Annual Report 1998

THE YOKOHAMA RUBBER CO., LTD.

Year ended March 31, 1998

All Roads

Lead to the Customer

Whether You're a Consumer or a Shareholder, Our Goal Is Your Satisfaction

YOKOHAMA

Profile

The Yokohama Rubber Co., Ltd. (YRC), is one of the world's leading manufacturers of rubber products, offering an extensive range of tire, rubber and adhesive products. Established in 1917, YRC has expanded its worldwide business scope with a lineup of high-technology products meeting consumer needs in the fields of automobiles, civil engineering, construction, marine engineering, aerospace and sporting goods, which have earned the company an excellent reputation. Today, YRC is reinforcing its global structure through production centers in Japan, other countries in Asia and the United States, and through a sales network covering these three regions and Europe with the goal of becoming a corporation that wins the confidence of customers around the world.

Product Lineup

Tire Group

Tires and tubes for passenger cars, trucks, buses, small trucks, construction vehicles, industrial vehicles and aircraft

Multiple Business Group

Conveyor belts, hoses, pneumatic rubber, fenders, marine hoses, rubber bearings, antiseismic rubber materials for buildings, waterproofing agents, adhesives, sealing materials, aircraft lavatory modules, aircraft hoses, aircraft couplings, aircraft fuel cells and water tanks, and sporting goods

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Financial Highlights

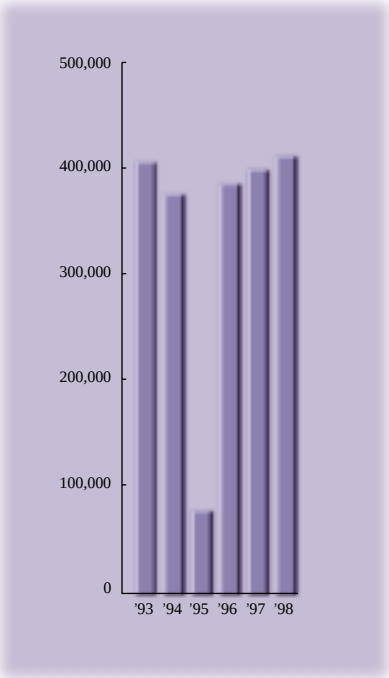
For the years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	**1998**
Net Sales	**¥415,397**	¥402,652	¥389,304	**$3,146,947**
Operating Income	**11,702**	14,313	15,155	**88,652**
Income before Income Taxes	**5,620**	15,326	5,746	**42,576**
Net Income	**873**	3,753	563	**6,614**
Shareholders' Equity	**105,478**	108,306	97,907	**799,076**
Total Assets	**440,420**	420,939	423,749	**3,336,515**

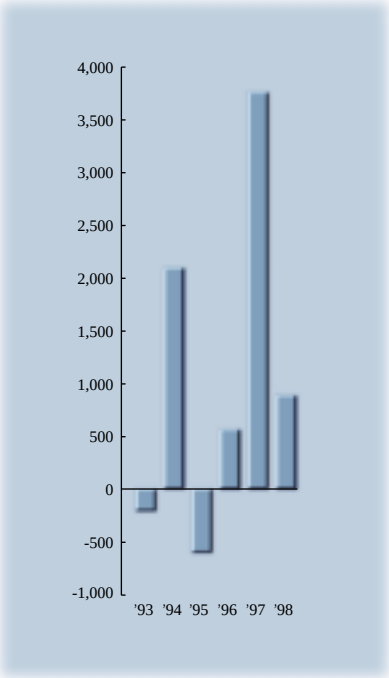
	Yen			U.S. dollars
	1998	1997	1996	**1998**
Per Share:				
Net Income	**¥2.55**	¥11.14	¥1.77	**$0.02**
Cash Dividends	**8.00**	8.00	8.00	**0.06**

Note: The United States dollar amounts in this annual report are given for convenience only and represent translations of Japanese yen at the rate of ¥132.00=US$1.

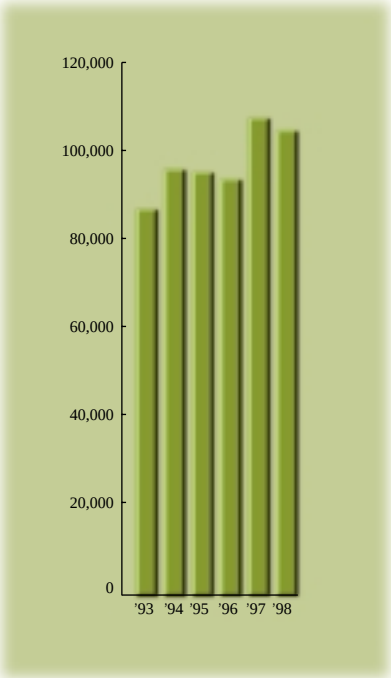
Net Sales (Millions of yen)



Net Income (Loss) (Millions of yen)



Shareholders' Equity (Millions of yen)



To Our Shareholders

Kazuo Motoyama (left), Chairman, and Seiji Hagiwara, President

Fiscal 1998 in Review

We are pleased to present the Annual Report of the Yokohama Rubber Co., Ltd., and its consolidated subsidiaries (collectively Yokohama) for the fiscal year ended March 31, 1998.

During the term under review, Japan saw a significant economic slowdown, owing primarily to such factors as an increase in the consumption tax rate initiated in April 1997 and a halt in implementing special income tax reductions, both of which restricted personal consumption. Contracted spending for public works also adversely affected the business environment. Overseas, fiscal 1998 was a year of mixed environments; although the United States continued to enjoy booming business, Asia was hit by currency crises.

Under these circumstances, Yokohama's Tire Group saw a decline in domestic sales of both original equipment (OE) and replacement tires. On the other hand, sales of tires for export soared, supported by the depreciation of the yen. In our Multiple Business (MB) Group, sales grew from the previous year, owing to increases in exports of industrial products and in sales of products in the aerospace and sports sectors.

As a result, net sales amounted to ¥415,397 million, a rise of 3.2%. Operating income, however, dropped 18.2% to ¥11,702 million, and net income stood at ¥873 million, a decline of 76.7%. The fall in net income was caused by intensified price competition in fiscal 1998 and the absence of extraordinary income from the sale of securities in overseas partners, which was recorded in figures for fiscal 1997.

Measures for Recovery

The business environment will remain difficult in fiscal 1999. The Japanese economy, in particular, is looking at what is considered to be the lowest level of personal consumption since the oil crisis of 1973. Despite these negative factors, however, Yokohama is determined to take measures to increase sales and profits in fiscal 1999.

First of all, in the Japanese market Yokohama will reinforce its status as a leading tire manufacturer by offering replacement tires of superior quality and

distinctiveness. We have been implementing the "Inch-Up" campaign since fiscal 1997 to solidify our reputation as a maker of high-performance products and to raise our status in the market.

Second, we will develop more overseas markets. Demand for tires has been weak since last year in Asia, including Japan, but remains vigorous in North America, Europe and South America. Yokohama increased its tire exports in fiscal 1998 and plans to further expand them by improving its supply structure and sales network. Factors such as the smooth progress of restructuring at Yokohama Tire Corporation (YTC), a U.S. subsidiary, and the commencement of tire production in the Philippines in January 1998 should also contribute to enhancing our market presence overseas. In the MB Group, we will focus efforts on raising our global competitiveness and further expanding overseas markets for our products.

Reducing costs is our third initiative. For the past several years, we have committed ourselves to Total Productive Maintenance (TPM) activities, through which we have realized systems and capabilities to consistently manufacture high-quality products at competitive costs. In fiscal 1999, backed by our achievements in TPM and the improvement of our production methods, we plan to further reduce costs.

We also plan to streamline our management structure to speed up managerial decision-making processes. Further, with an eye toward reducing the outflow of funds, we will conduct in-house many of the diverse operations that have previously been subcontracted to vendors.

Toward the 21st Century

The world is experiencing a period of radical change. Companies in a variety of industries, including the tire industry, have been making vigorous efforts to develop new technologies and reduce costs in order to survive in this period of uncertainty. In these circumstances, Yokohama remains determined to pursue business objectives centered on its management policies and accumulated technologies.

The foundation of our global strategies is our corporate base in Japan. For our tire business, we have strategically placed production centers in Japan, other parts of Asia and North America to penetrate further into these markets and through vigorous sales activities, into Europe and other regions, as well. Our goal for the tire business is to win a global market share of 5% by the beginning of the 21st century. For our MB operations, we will concentrate on offering distinguished products in the four categories of industry, civil engineering/construction, aerospace products and sporting goods in Asia, North America and other regions. We aim to become a corporation with true strength and responsiveness, underpinned by our two businesses —tire and MB— each cultivating unique products that can only be realized by Yokohama.

The resources to attain these goals are Yokohama's superior marketing and technological expertise, which form our basis for growing into a truly resilient corporate group that can win the confidence of the international community.

Old social frameworks are being discarded and new structures are emerging. Because Yokohama sees these worldwide changes as an opportunity to grow, we will continue our efforts and expand our business toward the 21st century. Throughout our endeavors, we would like to ask for the continued support and understanding of our shareholders.

Kazuo Motoyama, Chairman

Seiji Hagiwara, President

All Roads Lead to the Customer

Whether You're a Consumer or a Shareholder, Our Goal Is Your Satisfaction

Yokohama aims to win customer satisfaction by offering high-quality products in a timely and efficient manner with minimum harm to the environment.

In fiscal 1998, we actively developed products of the quality expected of the Yokohama brand, reinforced our global supply structure, expanded our MB operations and streamlined our management structure.

Each of these efforts is producing the desired results. By maximizing customer satisfaction, we aim to make the Yokohama name known all over the world and win a 5% share of the global tire market by the beginning of the next century. We firmly believe such endeavors will foster growth and yield benefits to our shareholders.


YOKOHAMA

Distinctive Products

We believe that offering distinctive and high-quality products that meet customer needs is a major incentive for customer satisfaction. We always think in terms of what can be done better in order to provide new value to our customers.

One example of this effort is the Inch-Up campaign, which we began last spring for passenger car tires in the Japanese market. The focus of this campaign is to encourage car owners to replace their current tires with Inch-Up tires, which provide improved driving performance, including stability at high speeds. In 1998, we announced Inch-Up tires featuring high performance, low noise and improved riding comfort and thus opened a new domestic tire market for high-class sedans.

High-performance tires must reflect the needs of the times. Today, as the 21st century approaches, tires must above all be safe, quiet and environment-friendly. Yokohama's pledge is to continue offering advanced and original products that win customer loyalty.

Global Perspective

Ensuring customer satisfaction means consistently delivering the best products in the quantities required and in a timely fashion. As part of our global business strategy of manufacturing products as close as possible to the regions in which they will be used, we are localizing our production activities. Significant progress was made in this effort last year.

In the Tire Group, Yokohama Tire Philippines, Inc. (YTPI), commenced manufacturing tires for passenger cars in January 1998, expanding our supply capacity for the European, Middle Eastern and Asian markets. We also established a tire production company in Vietnam to gain a foothold in that market. In the United States, YTC began manufacturing tires for high-performance passenger cars and recreational vehicles. These facilities, together with GTY Tire Company, which produces tires for trucks and buses, have helped Yokohama increase the ratio of localized production in its total production.

In the MB Group, Yokohama Rubber (Thailand) Co., Ltd., began producing windshield sealant and assembling hydraulic hoses and metal couplings. YH America, Inc., a U.S. affiliate of subsidiary Yokohama Hydex Co., also started producing windshield sealant in addition to pursuing its existent hose business.

Yokohama will continue reinforcing its production organization in Japan, elsewhere in Asia and in the United States, as well as its sales network in these three regions and Europe, to promptly provide the best products to customers around the world.

Innovative Advantage

The MB Group represents a treasure trove of rubber and adhesive technologies accumulated by Yokohama. Our technological expertise, which allows us to create innovative products, forms the foundation of our efforts to ensure customer satisfaction. In fiscal 1998, by applying these technologies to develop products in new fields, we strove to expand into new markets.

For example, an application of antiseismic rubber bearing technologies led to the commercialization of laminated rubber sheeting for buildings. We also developed the world's first conveyor belt using PROTEX, our special high-elongation polyester belt duck, in a project initiated to prevent products on conveyor belts from becoming trapped between the belt and the pulley and damaged as a result. Customers using this unique conveyor belt have seen significant drops in the number of such accidents. Yokohama also succeeded in developing technologies to produce a new material by blending rubber and plastic; we are currently preparing new products based on this material. For example, many product concepts have been introduced in our sporting goods business, resulting in such hit products as a utility golf club capable of attaining distances equal to wooden clubs, and a driving spoon that can reach distances comparable to drivers.

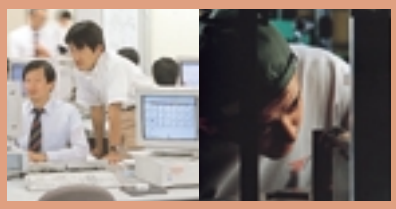
Precisely because the MB Group's product development opportunities are virtually unlimited, Yokohama will strive to expand its product development capabilities and achieve a high level of satisfaction spanning a wider range of customers.

Winning Efficiency

Delivering high-quality, competitively priced products in a timely manner is important to achieving customer satisfaction. Last year, Yokohama made special efforts to improve production and administrative efficiency. We believe these endeavors have turned us into a more effective corporation.

Yokohama has been implementing the TPM program since the early 1990s. The basic concept of this program is that every employee, whether in manufacturing or administrative divisions, will participate in programs to reduce losses and improve equipment and facilities. We made great progress in achieving these goals in our production divisions through 1997. Our administrative divisions are also commencing related activities, which we intend to strengthen in the current year. Furthermore, we have been successful in significantly speeding up administrative tasks by using the computer information network we established in 1996.

Under the theme of QCDE (quality, cost, delivery and environmental protection), Yokohama is determined to offer high-quality products as cost effectively as possible. We believe that such an approach yields the maximum benefits to customers and must be adhered to by every global enterprise.



Group Highlights at a Glance

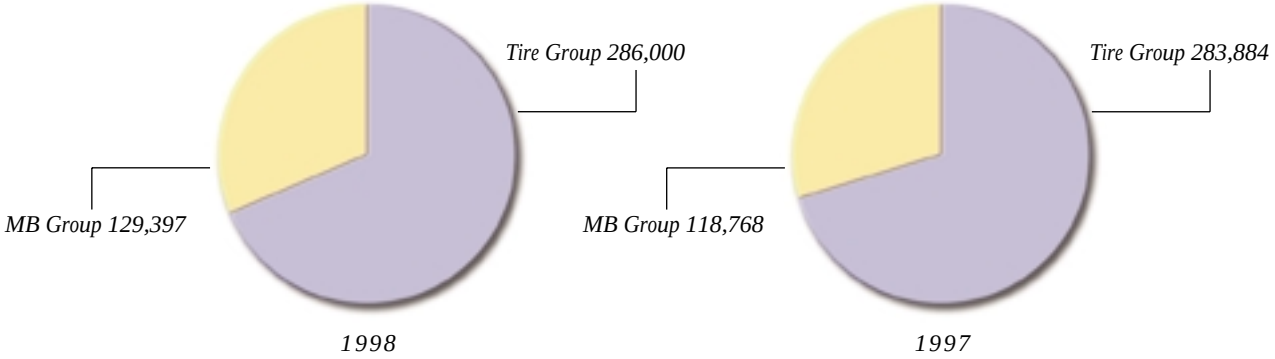
Tire Group Outline

Net sales of the Tire Group amounted to ¥286,000 million, up 0.7% from fiscal 1997. The weak Japanese economy restricted demand, resulting in a sales decline in both the OE and replacement tire categories. Exports, on the other hand, grew due to active overseas demand and the depreciation of the yen. The restructuring program at YTC began in earnest during the year, helping the subsidiary halve its deficit. In January 1998, YTPI, our new export base in the Philippines, began mass production.

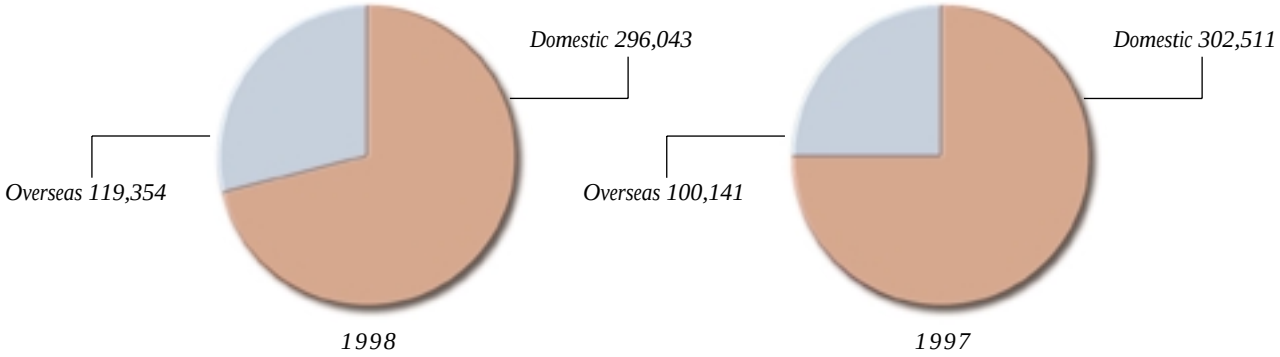
MB Group Outline

The MB Group enjoyed an 8.9% sales increase, to ¥129,397 million. In the domestic market, sales of our industrial products were at about the same level as the previous year, despite the economic slowdown. Exports grew in the weak yen environment, and sales in the aerospace and golf sectors also expanded. In November 1997, Yokohama Rubber (Thailand) commenced operations.

Sales by Group (Millions of yen)



Domestic Sales/Overseas Sales (Millions of yen)



QUIET AND COMFORTABLE ASPEC dB

ASPEC dB, a new tire for passenger cars, was released in the domestic replacement tire market in March 1998. This tire features lower noise and improved comfort compared with previous products. In 1997, Yokohama started domestic promotional campaigns for its tires featuring expanded inner diameters and excellent performance. "Comfort Inch-Up" — the slogan we adopted to market the ASPEC dB — is certain to differentiate the Yokohama brand name from the competition.

OPERATIONS BEGIN AT YOKOHAMA TIRE PHILIPPINES (YTPI)

YTPI's production plant for passenger car tires was completed within the Clark Special Economic Zone, and mass production began in January 1998. The plant, construction of which commenced in 1996, is scheduled to reach a production capacity of 5,000 units per day by August 1998. YTPI plans to manufacture 1.2 million tires per year for marketing in the Philippines and export to Europe, Asia and the Middle East.

NEW SEALING MATERIAL PLANT IN IBARAKI

In the past, Yokohama's sealing materials for construction and automobile use were manufactured exclusively at the Hiratsuka Factory. However, to meet increasing demand for our sealing materials, in the autumn of 1996 we decided to construct a new facility on the site of our Ibaraki Plant, which previously had mainly produced hydraulic hoses. The new plant was constructed in one year and started operations in July 1997.

From left • A scene from the "Comfort Inch-Up" television commercial. • Inaugural ceremony for YTPI in April 1998. • Opening ceremony for Yokohama Rubber (Thailand) in November 1997. • Demand for our sealing material is active. • The ZOOM-i utility club (left) and ZOOM-f driving spoon.

YOKOHAMA RUBBER (THAILAND) UP AND RUNNING

Operations at Yokohama Rubber (Thailand) commenced in November 1997. This company was established in 1996 in a move to localize the production of sealing materials used in automobiles and the assembly of hydraulic hoses. The company was also established to better meet the needs of Japanese automakers and construction machinery manufacturers with production facilities in Asian countries other than Japan. The construction of the company's plant, located on the Eastern Seaboard Industrial Estate in Rayong Province, took one year.

ZOOM GOLF PRODUCTS A HUGE SUCCESS

Yokohama's ZOOM-i utility club and ZOOM-f driving spoon, which were put on the market last year, have proved to be huge successes. Both contain titanium and tungsten and are designed with a low center of gravity to achieve long distances with high trajectories. These products first achieved popularity among touring professionals and subsequently have reached such levels of demand that in the latter half of fiscal 1998 production could not keep up with orders.

VELAREN MATERIAL DEVELOPED

In April 1997, Yokohama developed a new technology to blend rubber and plastic into a new material called VELAREN. This material combines the elasticity of rubber and the malleability of plastic, making possible light and recyclable products. VELAREN is already employed in our G-PROS/SR water-shielding sheets for civil engineering applications.

Tire Group

Original Equipment (OE) Tires

Automobile Production Slow in Second Half

According to the Japan Automobile Manufacturers Association, Inc. (JAMA), domestic automobile production increased year on year in the first half of fiscal 1998 (April 1997–March 1998), supported by strong exports. However, on a unit basis this production dropped significantly in the second half, compared with the same period a year earlier, owing to a major decline in domestic demand. Thus, production for the full fiscal year expanded only 1.5%. In this environment, sales of OE tires in the first half increased in both value and unit terms, but, hit hard by reduced automobile demand, fell in the second half. As a result, sales for the year dipped below the level of the previous year.

Proposing Products to Customers

In addition to the drop in automobile production, the OE market is suffering from intense price competition and other factors. To counteract these negative conditions, Yokohama is implementing a proactive sales strategy of proposing products to customers. This type of sales approach aims to increase our sales and market share through the introduction of new products and technologies to automakers and by working with automakers on value analysis and value engineering to recommend Yokohama products for new car models.

Through the Inch-Up campaign, we have been promoting high-performance replacement tires in the domestic market since 1997.

Replacement Tires

Large Drop in Personal Consumption

The raising of Japan's consumption tax from 3% to 5% in April 1997 and other economic factors severely restricted personal consumption during the fiscal period under review. Further, a series of large-scale financial institution bankruptcies in late 1997 also had the effect of tightening consumers' purse strings. In this environment, although sales of replacement tires grew in the first half of fiscal 1998 in both value and unit terms, they plunged in the second half, causing a year-on-year decrease.

Inch-Up Campaign

Yokohama's strategy to succeed during the current difficult economic situation is to aggressively offer products that demonstrate our distinctiveness. From this standpoint, since the spring of 1997 we have been engaged in a promotional campaign focusing on our high-performance Inch-Up tires. New products such as the ASPEC dB, which features a quiet and comfortable ride, and the ASPEC MV for mini vans are differentiating Yokohama from competitors. By reinforcing our brand power, we are able to pursue sales activities relatively free from considerations of price competition.

Expanding the Yokohama Sales Network

The structure of the distribution and retail businesses is changing drastically in Japan, and finding the best way to cope with these changes is an important management issue. Yokohama has streamlined its network of tire sales companies to 31 at the end of fiscal 1998, from 37 a year earlier. In the retail sector, we have been expanding our franchising activities, mainly through subsidiary YFC Co., Ltd. As of March 31, 1998, we operated 135 Grand Slam and 35 Tire Town franchise stores, as well as 30 Tire Garden partner shops. We plan to increase the number of these outlets to 200, 100 and 200, respectively.

Clockwise from top left • Advertisement for ASPEC MV, a new tire for mini vans. • Yokohama participates in various motor sports events to demonstrate the superiority of its high-performance tires. • This large-scale Tire Town franchise outlet targets the family market. • The AVS S1-Z has proven popular in the European market. • Sales of the A520 tire for passenger cars are growing in Asia.

Tires for Export

Yen Depreciation Boosts Sales

The low value of the yen, the booming U.S. economy and recovery in Europe continued to boost tire exports. Encouraged by this growth trend, Yokohama expanded its sales network and marketed a variety of new products, which resulted in strong sales of tires for export.

Reinforcing Europe and Asia

By region, 27% of the tires exported in fiscal 1998 went to North America, 20% to Europe, 20% to Asia, 15% to the Middle East and 18% to other regions. Among these regions—excluding North America, where localization activities are in progress—we consider Europe and Asia to be the most promising markets. Our high-performance tires have earned an excellent reputation in Europe; YTPI, our export base in the Philippines, began mass producing these tires to further promote sales. In the summer of 1997, a decline was experienced in countries in the Association of South East Asian Nations (ASEAN), triggered by the currency crisis in Thailand. However, exports to the People's Republic of China (PRC) and Taiwan remained strong. In the long term, Asian economies are expected to return to a high rate of growth, which is why we intend to aggressively expand our sales in the region.

Offshore Production

Raising YTC's Profitability

YTC increased its sales in fiscal 1998 by focusing marketing efforts on independent dealers and achieved a 15% decrease in manufacturing costs by lowering its material costs, improving the operation ratio in its plant, raising productivity and reducing inventories. We are continuing to implement such programs to raise YTC's profitability. Specifically, we are expanding the company's lineup of high-value-added tires for recreational vehicles (RVs) and passenger cars and improving production equipment and facilities for these products. In addition, we introduced production improvement systems from Japan and raised the efficiency of YTC's distribution system. In fiscal 1999, we plan to bring YTC firmly into the black.

Second Production Center in Asia

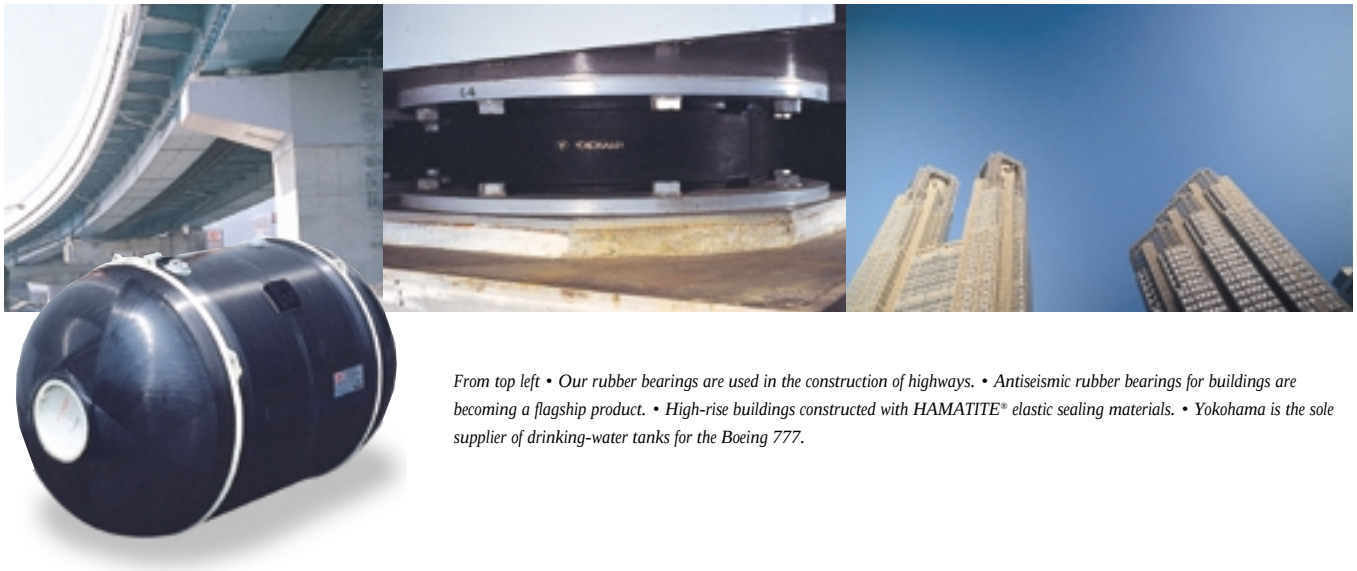
In addition to YTPI, which began mass production in January 1998, we established Yokohama Tyre Vietnam Company, our second production center in Asia, in November 1997. In its first phase of operation, from June 1998 the new company started producing tires for motorcycles, demand for which is growing sharply in Vietnam. In the second phase, the company will be manufacturing tires for trucks, buses and light trucks. In the future, tires for passenger cars will be added to this lineup.

From left • In 1998, a Ferrari entered by Team MOMO and equipped with Yokohama tires won the Daytona 24 Hours. • In the United States, YTC manufactures at the Salem Plant in Virginia. • A production line at YTPI. Executives from this subsidiary were invited to Japan for a year-long training program that focused on quality assurance.

INDUSTRIAL, CIVIL ENGINEERING AND HAMATITE® PRODUCTS

Emphasizing Construction and Civil Engineering

In the industrial sector, Yokohama's primary products include conveyor belts for the steel and cement industries and hoses for construction machinery and automobile applications. For the civil engineering sector, we offer products such as antiseismic rubber bearings for bridges. In our HAMATITE® business, we supply sealing materials for buildings and automobiles. In market development during the period under review, we emphasized the construction and civil engineering sectors. Sales to these sectors were strong in the first half of fiscal 1998 but slid in the second half, as public works projects decreased and housing starts fell significantly. Under these conditions, sales for the fiscal year as a whole were at approximately the same level as the previous year. Other new products include antiseismic rubber bearings for buildings, which we released in the spring of 1997. These products have become popular in recent years as protection against damage from earthquakes; sales contributed greatly to revenue in the second half of fiscal 1998, making the bearings one of Yokohama's flagship products.



From top left • Our rubber bearings are used in the construction of highways. • Antiseismic rubber bearings for buildings are becoming a flagship product. • High-rise buildings constructed with HAMATITE® elastic sealing materials. • Yokohama is the sole supplier of drinking-water tanks for the Boeing 777.

AEROSPACE PRODUCTS

Strong Demand from Boeing

Sales in the aerospace sector grew steadily in fiscal 1998, owing to demand from The Boeing Company for lavatory modules and drinking-water tanks used in passenger airplanes. Orders from domestic aircraft manufacturers for composite material products also contributed to expanded sales. Yokohama is the sole supplier of drinking-water tanks used in Boeing 737, 747, 757 and 767 aircraft. In addition, in April 1997 we successfully concluded a contract to provide these products for Boeing 777s.

Sports Products

Sales Robust despite a Sluggish Market

Although sluggish personal consumption adversely affected the golf products market in Japan, Yokohama's distinctive products helped us achieve significant sales growth. Demand rose for products in our PRGR brand, including drivers and iron clubs, as well as caddy bags and shirts offering excellent air permeability. Our biggest hits were in the PRGR ZOOM series of utility clubs and driving spoons.

Clockwise from top left • Brian Watts, a professional golfer contracted under the PRGR name. • Exports of fenders, marine hoses and conveyor belts are showing significant growth. • YH America, based in the state of Kentucky, began producing windshield sealant in June 1998.

Exports and Offshore Production

Strategic Marketing Supports Export Growth

In fiscal 1998, Yokohama focused on expanding exports by increasing its sales to existing customers, successfully winning large-scale contracts based on its strategic business proposals and implementing other schemes. The low value of the yen supported these activities. As a result, although Asian demand slipped in the second half of the fiscal year following currency crises in the ASEAN region, Yokohama's overall exports grew significantly. Products that contributed to this success include pneumatic rubber fenders, marine hoses and conveyor belts.

Localization in North America and Asia

In recent years, Yokohama has been expanding offshore production of its hoses and HAMATITE® products to more effectively meet the needs of Japanese auto and construction machinery makers with facilities in overseas locations. In North America, where SAS Rubber has been manufacturing automobile hoses and YH America has been assembling hoses and couplings, we decided to commence production of windshield sealant. Our new plant for this product, located on the premises of YH America, went into operation in June 1998. In Asia, we have invested in Taiwan's Shieh Chi Industrial Company, to which we have been transferring technologies to produce hydraulic hoses. In addition, Yokohama Rubber (Thailand) began producing windshield sealant and assembling hoses and couplings in November 1997. Although ASEAN economies are currently experiencing a downturn, we plan to fortify our production in the region because we see it as a promising market in the 21st century.

The Yokohama Rubber Group

The Yokohama Rubber Group is composed of 61 consolidated subsidiaries, 150 nonconsolidated subsidiaries and 66 affiliates, including eight companies to which the equity method of accounting is applicable. Our consolidated subsidiaries include 28 domestic sales companies of tires, nine domestic sales companies of industrial products, 10 overseas subsidiaries and 14 other domestic companies.

Domestic Tire Sales Companies

These companies supply Yokohama tires to retail shops and transport companies. As Japan's retail system for tires is undergoing changes in accordance with market expansion and the emergence of large-scale automobile products stores, Yokohama has been restructuring these sales companies with the goal of raising management efficiency to cope with market change.

Domestic Industrial Products Sales Companies

MB-related products are distributed through these companies to steel and cement manufacturing plants and construction sites across Japan. MB products are by nature highly specialized, and many are custom-made. Thus, each sales company emphasizes employee training in high-level technological skills and encourages frequent information exchanges with customers.

Overseas Subsidiaries

YTC, located in America, is our largest overseas subsidiary. It was established in 1992 following a merger between YTC — then a sales company — and Mohawk Rubber Company; Yokohama acquired all of the shares of the company in 1989. Based in California and operating a plant in Virginia, YTC markets Yokohama products through a nationwide network of sales and distribution centers. Currently, the company manufactures tires for passenger cars and light trucks. Production capacity is now 7.5 million units per year, a figure we plan to raise to 8.5 million units by the end of December 1998.

Other Domestic Companies

Our largest subsidiary in Japan is Yokohama Hydex, which began as a joint venture between Yokohama and a U.S. company in 1973. Yokohama, discontinued the joint venture contract in 1996 to reestablish the company as a wholly owned subsidiary. Yokohama Hydex is now a leading company in the industry, manufacturing and assembling hydraulic hoses for the construction machinery and automotive sectors in Japan. It is also increasing its overseas market share by localizing production. The company has been assembling hoses in the United States and from last year began hose-assembly operations in Thailand.

Consolidated Subsidiaries

Domestic Tire Sales Companies

Twenty-eight companies

Domestic Industrial Products Sales Companies

Nine companies

Overseas Subsidiaries

Yokohama Tire Corporation

Yokohama Tyre Australia Pty., Ltd.

Yokohama Reifen GmbH and seven other companies

Other Domestic Companies

Yokohama Hydex Co. (Manufacture and sales of industrial products)

Hamagomu Engineering Ltd. (Manufacture and sales of equipment and plant)

Hamagomu Real Estate Co., Ltd. (Real estate business)

Hamagomu Aicom Inc. (Information processing)

Japan Power Brake Inc. (Manufacture and sales of disk brakes)

and nine other companies

Environmental Protection

QCDE, the abbreviation for quality, cost, delivery and environmental protection, is Yokohama's theme for total technological advancement. We believe that companies that can not meet high standards in these four areas will not be able to compete in the global market in the future. Environmental protection, in particular, is an issue that will demand the attention of all global corporate citizens in the 21st century. At Yokohama, we take this issue seriously, as shown by the variety of environmental protection initiatives that we began implementing in the early 1990s.

Progress Being Made

In 1992, Yokohama established its Environmental Conservation Department to implement environment-related programs throughout its operations. In the following year, we drew up our Environmental Action Plan, which outlines concrete measures to protect the ozone layer, prevent global warming and reduce our industrial waste. As a result of this plan, we attained our goal of eliminating chlorofluorocarbons (CFCs) and trichloroethane from our manufacturing processes in 1995 and 1996, respectively. In 1996, we also reduced our levels of carbon dioxide emissions, which are believed to be the chief cause of global warming, and industrial waste by 7.9% and 43%, respectively, from 1991 levels.

New Action Plan

Based on these achievements, we decided to compile a new action plan in 1998 to further promote in-house environmental protection efforts. The focus of this plan is the reduction of our burden on the environment and the strengthening of our organizational efforts to this end. To reduce the environmental burden of our operations, we committed ourselves to lowering the overall amount of industrial waste we produce, reducing the final volume of industrial waste to be processed, cutting carbon dioxide and organic solvent emissions and completely eliminating CFC substitutes. The goals for our organizational efforts include earning ISO 14001 environmental management certification for our six plants in Japan by 1999.
(See the list below.)

A Variety of Measures

We are devising specific measures to attain the goals of our new action plan. For example, for our tires we adopted Life Cycle Assessment, which quantitatively evaluates a product's environmental impact from the materials procurement and production stages through to usage, disposal and recycling. This assessment is now being applied in our product development. We are also considering the recycling of scrap tires from our plants by processing them into rubber powder. Other efforts being planned include the introduction of cogeneration systems to significantly reduce carbon dioxide emissions, the promotion of environment-friendly materials under a "green procurement" plan and employee education in environmental matters.

Goals of the New Action Plan

1. Industrial waste
   To be reduced by 30% from the 1996 level by the end of the year 2000
2. Industrial waste processing
   To be reduced by 50% from the 1996 level by the end of the year 2000
3. Carbon dioxide emissions
   To be returned to the 1990 level by the year 2000
4. CFC substitutes
   To be eliminated completely by the year 2005
5. Organic solvent discharge
   To be reduced by 30% from the 1995 level by the end of the year 2000
6. ISO 14001 certification schedule

Mishima Plant	June 1998
Mie Plant	December 1998
Shinshiro Plant	October 1999
Onomichi Plant	December 1999
Ibaraki Plant	December 1999
Hiratsuka Factory	December 1999

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Financial Review

Operating Results

Sales

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

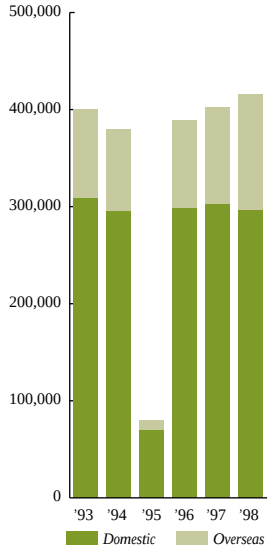
Expenses/Earnings

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

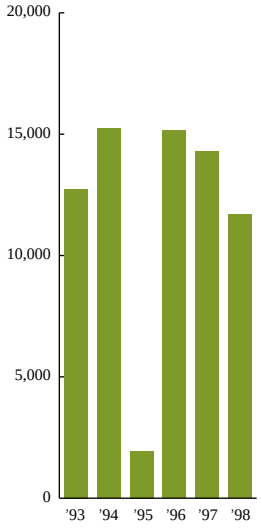
R&D Expenditures

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

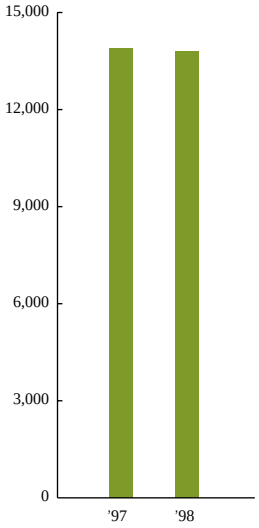
Net Sales
(Millions of yen)



Operating Income
(Millions of yen)



R&D Expenditures
(Millions of yen)



Capital Expenditures

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

Financial Position

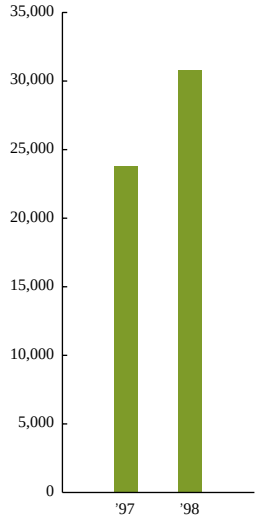
Assets, Liabilities and Shareholders' Equity

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

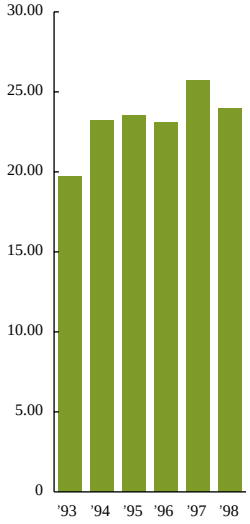
Cash Flows

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

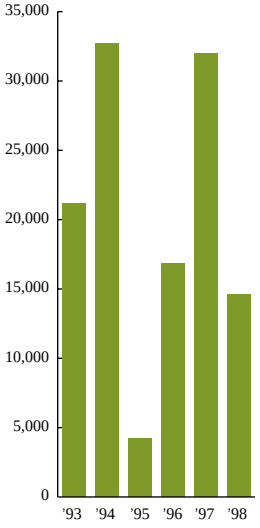
Capital Expenditures
(Millions of yen)



Equity Ratio
(%)



Net Cash Provided by Operating Activities (Millions of yen)



Segment Information

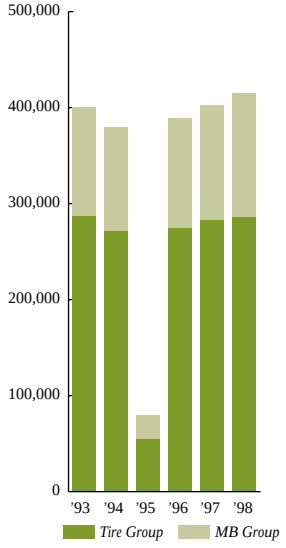
Business Groups

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

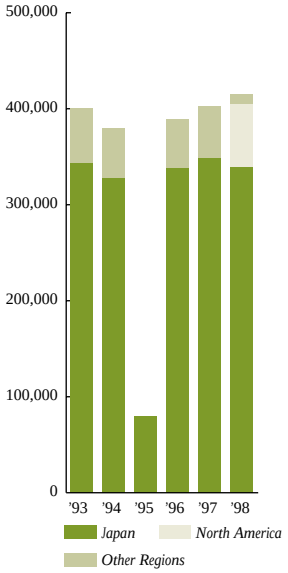
Regions

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

Sales by Group
(Millions of yen)



Sales by Region
(Millions of yen)



Results for Other Regions include North America until 1997.

Six-Year Summary

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

Millions of yen

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

Notes:

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

Consolidated Balance Sheets

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

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Income

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

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

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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

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

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

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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

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

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

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

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

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

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

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

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

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

(2) Foreign Currency Translation

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

(3) Marketable Securities and Investment Securities

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

(4) Inventories

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

(5) Allowance for Doubtful Receivables

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

(6) Depreciation

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

(7) Liabilities for Severance Payments and Employee Benefit Plans

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

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

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

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

(8) Income Taxes

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

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

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

(9) Revenue Recognition

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

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) Net income (loss) per share

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

(12) Leases

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

3. Inventories

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

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

4. Long-term Debt

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

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

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

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

5. Depreciation

Depreciation charges were as follows:

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

6. Contingent Liabilities

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

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

7. Leases

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

8. Legal Reserve

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

9. Retained Earnings and Dividends

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

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

10. Segment Information

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

Business Segments

	Year ended March 31, 1998				
	Tires	Multiple Business	Total	Eliminations	Consolidated
	Millions of yen				
Sales to third parties	¥ 286,000	¥129,397	¥415,397	—	¥ 415,397
Intergroup sales and transfers	126	8,900	9,026	¥(9,026)	—
Total sales	286,126	138,297	424,423	(9,026)	415,397
Operating expenses	280,858	132,757	413,615	(9,920)	403,695
Operating income	¥ 5,268	¥ 5,540	¥ 10,808	¥ 894	¥ 11,702
Total assets	¥ 292,743	¥114,428	¥407,171	¥33,249	¥ 440,420
Depreciation	¥ 17,314	¥ 4,009	¥ 21,323	¥ 243	¥ 21,566
Capital expenditure	¥ 19,569	¥ 6,465	¥ 26,034	¥ 1,195	¥ 27,229
	Thousands of U.S. dollars				
Sales to third parties	$2,166,667	$ 980,280	$3,146,947	—	$ 3,146,947
Intergroup sales and transfers	954	67,424	68,378	$ (68,378)	—
Total sales	2,167,621	1,047,704	3,215,325	(68,378)	3,146,947
Operating expenses	2,127,712	1,005,735	3,133,447	(75,152)	3,058,295
Operating income	$ 39,909	$ 41,969	$ 81,878	$ 6,774	$ 88,652
Total assets	$2,217,750	$ 866,879	$3,084,629	$ 251,886	$ 3,336,515
Depreciation	$ 131,167	$ 30,371	$ 161,538	$ 1,840	$ 163,378
Capital expenditure	$ 148,250	$ 48,977	$ 197,227	$ 9,053	$ 206,280

	Year ended March 31, 1997				
	Tires	Multiple Business	Total	Eliminations	Consolidated
	Millions of yen				
Sales to third parties	¥ 283,884	¥118,768	¥402,652	—	¥ 402,652
Intergroup sales and transfers	128	7,949	8,077	¥(8,077)	—
Total sales	284,012	126,717	410,729	(8,077)	402,652
Operating expenses	276,010	122,502	398,512	(10,173)	388,339
Operating income	¥ 8,002	¥ 4,215	¥ 12,217	¥ 2,096	¥ 14,313
Total assets	¥ 279,607	¥108,070	¥387,677	¥33,262	¥420,939
Depreciation	¥ 17,485	¥ 3,453	¥ 20,938	¥ 229	¥ 21,167
Capital expenditure	¥ 16,387	¥ 3,717	¥ 20,104	¥ 212	¥ 20,316

Geographical Areas

	Year ended March 31, 1998					
	Japan	North America	Other	Total	Eliminations	Consolidated
	Millions of yen					
Sales to third parties	¥339,882	¥64,966	¥10,549	¥415,397	—	¥415,397
Intergroup sales and transfers	22,436	2,818	—	25,254	¥(25,254)	—
Total sales	362,318	67,784	10,549	440,651	(25,254)	415,397
Operating expenses	350,414	68,189	10,416	429,019	(25,324)	403,695
Operating income (loss)	¥ 11,904	¥ (405)	¥ 133	¥ 11,632	¥ 70	¥ 11,702
	Thousands of U.S. dollars					
Sales to third parties	$2,574,863	$492,167	$79,917	$3,146,947	—	$3,146,947
Intergroup sales and transfers	169,970	21,348	—	191,318	$(191,318)	—
Total sales	2,744,833	513,515	79,917	3,338,265	(191,318)	3,146,947
Operating expenses	2,654,652	516,583	78,909	3,250,144	(191,849)	3,058,295
Operating income (loss)	$ 90,181	$ (3,068)	$ 1,008	$ 88,121	$ 531	$ 88,652

	Year ended March 31, 1997				
	Japan	Foreign	Total	Eliminations	Consolidated
	Millions of yen				
Sales to third parties	¥348,746	¥53,906	¥402,652	—	¥402,652
Intergroup sales and transfers	13,155	1,068	14,223	¥(14,223)	—
Total sales	361,901	54,974	416,875	(14,223)	402,652
Operating expenses	347,211	56,941	404,152	(15,813)	388,339
Operating income (loss)	¥ 14,690	¥(1,967)	¥ 12,723	¥ 1,590	¥ 14,313

Overseas Sales

	Year ended March 31, 1998		
	North America	Other	Total
	Millions of yen (Thousands of U.S. dollars)		
(A) Overseas sales	¥68,101	¥51,253	¥119,354
	$(515,917)	$(388,280)	$(904,197)
(B) Net sales			¥415,397
			$(3,146,947)
(C) (A)/(B)×100	16.4%	12.3%	28.7%

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

Report of Independent Certified Public Accountants

Showa Ota & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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TELEX: 02224127 SACTOK J

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

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

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

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

Tokyo, Japan
June 26, 1998

Showa Ota & Co.

Corporate Data

as of March 31, 1998

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

Stock Information

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

Composition of Shareholders

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

Investor Information

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

Board of Directors and Corporate Auditors

as of June 26, 1998

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

Network

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Toll Free: 1-800-387-4924
Eastern Regional Office & Distribution Center
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