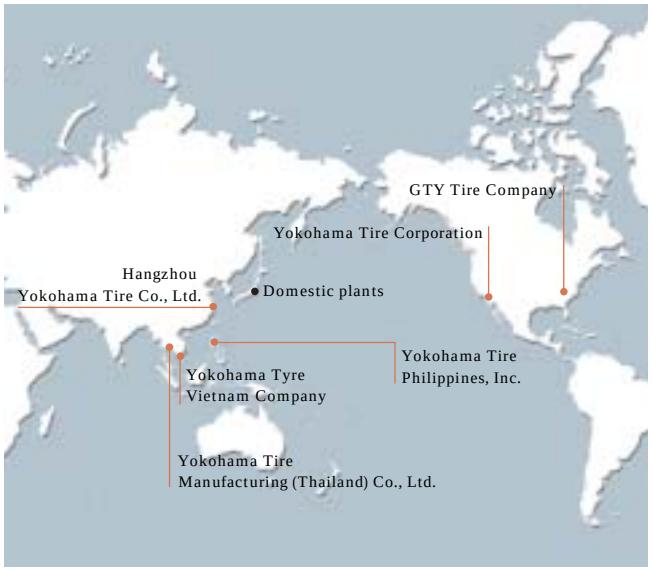
In 2003, we embarked on two strategies to reinforce production capacity for high-performance and SUV tires. The first strategy focuses on Yokohama Tire Philippines, Inc., established in 1996, which began making passenger vehicle tires for export in 1998. As of April 2003, that company had an annual production capacity of two million units, which we will raise to three million by the end of 2004. Most of the increase will be for high-performance and SUV tires with inner diameters of at least 16 inches.

The second strategy involves constructing the Shinshiro Minami plant in Japan. The new facility will feature state-of-the-art manufacturing technologies for high-performance and SUV tires measuring at least 18 inches. We are at the first stage of construction, with annual capacity slated to start at 300,000 units. We will raise output incrementally to 750,000 units in fiscal 2006.

Truck and Bus Tire Plant in Thailand

In addition to our plant in Mie Prefecture, Japan, we make truck and bus tires at GTY Tire Company, a U.S. joint venture between Yokohama, Continental AG and Toyo Tire & Rubber Co., Ltd. However, it is becoming difficult for these two facilities to keep up with strong demand worldwide.

To alleviate this situation, in January 2004 we set up Yokohama Tire Manufacturing (Thailand) Co., Ltd., to make truck and bus tires. This subsidiary will start production in April 2005, with an annual capacity of 300,000 units. This initial investment will cost around ¥5.5 billion. We will double output by 2007 by adopting the small-scale processing strategy used for the China plant, which reduces investments and makes it possible to start operations more quickly than conventional large-scale tire plants.



Annual Tire Production Capacity (Thousands of Units)

	2004	2006	Change
Domestic plants	31,200	33,800	2,600
Yokohama Tire Corporation	5,500	5,500	-
GTY Tire Company	500	500	-
Yokohama Tire Philippines, Inc.	2,000	3,000	1,000
Hangzhou Yokohama Tire Co., Ltd.	700	1,400	700
Yokohama Tyre Vietnam Company	300	300	-
Yokohama Tire Manufacturing (Thailand) Co., Ltd.	-	300	300
Total	40,200	44,800	4,600

Note: Domestic plants are Hiratsuka Factory and Mie, Mishima, Shinshiro, Shinshiro Minami, and Onomichi plants.

DNA dB EURO ZPS Runflat Tire Offers Excellent Driving Comfort and Performance in Wet Conditions

In June 2004, Yokohama began domestic sales of its DNA dB EURO ZPS (Zero Pressure System) replacement tire. The new tire has been available in North America since 2000.

This runflat tire employs a reinforced sidewall and incorporates proprietary technology. As a result, even if a puncture brings tire pressure to zero, the vehicle can travel for up to 80 kilometers at a maximum of 90 kilometers an hour. Runflat tires virtually eliminate the need to change tires in dangerous places such as expressways. Spare tires also become unnecessary, which allows designers to lighten vehicles and allocate trunk space more effectively.

The DNA dB EURO ZPS sidewall employs Yokohama's Power Arch, a new rubber-reinforcing material that generates little heat. A special profile design also optimizes tire shape, allowing driving with a tire at zero pressure and enhancing overall riding comfort and performance in the wet.

Our runflat technology is for tires with low aspect ratios. So, we are working with Continental and Bridgestone Corporation to develop Support Ring runflat systems, which contain internal metal rings and can be applied in a broader range of tire sizes and vehicle models. These systems are ideal for vehicles running on tires with higher aspect ratios and heavily laden vehicles, such as SUVs.

AIR watch for Safer Driving, Better Fuel Efficiency

Yokohama has developed AIR watch, an air-pressure monitoring system for passenger car tires. We were the first tire maker to commercialize such a system for passenger cars in Japan. We plan to release the system for replacement tires by the end of 2004.

Display with built-in receiver

AIR watch is the passenger car version of our Hi-Technology Engineering System (HiTES) for truck and bus tires, released in July 2003. A sensor attached to each wheel measures air pressure. This system uses an easy-to-attach film-based antenna and a monitor near the driver to display data. The system has very compact components and installs easily.

In addition to enhancing safety, air-pressure management extends tire life and fuel economy. For this reason, we will promote the AIR watch system on racing circuits and for passenger cars alike.

Driver-Friendly Tires Based on Human Sensitivity Analysis

Yokohama has jointly developed a technique to evaluate driver-friendliness based on muscle movement while driving. Our partner is the Department of Kansei Engineering in the Faculty of Textile Science and Technology of Shinshu University.

The new technique uses an electromyogram to measure deltoid movement in the right and left forearms and the contraction and extension of cheek muscles when biting one's teeth. Under smooth driving conditions, the right and left deltoids contract reciprocally when the driver turns the steering wheel, and biting frequency declines.

To date, the industry has relied on sensory evaluations from test drivers. This is because experience is vital to evaluate tire performance—a factor that is hard to verbalize. The new technique allows sensory evaluations of ordinary drivers. We will gather data from a wide range of men and women in various age groups. Greater insight into human sensitivity should lead to even better tires.

**An electromyogram incorporates sensors on skin surfaces to measure slight changes in electrical potential in response to muscle contractions.*

New Design Technology Boosting Durability of Truck and Bus Radial Tires

We have developed the Double Inflation Pressure Method. This simulation technology for designing truck and bus radial tires more accurately predicts distortions in all parts of a tire, taking into account subtle changes in tire shape when driving.

Driving raises temperatures inside truck and bus radial tires, causing the outer diameters to expand slightly. This enlargement normally stops after driving 40,000 to 50,000 kilometers, at which point the outer diameter is roughly 0.5% (about 5 millimeters for a 1,000-millimeter tire) larger than that of a new tire. Ideally, evaluation of durability and other performance indicators should be after expansion. The norm is to predict performance using new tires, which is not entirely accurate.

This consideration prompted us to develop the Double Inflation Pressure Method, which is based on the finite element method. This new simulation technology lets us accurately analyze distortions in all parts of an expanded tire.

We also developed a new concept to quantify the tire safety margin (over the point of tire collapse) by factoring in physical changes, such as rubber material aging from driving. By simulating the safety margins of all tire parts, we can obtain accurate feedback to enhance structural design and materials development.

The Double Inflation Pressure Method and new safety margin concept have enabled us to greatly enhance durability.

Yokohama Group at a Glance

Tire Group

Main Products

Tires for passenger cars, trucks and buses, light trucks, mining and construction equipment, industrial vehicles and aircraft, and aluminum alloy wheels

Manufacturing and Sales Organization

Yokohama manufactures and markets tires in Japan through 141 sales subsidiaries, including Yokohama Tire Tokyo Hanbai Co., Ltd. Overseas, our tires are produced and sold in the United States by Yokohama Tire Corporation (YTC), and in Asia by Yokohama Tire Philippines, Yokohama Tyre Vietnam Company and Hangzhou Yokohama Tire. In addition, GTY Tire, a joint venture with Continental and Toyo Tire & Rubber, handles a portion of our U.S. manufacturing. In Europe, we maintain eight sales subsidiaries, including Yokohama Reifen GmbH in Germany and Yokohama HPT Ltd. in the United Kingdom.

MB Group

Main Products

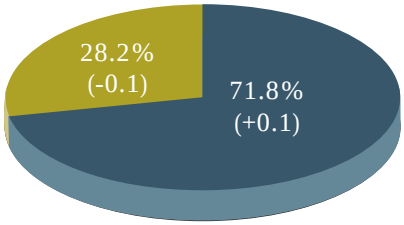
Hoses, marine hoses, conveyor belts, sealants, adhesives, anti-seismic rubber bearings for bridges and buildings, golf products, aircraft components, and other products

Manufacturing and Sales Organization

In Japan, we manufacture industrial products at Yokohama and YOKOHAMA HYDEX. Yokohamagomu Multiple Business East Co., Ltd., YOKOHAMA HYDEX, and eight other sales subsidiaries market these products. In the United States, SAS Rubber Company and YH America, Inc., handle manufacturing and sales. We make golf products that PRGR Co., Ltd., sells in Japan and Asia. We also manufacture aircraft components in Japan for marketing on a global scale.

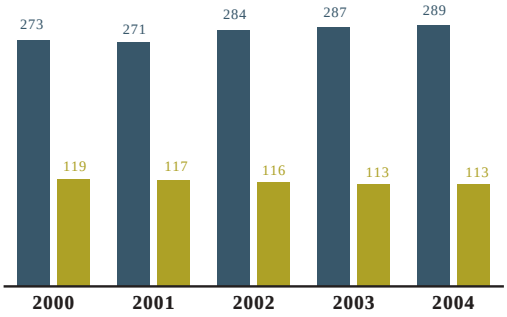
Fiscal 2004 Sales

Percentage of net sales (change from fiscal 2003)



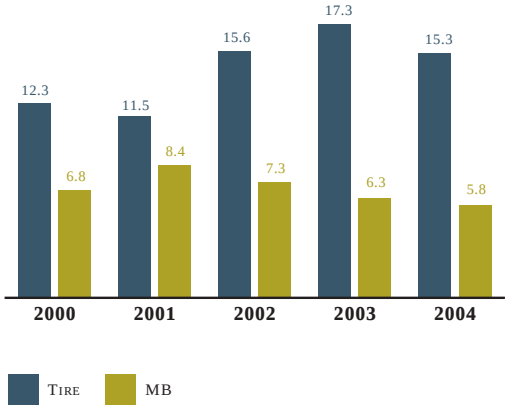
Sales by Group

(Billions of Yen)



Operating Income by Group

(Billions of Yen)



TIRE GROUP

FISCAL 2004 IN REVIEW

In fiscal 2004, the Tire Group reported sales of ¥288.6 billion, up 0.6% from fiscal 2003. Despite a strong yen, sales of tires were favorable, especially in Europe, Asia, and Oceania. Surging natural rubber prices and higher export shipping costs offset our gains, lowering operating income 11.5%, to ¥15.3 billion.

JAPAN

Steady Increase in Replacement Market Share

Japan accounts for the largest proportion of the Tire Group's revenues. In fiscal 2004, original equipment (OE) sales of tires for new vehicles increased, but sales of replacement tires remained largely unchanged amid depressed domestic demand. As a result, domestic tire sales were flat.

Sales of OE tires for passenger cars were sluggish, owing to a decline in vehicle production. In contrast, demand rose for new trucks and buses under new gas emission regulations, boosting sales of OE tires. As a result, while sales volume of OE tires decreased slightly, sales in value terms increased from the previous year.

Despite an unprecedented 3.2% fall in overall demand for replacement tires, sales volume and value were unchanged, helping us increase market share. We expanded our range of Inch-Up tires, which have been very popular in recent years. We also broadened our lineup of distinctive products, including the DNA line of eco-friendly tires, which help reduce fuel consumption.

Our policy of focusing marketing on highly profitable products not subject to price competition

The DNA eco-tire series, ADVAN NEOVA AD07 sports tires, and other high-performance tires have helped Yokohama to expand its share of the domestic market.

The Yokohama GEOLANDAR H/T-S family of all-season highway tires for SUVs, pickup trucks, and vans, popular in the United States, combines comfort, handling, and year-round traction, even in light snow.

began to bear fruit. Sales were brisk for the DNA ECOS range of Inch-Up tires, a mainstay product in the DNA series, and for flagship ADVAN NEOVA AD07 sports tires launched in the second half of fiscal 2003. During the year, we released "DNA dB ES501," which enhances driving comfort and quietness. In fiscal 2005, we will continue marketing these and other high-performance, high-margin products.

Sales of replacement tires for trucks and buses increased, centering on all-season and studless models, thus boosting market share. Sales were healthy for PRO FORCE Tough TY787 tires, which provide an excellent balance of performance with high abrasion and offset abrasion resistance. Other strong sellers included the PRO FORCE studless SY797, unveiled in October 2003, which offers the ideal balance of icy surface performance and wear resistance.

North America

Back in the Black

Our operations in North America center on local production at YTC.

Despite losing $550,000 in 2002, YTC returned to profitability in 2003 with net income of $780,000. Although unit sales of passenger car tires declined, YTC increased the ratio of high-value-added Yokohama-brand tires. Unit-based sales of tires for trucks and buses increased, reflecting new products and an economic recovery. Higher prices of raw materials and a decline in production volume increased costs, although YTC offset these rises by lowering selling, general and administrative and interest expenses. YTC aims to remain profitable in calendar 2004, supported by higher sales volumes following the release of new products, a shift to high-value-added offerings, and improved productivity.

Asia

Sales Favorable throughout the Region

Local plants are the prime providers of tires we sell in China, the Philippines, and Vietnam, while we also export throughout Asia from plants in Japan and the Philippines.

Despite the outbreak of Severe Acute Respiratory Syndrome early in 2003, regional sales increased, particularly in Malaysia, Thailand, Taiwan, and China. Demand was particularly favorable for such high-performance tires as the A.V.S ES100 for small and medium-sized sports sedans, the ADVAN NEOVA AD07 for high-performance sports cars, and the A.V.S V550 premium comfort tire, which is also popular in Europe.

We launch new products in Asia every year, with the focus on high-performance models. Strong marketing has contributed greatly to our sales growth. We work closely with our distributors in our marketing. Billboard advertising and motor sports are key tools for reinforcing our brand image. For the past 21 years, we have been the exclusive tire supplier for the Macau Grand Prix, Asia's top motor sports event.

We aim to keep increasing sales throughout Asia by expanding our lineup of high-performance tires and establishing concept shops specializing in Yokohama tires. In 2004, we plan to locally offer "C.drive," which enhances driving comfort and is already popular in Europe.

Europe

Sales up 20%

In Europe, we sell tires from Japanese and Philippine plants, marketing them through subsidiaries in Austria, Belgium, Denmark, Germany, Italy, Sweden, Switzerland, and the United Kingdom, as well as through regional retail outlets.

In the year under review, demand for replacement tires in Europe remained largely unchanged, but the market for OE tires contracted, triggering intense competition and falling prices. Nevertheless, our sales volumes increased 20%, resulting in a significant sales gain in value terms with the support of a higher euro. Our performance benefited from the launch of such

The A.V.S V550 offers a quiet and comfortable ride over the entire service life.

(Left) "C.drive" is a strategic tire that meets the exacting handling requirements of European drivers and delivers superior wet grip and comfort.

(Below) The Parada, popular in the United Kingdom, features massive diagonal tread blocks.

new products as "C.drive" and "winter-T" tires, as well as robust sales of the high-grade A.V.S dB tire. During the year, we commenced sales activities in Russia and Poland, which also helped boost European revenues.

We worked hard to bolster marketing. For example, we formed N.V. Yokohama Belgium S.A., which is responsible for sales in Belgium and Luxembourg. We also established more Yokohama Club concept stores and expanded OE tire supplies to European car manufacturers. The 18-inch version of the A.V.S Sport, which is standard on Aston Martin's V12 Vanquish, is an authorized option for Alpha Romeo's Alpha 147GTA.

Active Introduction of New Products

In fiscal 2005, we will introduce more products, centering on high-performance models, and we will increase the number of Yokohama Club stores in Europe. We plan to participate in motor shows and racing events and run television commercials and other campaigns to boost brand awareness, thereby raising sales and market share.

Other Regions

Australia

Sales in Australia soared on a strong economy, firm market demand, and aggressive marketing by Yokohama Tyre Australia Pty. Ltd.

Middle East

In the Middle East, where demand for tires is strong, unit-based sales of tires for trucks, buses, off-road vehicles, and passenger cars increased. However, the value of these sales was mostly unchanged from the previous year under the effects of foreign exchange fluctuations.

MB Group

Fiscal 2004 in Review

MB Group sales slipped 0.3%, to ¥113.1 billion, while operating income fell 9.0% to ¥5.8 billion. Demand was solid for high-pressure hoses and sealants, and sales of golf products increased. In contrast, a slump in public works spending in Japan saw a drop in antiseismic rubber bearings for bridges. Sales of aircraft components were also weak, owing to a downturn in aircraft production.

Hoses

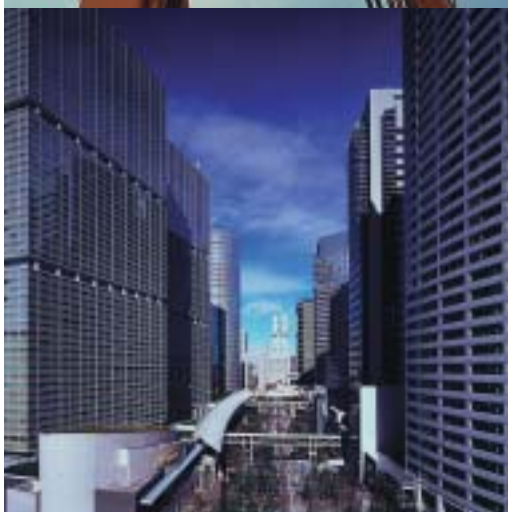
Healthy Sales of Construction Equipment and Automotive Hoses

Yokohama leads the Japanese market for hydraulic hoses for construction equipment. Our power-steering and air-conditioning hoses for automobiles also maintain high domestic market shares.

In fiscal 2004, overall sales of hoses increased, owing mainly to strong exports of hydraulic hoses for construction equipment in China. We also reported robust sales of automotive hoses following a rise in the number of vehicles incorporating our brand.

In recent years, we have worked to pioneer new applications for our offerings. In the year under review, we developed hoses for automotive fuel cells. We are developing hoses for fuel cells used in household water heaters.

Until recently, Yokohama manufactured hoses, while YOKOHAMA HYDEX handled assembly and sales. We decided to absorb that subsidiary, effective October 2004, to accelerate business expansion through an integrated command chain.



(Above) Hydraulic hoses for construction equipment.

(Below) Yokohama's sealants for buildings are used in Shinagawa Intercity, one of the largest multi-skyscraper development projects in Japan.

Sealants and Adhesives

Insulation Glass Sealants Lead the Way

Yokohama markets sealants, adhesives and coatings under the HAMATITE® brand. We boast the top share of the Japanese market for building sealants, as well as for windshield sealants, which we supply to automakers on an OE basis.

In the year under review, sales in the HAMATITE® line increased. A major factor was the adoption among leading glass makers of our insulation glass sealant, which is popular for its weather resistance and adhesive performance.

Sales of mainstay building sealants improved, owing to solid OE sales to housing companies, which outweighed sluggish growth in sealants used in commercial buildings.

We also increased sales of windshield sealants. Amid strong calls for cost reductions, we increased our lineup to encompass new low-density versions that help reduce vehicle weight.

Conveyor Belts

Sales Unchanged Despite Price Declines

Unit-based sales of conveyor belts were up, reflecting strong overseas demand. We did particularly well in products for steel foundries in China. We released the energy-efficient ECOTEX conveyor belt, which reduces electricity consumption by about 30% from comparable conventional production lines, and attracted an order for 9.5 kilometers of this product for a limestone mine. The value of sales was largely unchanged, however, because of lower prices.

Antiseismic Rubber Bearings and Joints

Big Joint *Turns in Strong Performance*

In fiscal 2004, we strove to boost sales of antiseismic rubber bearings for bridges by introducing environmentally friendly products that reduce vibration and noise. Despite these efforts, prices dropped amid a decline in public-sector spending in Japan, leading to a substantial fall in sales and weaker profits. In fiscal 2005, we will counter low prices by prioritizing price management over order volume.

Sales of rubber joints increased amid healthy demand for our Big Joint product, which fits between girders and can handle spaces as wide as 60 centimeters. We have received numerous inquiries about YS-II, unveiled in July 2003, which reduces noise more than previous models and lasts longer. We expect sales of this offering to increase in fiscal 2005.

Pneumatic Fenders and Marine Hoses

Large Orders Boost Sales

We enjoy a large share of the global market for pneumatic fenders and marine hoses, which we mainly export. In fiscal 2004, sales in both of these categories increased. Sales of pneumatic fenders were particularly strong as, for the first time, they were chosen for use on wharves in Pearl Harbor, Hawaii.

Sales of marine hoses advanced in Asia and the Middle East, as rising oil prices prompted renewed activity in oil fields.

(Left) The ECOTEX conveyor belt offers excellent energy savings.

(Right) Yokohama pneumatic fenders built onto a wharf.

Aircraft Components

Serving Boeing and Airbus

Sales of aircraft components declined, the result of a downturn in aircraft production amid the lingering effects of the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome. At the same time, we began supplying lavatory modules for the Boeing 737 in 2003. We are scheduled to supply water tanks and waste tanks for the Airbus A380 in 2005. We therefore anticipate a recovery in this category.

Golf Products

New Driver a Hit

Sales of golf products increased on higher sales of mainstay golf clubs. Launched in January 2003, the DUO series of composite-head drivers—featuring a combination of titanium and carbon fiber-reinforced plastics—generated robust sales. We have sold more than 100,000 DUO drivers in the Japanese market, where between 30,000 and 50,000 units is normally a great success. Our 900 series of irons also sold well, while sales of the DUO HIT fairway wood have expanded steadily since its release in February 2004.

Overseas Production

New Orders from Major American Automakers

Our overseas production focuses on manufacturing hoses and sealants in the United States and Asia.

YH America, which makes hose assemblies and windshield sealants, began assembling hydraulic hoses for construction equipment in 2003. This subsidiary reported a decline in hose sales after some Japanese automakers discontinued local production of some models. Still, YH America again enjoyed healthy sales of windshield sealants and hotmelt sealants for automotive lamps. The subsidiary attracted major orders, including one from General Motors Corporation for a new, primer-free sealant. YH America expects to supply automotive hoses to leading companies in fiscal 2005.

At SAS Rubber Company, sales of automotive hoses declined owing to lower demand from Ford Motor Company and DaimlerChrysler and decreased aftermarket sales.

Booming Sales in Asia

SC Kingflex Corporation, our Taiwanese hose production and sales subsidiary, posted record sales on increased exports to China and the United States. Yokohama Rubber (Thailand) Co., Ltd., which makes hose assemblies and windshield sealants, reported healthy sales of construction equipment hoses in Southeast Asia. Sales of hoses for Japanese carmakers increased, significantly raising overall sales of hoses. Meanwhile, sales of windshield sealants to Thailand rose on a recovery in local vehicle production. Exports also increased to Indonesia and other countries, resulting in a surge in windshield sealant sales in fiscal 2004.

In the year under review, we decided to build a new windshield sealant plant in China, where automobile demand is huge. The plant will begin operations in January 2005, with an initial annual capacity of 1,000 metric tons that we plan to double by 2007.

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%.

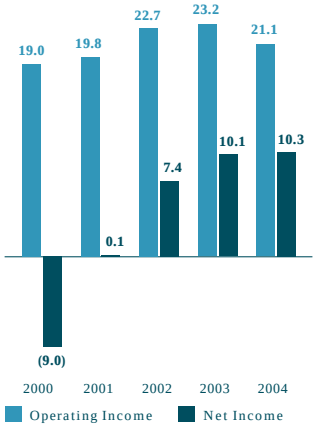
Other Income and Expenses

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.

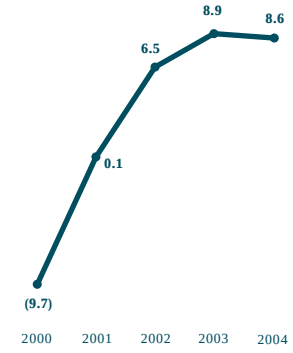
Net Income

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.

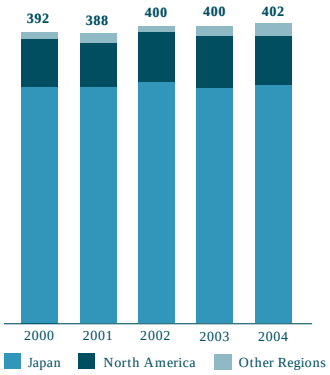
By Region

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.

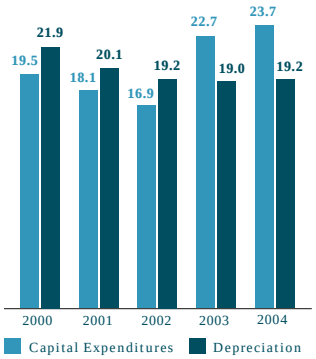
In North America, sales fell 5.0%, to ¥67.1 billion, because of a decline in dollar-denominated sales from the yen's appreciation. Operating income dropped 55.0%, to ¥1.1 billion, the result of increased raw materials costs.

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.

SALES BY REGION
(Billions of Yen)



CAPITAL EXPENDITURES AND DEPRECIATION
(Billions of Yen)



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%.

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.

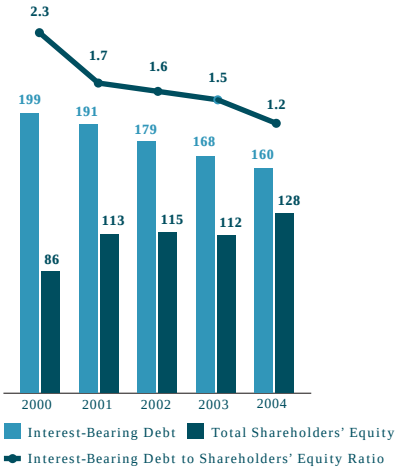
As a result, free cash flow totaled ¥4.7 billion. Management allocated this amount mainly to pay cash dividends and repay loans.

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

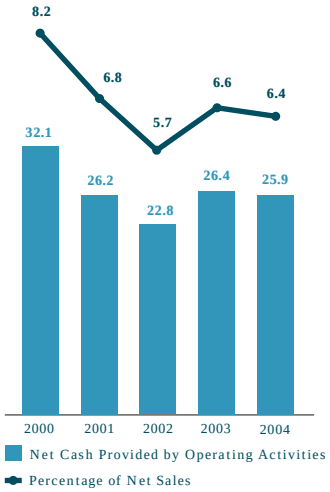
OUTLOOK

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.

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, 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

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

Yokohama Tire Manufacturing (Thailand) Co., Ltd.
・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

N.V. Yokohama Belgium S.A.
・Sales of tires and related products

Yokohama Tire Sales Philippines, Inc.
・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

Yokohama HAMATITE (Hangzhou) Co., Ltd.
・Production and sales of windshield sealants

Overseas Representative Offices

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

Corporate Governance

Yokohama Rubber is strengthening corporate governance to ensure transparency and fairness. Key initiatives are as follows:

1. Amid a dramatically changing business environment, since 1998 we have gradually shrunk our board of directors to streamline decision-making.
2. To reinforce the strategic roles of top management, we established the Management Council, mainly comprising the chairman and president. The Council discusses business plan strategies and implementation.
3. At the fiscal 2003 annual general meeting of shareholders, we amended our articles of incorporation, halving the terms of directors to a year. The goals were to clarify responsibilities and improve flexibility and speed.
4. To enhance strategic effectiveness, we introduced an executive officer system following the shareholder gathering for fiscal 2004.We aim to build an effective corporate governance system by clarifying responsibilities and authority while streamlining decision-making and implementation.
5. We maintain a four-member Board of Corporate Auditors, which includes two external members. They are Junnosuke Furukawa, member of the board and senior advisor of The Furukawa Electric Co., Ltd., and Yuzuru Fujita, president and chief executive officer of ASAHI MUTUAL LIFE INSURANCE COMPANY. Full-time auditors must participate in Management Council and other important meetings. We also conduct internal audits based on annual plans.

In addition to reinforcing corporate governance, we are striving to satisfy community expectations through the following committees, which we set up in April 2003.

Compliance Committee

The Compliance Committee supersedes the Corporate Ethics Committee, which we established in January 1998. The new body compiles and distributes materials and educates on corporate activity standards to ensure adherence to laws and regulations and business ethics.

Risk Management Committee

This committee fortifies our defense against various Group risks. It conducts educational forums and regularly assesses risks. We also maintain the Central Disaster Prevention Committee, the Environmental Preservation Promotion Committee, and other entities for more focused risk management.

Directors, Corporate Auditors, and Corporate Officers

As of June 29, 2004

Board of Directors

Chairman and Representative Director
Yasuo Tominaga

President and Representative Director
Tadanobu Nagumo

Director and Senior Managing Corporate Officer
Keigo Ueda

Director and Senior Managing Corporate Officer
Takashi Sugimoto

Director and Managing Corporate Officer
Tetsuya Mizoguchi

Director and Managing Corporate Officer
Takasuke Sato

Director and Corporate Officer
Tatsunari Kojima

Corporate Auditors

Masaaki Kushida
Seiichi Suzuki
Junnosuke Furukawa
Yuzuru Fujita

Corporate Officers (not on Board of Directors)

Managing Corporate Officers
Takashi Yamashita
Toshihiko Shiraki

Corporate Officers
Masamichi Danjo
Akihisa Takayama
Michio Yuge
Hiroshi Hosoya
Toshio Izawa
Yasuhiro Mizumoto
Shinichi Suzuki
Koichi Tanaka
Takashi Fukui
Toru Kobayashi
Toshihiko Suzuki
Norio Karashima

Investor Information

As of March 31, 2004

Company Name:
The Yokohama Rubber Co., Ltd.

Head Office:
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan

Established:
October 13, 1917

Paid-In Capital:
¥38,909 million

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

Stock Exchange Listings:
Tokyo, Osaka, Nagoya

Investor Contact:
PR/IR section, Corporate Communications Dept.
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
Phone: 81-3-5400-4531 Facsimile: 81-3-5400-4570

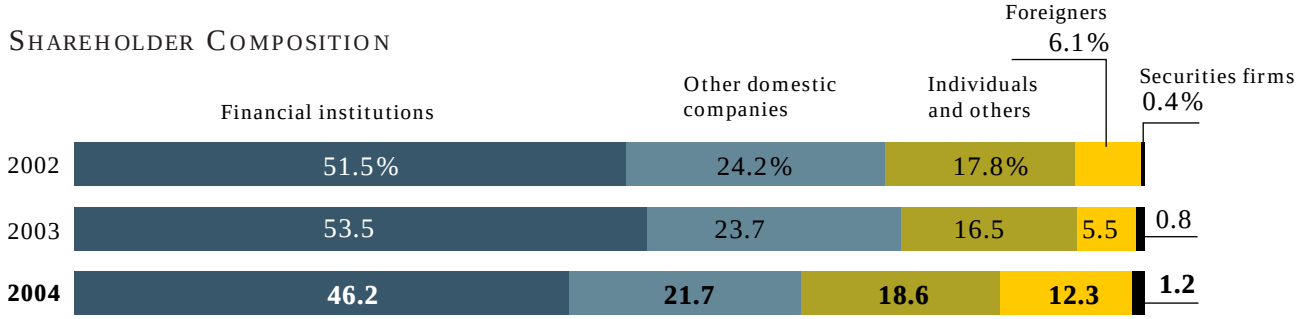
Investor Relations Website:
http://www.yrc-pressroom.jp/ir_en/

Stock Information

As of March 31, 2004

Shares of Common Stock Authorized:	480,000,000
Shares of Common Stock Issued:	342,598,162 (unchanged from fiscal 2003 year-end)
Number of Shareholders:	22,098 (up 1,941 from fiscal 2003 year-end)

Shareholder Composition



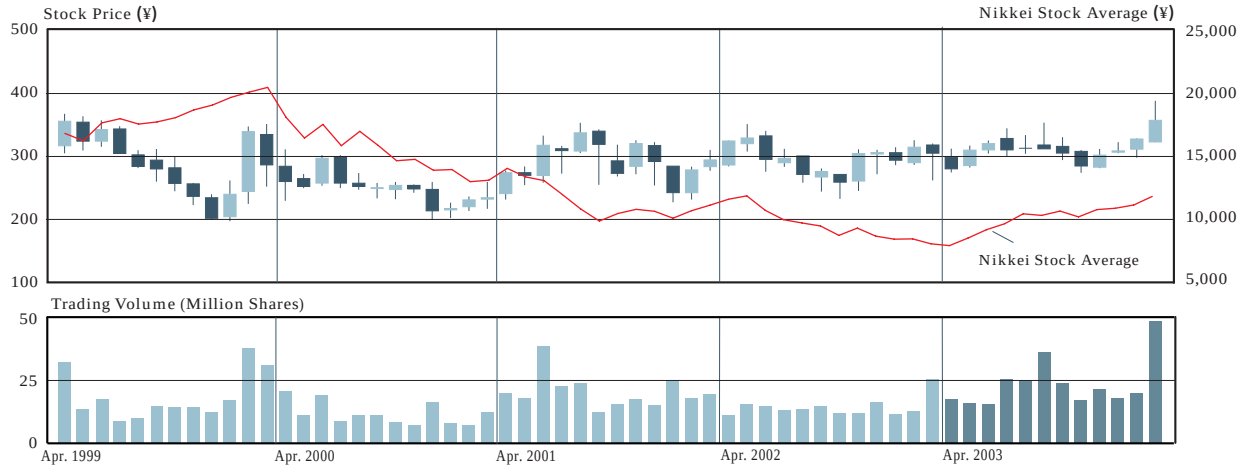
Major Shareholders

Name	Percentage of Voting Rights
Japan Trustee Services Bank, Ltd. (trust account)	9.4%
The Master Trust Bank of Japan, Ltd. (trust account)	6.4
The Furukawa Electric Co., Ltd.	5.9
ZEON CORPORATION	5.1
Mizuho Corporate Bank, Ltd.	3.9

Share Price Trends

	2004	2003	2002	2001	2000
Share Price (Yen):					
High	**387**	350	352	312	368
Low	**272**	235	228	200	197
Fiscal Year-End	**357**	304	296	235	287
Shares of Common Stock Issued	**342,598,162**	342,598,162	342,598,162	342,598,162	342,598,162

Share Price Range and Trading Volume on Tokyo Stock Exchange



Note: 1. Monthly stock prices and trading volume based on Tokyo Stock Exchange trading.
2. Nikkei Stock Average based on simple average of monthly closing prices.

THE YOKOHAMA RUBBER CO., LTD. 36-11, SHIMBASHI 5-CHOME, MINATO-KU, TOKYO 105-8685, JAPAN PHONE: 81-3-5400-4531

PRINTED IN JAPAN