Financial Section

11-Year Summary of Consolidated Financial Data

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

				Millions of yen
Years ended December 31	**2010**	2009	2008	2007
For the year:				
Net sales	**¥604,549**	¥524,535	¥604,974	¥567,307
Cost of sales	**387,678**	334,249	412,824	368,783
Selling, general and administrative expenses	**169,300**	161,547	166,491	153,398
Operating income	**47,571**	28,739	25,659	45,126
Net income (loss)	**21,427**	9,093	1,021	19,499
Depreciation and amortization	**37,885**	37,425	35,475	30,165
Capital expenditures	**32,055**	32,484	49,601	53,205
Cash flows from operating activities	**69,725**	64,525	25,879	56,594
Cash flows from investing activities	**(35,400)**	(34,260)	(58,067)	(65,167)
Cash flows from financing activities	**(25,634)**	(22,781)	34,088	8,692
At year-end:				
Total assets	**¥622,243**	¥613,230	¥639,941	¥671,117
Net assets	**212,964**	209,052	202,642	250,799
Shareholders' equity	**—**	—	—	—
Interest-bearing debt	**241,250**	261,572	275,746	239,573

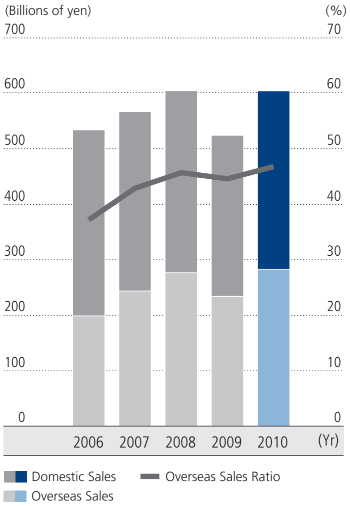
				Yen
Per share amounts:				
Net income (loss)	**¥ 81.67**	¥ 34.66	¥ 3.89	¥ 74.31
Net income—diluted	**—**	—	—	—
Cash dividends paid	**20.00**	18.00	18.00	20.00

				Percent
Key ratios:				
Operating income ratio	**7.9%**	5.5%	4.2%	8.0%
ROE	**11.4**	4.9	0.5	9.1
ROA (operating income base)	**7.6**	4.7	3.9	7.1
Equity ratio	**30.5**	30.5	28.3	33.9
Number of employees	**22,242**	20,832	20,369	18,410
Number of shares issued	**263,043,057**	263,043,057	263,043,057	263,043,057

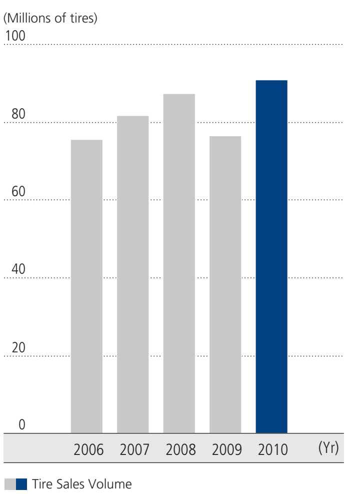
Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥81 per US$1.00, the approximate exchange rate prevailing at December 31, 2010.
2. In 2000, the Company changed the accounting policy for technical aid income and expense. As a result of these changes, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million, however, there were no effects on net income.
3. From 2006, Sumitomo Rubber has applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, December 9, 2005) by the Accounting Standards Board of Japan (ASBJ) and the "Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" (ASBJ Guidance No. 8, December 9, 2005).
4. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

2006	2005	2004	2003	2002	2001	2000	2010
						Millions of yen	Thousands of U.S. dollars (Note 1)
¥534,086	¥512,838	¥470,562	¥450,491	¥447,893	¥434,463	¥423,247	**$7,463,568**
342,856	307,538	288,684	281,392	286,755	279,074	273,451	**4,786,148**
154,440	155,374	136,352	131,333	129,394	132,813	124,355	**2,090,124**
36,790	49,926	45,526	37,766	31,744	22,576	25,441	**587,296**
27,586	25,640	19,169	13,095	8,239	(7,207)	5,335	**264,531**
27,052	25,755	25,098	24,313	25,163	24,645	25,275	**467,716**
45,308	40,415	36,881	29,171	30,557	25,372	19,944	**395,741**
23,872	38,984	32,056	44,225	50,700	42,359	36,086	**860,800**
(33,923)	(42,878)	(37,622)	(28,545)	(31,269)	(25,284)	(21,685)	**(437,038)**
14,687	(3,376)	7,609	(20,821)	(19,628)	(15,172)	(25,690)	**(316,469)**
¥606,938	¥563,442	¥520,157	¥481,553	¥477,293	¥514,415	¥523,560	**$7,682,011**
223,852	—	—	—	—	—	—	**2,629,185**
—	174,267	145,492	110,395	101,633	107,391	109,995	**—**
219,372	205,751	201,929	210,681	220,085	241,600	252,143	**2,978,395**
						Yen	U.S. dollars (Note 1)
¥ 105.13	¥ 97.10	¥ 78.64	¥ 55.07	¥ 33.97	¥ (29.71)	¥ 23.24	**$ 1.008**
—	—	—	—	—	—	—	**—**
20.00	20.00	14.00	12.00	10.00	10.00	10.00	**0.247**
						Percent	
6.9%	9.7%	9.7%	8.4%	7.1%	5.2%	6.0%	
14.7	16.0	15.0	12.4	7.9	—	5.1	
6.3	9.2	9.1	7.9	6.4	4.4	5.3	
33.3	30.9	28.0	22.9	21.3	20.9	21.0	
16,031	17,433	16,737	15,573	15,312	15,123	15,348	
263,043,057	263,043,057	263,043,057	242,543,057	242,543,057	242,543,057	242,543,057	

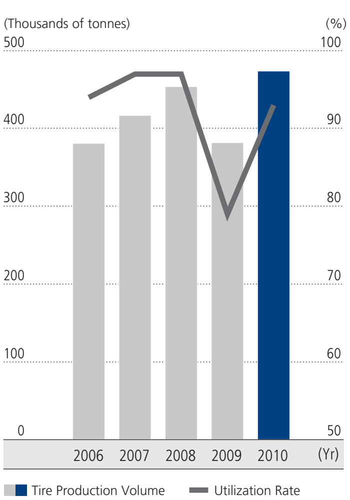
Domestic and Overseas Sales



Tire Sales Volume



Tire Production Volume



SCOPE OF CONSOLIDATION

The Sumitomo Rubber Group's consolidated financial statements include those of Sumitomo Rubber Industries and its 63 consolidated subsidiaries, as well as 17 equity-method affiliates (8 nonconsolidated subsidiaries and 9 affiliated companies).

In fiscal 2010, ended December 31, 2010, three subsidiary companies were newly included in the Company's scope of consolidation, while fourteen were excluded. One of the three newly included subsidiary companies is a tire sales company in Latin America, and its newfound status as a consolidated subsidiary is due to its increased importance to Group business. The other two are a holdings company established to handle the Tire business and a newly established tire production company in China. As for the fourteen companies no longer included in the scope of consolidation, two, Dunlop Falken Tyres Ltd. and SRI Hybrid Limited, were absorbed into Sumitomo Rubber Industries, Ltd. In addition, Sumitomo Rubber (Suzhou) Co., Ltd. was merged with Sumitomo Rubber (Changshu) Co., Ltd., which continues as a consolidated subsidiary. The remaining eleven were excluded due to the restructuring of the domestic tire retail network.

BUSINESS ENVIRONMENT

Looking at the world economy in fiscal 2010, such emerging nations as China and India saw dynamic growth on the back of vigorous demand, while Europe and the United States witnessed signs of gradual recovery, due mainly to the positive effects of consumer incentive plans. The Japanese economy, on the other hand, remained sluggish due to the weakening effectiveness of the governmental incentive policy from the fourth quarter. Poor conditions persisted despite an uptick in capital investment buoyed by recovering exports as well as increased private-sector consumption thanks to a governmental policy encouraging new vehicle purchases and the introduction of the eco-point system, in which consumers can gain points for purchasing eco-friendly home electronic appliances.

The business environment surrounding the Group remained severe in the wake of the yen appreciation and natural rubber prices reaching a historic high even though demand for tires increased in emerging markets and automobile production topped the previous year's level, reflecting the Japanese government's policy of encouraging new vehicle purchases.

REVENUES AND EARNINGS

In fiscal 2010, net sales grew 15.3% from the previous fiscal year to ¥604,549 million. Overseas sales rose 20.9% to ¥282,968 million, raising the overseas sales ratio 2.2 percentage points to 46.8%.

The cost of sales increased 16.0% year on year to ¥387,678 million. The cost to sales ratio edged up 0.4 of a percentage point to 64.1%, owing to increases in prices of such raw materials as natural rubber. Gross operating profit rose 14.0% to ¥216,871 million. Selling, general and administrative expenses grew 4.8% year on year to ¥169,300 million, and the ratio of selling, general and administrative expenses to net sales was down 2.8 percentage points to 28.0%.

As a result, operating income for the fiscal year under review surged 65.5% to ¥47,571 million, while the operating income ratio was up 2.4 percentage points to 7.9%.

Net other income (expenses) improved slightly from a negative ¥11,443 million in fiscal 2009 to a negative ¥11,370 million. Major factors included the posting of a foreign exchange loss of ¥2,338 million compared with a gain on exchange of ¥244 million in the previous fiscal year; and positive equity in earnings of affiliates instead of the losses posted in the previous fiscal year due to the closure of a factory operated under a European joint venture with The Goodyear Tire & Rubber Company.

Reflecting these factors, income before income taxes and minority interests soared 109.3% year on year to ¥36,201 million. Income taxes jumped 87.0% to ¥11,735 million, representing an effective tax rate of 32.4%, a decrease of 3.9 percentage points. After deducting minority interests in income, net income expanded 135.6% to ¥21,427 million.

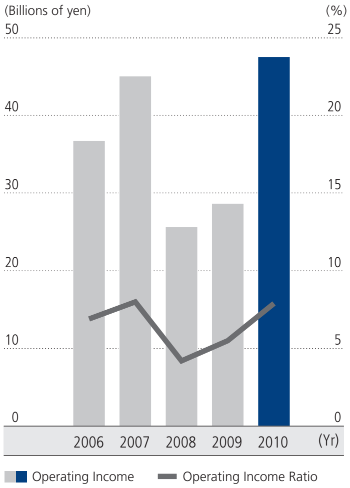
Net income per share was ¥81.67, and ROE (on a net income basis) grew 6.5 percentage points to 11.4%.

RESULTS BY INDUSTRY SEGMENT

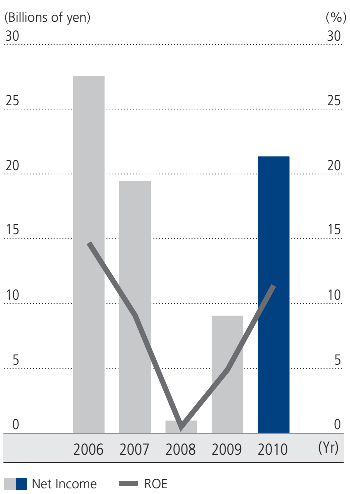
Tire Business

Sales in the Tire business rose 18.5% year on year to ¥513,775 million, while operating income surged 75.0% to ¥39,412 million. Despite the substantial increase in raw material prices, sales volume largely topped the previous fiscal year thanks to a recovery in demand that began in early 2010.

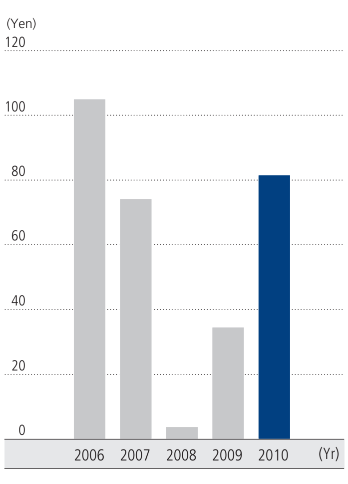
Operating Income



Net Income



Net Income per Share



As a result, although the Company recorded an approximately ¥30.6 billion increase in overall raw material costs, improvements in sales volume and product mix had a positive impact on profit, equivalent to approximately ¥39.8 billion. Against this backdrop, the Sumitomo Rubber Group strived to develop and commercialize new customer-oriented products, including those that raise the level of environmental and safety performance, while taking aggressive measures to expand sales in overseas markets. Furthermore, the Group made across-the-board efforts to enhance productivity and secure profit by streamlining business operations and reducing costs.

Sports Business

Sales in the Sports business declined 3.1% year on year to ¥63,225 million, while operating income climbed 29.1% to ¥6,114 million. During the fiscal year under review, the New XXIO—the sixth-generation of our flagship golf clubs—secured a high market share. Golf ball sales increased due to the positive effects of a Celebrity Endorsement Agreement entered into with popular professional golfer Ryo Ishikawa. Nevertheless, overall sales in the Sports business decreased due to stagnant market conditions; however, profit increased due to the Group's efforts to improve the product line and reduce costs.

Industrial and Other Products Business

Sales in the Industrial and Other Products business grew 6.4% from the previous fiscal year to ¥27,549 million, while operating income soared 49.6% to ¥2,123 million. This was mainly attributable to an increased supply of mainstay precision rubber parts for printers and photocopiers in response to increases in major clients' production volumes in the wake of economic recovery as well as healthy sales of medical rubber parts due to increased demand for generic drugs.

R&D EXPENSES

Research and development expenses increased 4.0% year on year to ¥18,698 million, and as a ratio of consolidated net sales was 3.1%, down 0.3 of a percentage point from the previous fiscal year. The Tire business accounted for ¥16,254 million of these expenses, up 9.1% from the previous fiscal year, the Sports business ¥1,269 million, down 7.4%, and the Industrial and Other Products business ¥1,175 million, down 31.6%.

DIVIDENDS

Sumitomo Rubber Industries recognizes the return of gains to shareholders to be a priority issue. Backed by the comprehensive assessment of dividend payout ratios on a consolidated basis, performance prospects and the level of retained earnings, the Company maintains a basic policy of steadily rewarding shareholders over the long term. In addition, in accordance with a resolution the Company distributes retained earnings twice a year as dividends. The year-end dividend payment is resolved at the General Shareholders' meeting, while the interim dividend payment is determined at the Board of Directors' meeting.

The full-year dividend for fiscal 2010 increased ¥2 per share from the previous fiscal year to ¥20 per share, which comprised an ¥8 interim dividend and a ¥12 year-end dividend. The dividend payout ratio on a consolidated basis was 24.5%.

FINANCIAL POSITION

Total assets as of December 31, 2010 were up 1.5% year on year to ¥622,243 million.

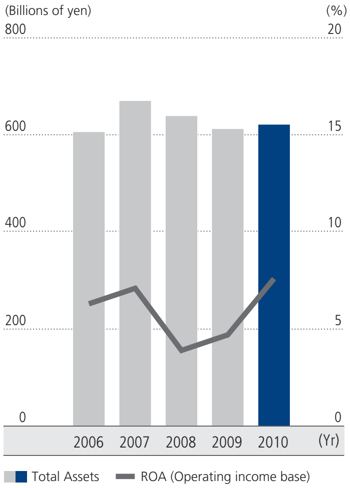
Total current assets rose 10.2% to ¥281,485 million, mainly reflecting increases in notes and accounts receivable as well as inventories.

Total noncurrent assets decreased 4.8% year on year to ¥340,758 million, reflecting a decrease in value of foreign-currency denominated assets due to a strong yen.

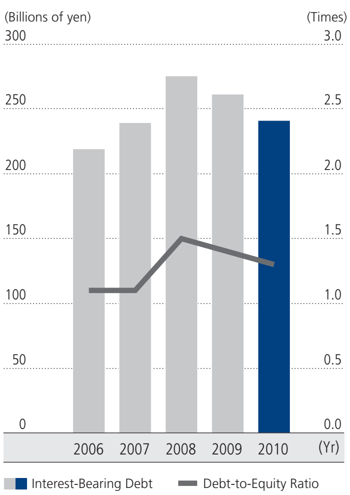
As of the end of the fiscal year under review, total liabilities were up 1.3% to ¥409,279 million. Interest-bearing debt as of the fiscal 2010 year-end decreased ¥20,322 million to ¥241,250 million, and the debt-to-equity ratio improved from 1.4 times as of the previous fiscal year-end to 1.3 times.

Total net assets at the fiscal year-end were up 1.9% to ¥212,964 million, and net assets per share were ¥723.04, up from ¥712.91 at the previous fiscal year-end. As a result, the equity ratio (total net assets minus minority interests to total assets) at the end of fiscal 2010 was 30.5%. ROA (on an operating income basis) climbed 2.9 percentage points to 7.6%.

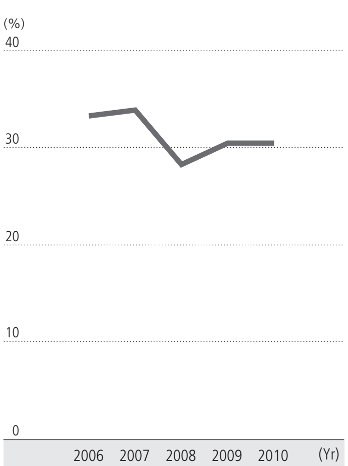
Total Assets



Interest-Bearing Debt



Equity Ratio



CAPITAL EXPENDITURES

During the fiscal year under review, the Sumitomo Rubber Group made capital expenditures of ¥32,055 million (including leased tangible assets), focusing mainly on the Tire business. This represented a 1.3% decrease from the previous fiscal year. The Tire business accounted for ¥28,166 million, down 4.1% year on year. This capital expenditure was used for facility renovation aimed at boosting and streamlining production and improving labor efficiency. The Sports business spent ¥1,708 million, up 42.9% from the previous fiscal year, for the improvement of golf ball production efficiency at SRI Sports Limited, and the Industrial and Other Products business used ¥2,181 million, up 14.2% year on year, to increase medical rubber parts production volume at the Kakogawa Factory. The necessary funds were furnished by a combination of cash on hand, borrowings and corporate bonds.

With the aim of addressing a significant decline in production due to rapidly deteriorating global demand, particularly from the fourth quarter of fiscal 2008, the Sumitomo Rubber Group has maintained a cap on capital expenditures over the past two years. In the fiscal year ending December 31, 2011, however, the Group intends to make capital expenditures totaling approximately ¥50,900 million to ensure its ability to meet sales growth overseas.

CASH FLOWS

Net cash provided by operating activities rose 8.1% year on year to ¥69,725 million, due mainly to increased income before income taxes and minority interests.

Net cash used in investing activities were ¥35,400 million, growing only 3.3% from the previous fiscal year, reflecting the Group's efforts to rein in capital expenditures in light of significant cutbacks in production following the financial crisis.

Net cash used in financing activities climbed 12.5% to ¥25,634 million. Fund procurement and repayment, including short-term loans, the redemption of bonds and long-term debt, yielded a net repayment of ¥20,647 million. Cash dividends paid of ¥4,197 million also contributed to the result.

These activities, along with the effect of exchange rate changes on cash and cash equivalents as well as changes in reporting entities, resulted in cash and cash equivalents at the end of the fiscal year under review increasing 24.1% to ¥34,157 million.

Free cash flow was a positive balance of ¥34,325 million. This was mainly attributable to income before income taxes and minority interests and cutbacks in capital expenditures. For the years ahead, the Sumitomo Rubber Group plans to increase capital expenditures mainly to meet increasing demand overseas. Simultaneously, the Group will aim to expand the inflow of cash from operating activities by increasing sales volumes and improving profitability. By doing so, the Group will make every effort to ensure both business growth and secured cash liquidity, as well as to enhance its financial standing.

OUTLOOK

Looking at the future of the world economy, emerging nations such as China and India are expected to maintain healthy growth, while the European and U.S. economies are anticipated to weaken due to the diminishing effect of governmental incentive policies. Also, the Japanese economy is projected to remain stagnant.

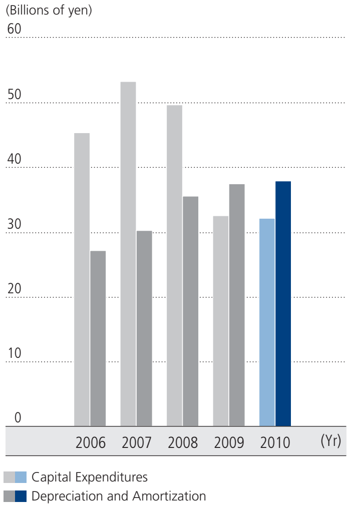
The business environment surrounding the Sumitomo Rubber Group continues to be harsh in the wake of a strong yen, with natural rubber prices hovering at an unprecedentedly high level and competitors in burgeoning tire markets in emerging nations making their full-scale market debuts.

With the aim of addressing issues related to this severe business environment, the Group will further promote across-the-board structural reform.

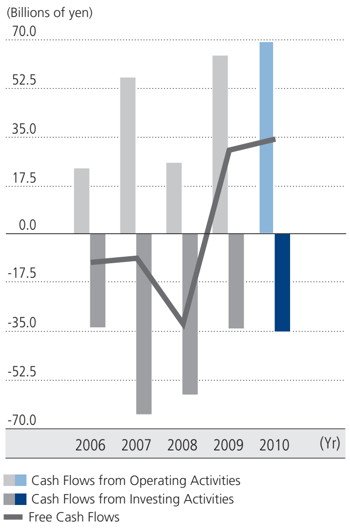
In the Tire business, the Group will strive to reinforce its leading position in the development and sale of low fuel consumption tires, a business that is currently undergoing full-scale expansion on a global scale. Together with this, the Group will introduce competitive products in emerging markets, while taking initiatives to grow sales and secure earnings. To this end, the Sumitomo Rubber Group will strive to reinforce production capacity and reduce costs across the board. In the Sports business, the Group will promote product development and sales strategies tailored to specific business regions in pursuit of increased market share for golf clubs and balls. In the Industrial and Other Products business, the Group will endeavor to increase sales of products with high growth potential, such as medical rubber parts.

The impact on the Group's future business results of the Great East Japan Earthquake, which struck on March 11, 2011, is unknown as of the issuance of this report, as is the how great the restoration

Capital Expenditures/ Depreciation and Amortization



Cash Flows



cost will be for the Shirakawa Factory and the extent of the losses due to the resulting production decrease. The Group will promptly disclose information should any significant impact be foreseen. The Sumitomo Rubber Group will make every effort to offset the negative influence of this earthquake and tsunami on business.

RISK INFORMATION

The Sumitomo Rubber Group has identified the following key risk factors that may affect its business performance and financial position.

Risk factors relating to future business results were determined based on information available to management as of the end of the fiscal year under review. The Group recognizes that such risks may occur, and it strives to address them accordingly.

Exchange Rate Fluctuations

Exchange rate fluctuations influence the value of the Group's exports, raw material procurement, foreign currency-denominated assets, liabilities and financial statements. The appreciation of the yen against foreign currencies such as the U.S. dollar may have an adverse effect on the Group's business performance and financial position. Since the Group has raised its consolidated overseas sales ratio from 25.2% in fiscal 2001 to 46.8% in fiscal 2010, the possibility exists that its results may be further affected by exchange rate fluctuations. The Sumitomo Rubber Group utilizes forward-exchange contracts and maintains a balance in its export and import activities on an individual currency basis with the aim of minimizing its exposure to exchange rate fluctuations. Such precautions, however, may not be sufficient to avoid all possible exchange rate fluctuation risks.

Changes in Raw Material Prices

The Sumitomo Rubber Group's principal raw materials are natural rubber, petrochemicals and metals. The Group's operating results may thus be affected by price increases in natural rubber, crude oil, steel and other related materials.

Changes in Interest Rates

Promoting the reduction of interest-bearing debt to improve its financial standing, the Group also implements countermeasures to minimize the risk of changes in interest rates by using diversified financing methods and interest rate swaps. Despite these efforts, the Group's operating results and financial position may be affected in the event of rising fund procurement costs due to an increase in interest rates in the medium and long term.

Product Quality

In accordance with prescribed quality standards, the Sumitomo Rubber Group undertakes full-scale measures to assure product quality. Yet it is difficult to reduce the number of defective products and customer complaints to zero. To offset the possibility of any claims for damages resulting from defective products, the Group retains appropriate indemnity insurance. Despite this initiative, there is the possibility that a claim may occur that cannot be compensated by insurance. Furthermore, costs associated with the resolution of claims as well as product recalls or exchanges may arise. Such incidents may affect the Group's operating results, financial position and social standing.

Alliance with Goodyear

Based on its alliance with Goodyear, the Group operates several joint ventures. Under the alliance, these joint ventures engage in tire production and sales in Europe and North America and tire sales in Japan, as well as the promotion of tire technology exchanges and procurement. The Group also maintains cross-shareholdings with Goodyear. As each joint venture is included in the Group's scope of consolidation as a consolidated subsidiary or an equity-method affiliate, changes in the alliance with Goodyear or the operating results of joint ventures may impact the Group's operating results.

Disasters

Concentrating on Japan and other Asian countries, the Sumitomo Rubber Group develops its business on a global scale. The Group's operating results may be affected directly or indirectly by such events as natural disasters, disease, war and terrorism. Such events may have a negative impact on the Group's operating results.

Consolidated Balance Sheets

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2010**	2009	**2010**
Assets			
Current assets:			
Cash and time deposits (Notes 3 and 4)	**¥ 35,391**	¥ 28,222	**$ 436,926**
Notes and accounts receivable (Notes 4 and 15)—			
Trade	**130,399**	126,346	**1,609,864**
Other	**15,304**	13,978	**188,938**
Allowance for doubtful accounts	**(1,540)**	(1,900)	**(19,012)**
Securities	**—**	200	**—**
Inventories (Note 5)	**85,570**	74,444	**1,056,420**
Short-term loans (Note 15)	**307**	365	**3,790**
Deferred tax assets (Note 11)	**10,291**	9,082	**127,049**
Other	**5,763**	4,637	**71,148**
Total current assets	**281,485**	255,374	**3,475,123**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**15,362**	16,788	**189,654**
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 4 and 15)	**40,767**	47,410	**503,296**
Long-term loans	**3,115**	382	**38,457**
Deferred tax assets (Note 11)	**5,616**	5,415	**69,333**
Long-term prepaid expenses	**2,228**	3,376	**27,506**
Trademarks (Note 9)	**725**	1,099	**8,951**
Goodwill and other intangible assets	**15,554**	14,237	**192,025**
Prepaid pension cost (Note 12)	**24,009**	26,800	**296,407**
Other	**9,051**	9,776	**111,741**
Allowance for doubtful accounts	**(1,200)**	(1,400)	**(14,815)**
Total investments and other assets	**115,227**	123,883	**1,422,555**
Property, plant and equipment (Note 8):			
Land	**36,706**	35,877	**453,160**
Buildings and structures	**150,555**	149,967	**1,858,704**
Machinery and equipment	**446,451**	438,534	**5,511,741**
Leased assets	**4,063**	1,708	**50,160**
Construction in progress	**11,691**	11,181	**144,333**
Accumulated depreciation	**(423,935)**	(403,294)	**(5,233,765)**
Net property, plant and equipment	**225,531**	233,973	**2,784,333**
Total assets	**¥ 622,243**	¥613,230	**$ 7,682,011**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings (Notes 4 and 10)	**¥ 52,270**	¥ 63,592	**$ 645,309**
Current portion of long-term debt (Notes 4 and 10)	**36,459**	23,967	**450,111**
Notes and accounts payable (Notes 4 and 15)—			
Trade	**72,813**	60,495	**898,926**
Construction	**6,009**	5,482	**74,185**
Other	**26,957**	23,962	**332,802**
Accrued expenses	**12,591**	11,551	**155,444**
Allowance for sales returns	**2,656**	2,396	**32,790**
Accrued income taxes (Note 11)	**8,339**	4,196	**102,951**
Other	**8,080**	4,442	**99,753**
Total current liabilities	**226,174**	200,083	**2,792,271**
Long-term liabilities:			
Long-term debt (Notes 4 and 10)	**152,521**	174,013	**1,882,975**
Deferred tax liabilities (Note 11)	**9,192**	10,792	**113,481**
Accrued retirement benefits (Note 12)	**11,955**	10,989	**147,593**
Other	**9,437**	8,301	**116,506**
Total long-term liabilities	**183,105**	204,095	**2,260,555**
Contingent liabilities (Note 16)			
Net Assets			
Shareholders' equity:			
Common stock—			
Authorized: 800,000,000			
Issued: 263,043,057 shares in 2010 and 2009	**42,658**	42,658	**526,642**
Capital surplus	**38,661**	38,661	**477,296**
Retained earnings	**127,595**	109,349	**1,575,247**
Less treasury stock, at cost—			
2010—704,248 shares			
2009—699,745 shares	**(537)**	(534)	**(6,630)**
Total shareholders' equity	**208,377**	190,134	**2,572,555**
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities	**3,421**	4,402	**42,235**
Deferred losses on hedges	**(137)**	(32)	**(1,691)**
Translation adjustments	**(21,977)**	(7,476)	**(271,321)**
Total valuation and translation adjustments	**(18,693)**	(3,106)	**(230,777)**
Minority interests	**23,280**	22,024	**287,407**
Total net assets	**212,964**	209,052	**2,629,185**
Total liabilities and net assets	**¥622,243**	¥613,230	**$7,682,011**

Consolidated Statements of Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2010**	2009	**2010**
Net sales (Note 15)	**¥604,549**	¥524,535	**$7,463,568**
Cost of sales (Note 15)	**387,678**	334,249	**4,786,148**
Gross profit	**216,871**	190,286	**2,677,420**
Selling, general and administrative expenses	**169,300**	161,547	**2,090,124**
Operating income	**47,571**	28,739	**587,296**
Other income (expenses):			
Interest and dividends income	**754**	1,156	**9,309**
Interest expenses	**(4,277)**	(4,722)	**(52,802)**
Loss on sales and retirement of noncurrent assets	**(820)**	(772)	**(10,123)**
Foreign exchange gains and losses	**(2,338)**	244	**(28,864)**
Equity in earnings and losses of affiliates	**1,284**	(3,519)	**15,852**
Impairment loss (Note 18)	**(1,699)**	(1,961)	**(20,975)**
Other, net	**(4,274)**	(1,869)	**(52,767)**
	(11,370)	(11,443)	**(140,370)**
Income before income taxes and minority interests	**36,201**	17,296	**446,926**
Income taxes (Note 11):			
Current	**14,097**	8,321	**174,037**
Deferred	**(2,362)**	(2,044)	**(29,160)**
	11,735	6,277	**144,877**
Income before minority interests	**24,466**	11,019	**302,049**
Minority interests in income	**(3,039)**	(1,926)	**(37,518)**
Net income	**¥ 21,427**	¥ 9,093	**$ 264,531**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥81.67**	¥34.66	**$1.008**
Cash dividends paid	**20.00**	18.00	**0.247**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Minority interests	Total net assets
Balance at December 31, 2008	¥42,658	¥38,661	¥112,601	¥(531)	¥ 957	¥(461)	¥(12,945)	¥21,702	¥202,642
Effect of changes in accounting policies applied to foreign subsidiaries			(293)						(293)
Disposal of treasury stock		(0)		0					0
Dividends from surplus			(4,722)						(4,722)
Net income			9,093						9,093
Purchase of treasury stock				(3)					(3)
Effect of change in reporting entities			(12)						(12)
Other			(7,318)		3,445	429	5,469	322	2,347
Balance at December 31, 2009	¥42,658	¥38,661	¥109,349	¥(534)	¥4,402	¥ (32)	¥ (7,476)	¥22,024	¥209,052

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Minority interests	Total net assets
Balance at December 31, 2009	¥42,658	¥38,661	¥109,349	¥(534)	¥4,402	¥ (32)	¥ (7,476)	¥22,024	¥209,052
Disposal of treasury stock		**0**		**0**					**0**
Dividends from surplus			**(4,197)**						**(4,197)**
Net income			**21,427**						**21,427**
Purchase of treasury stock				**(3)**					**(3)**
Effect of change in reporting entities			**(104)**						**(104)**
Other			**1,120**		**(981)**	**(105)**	**(14,501)**	**1,256**	**(13,211)**
Balance at December 31, 2010	**¥42,658**	**¥38,661**	**¥127,595**	**¥(537)**	**¥3,421**	**¥(137)**	**¥(21,977)**	**¥23,280**	**¥212,964**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Minority interests	Total net assets
Balance at December 31, 2009	$526,642	$477,296	$1,349,988	$(6,594)	$ 54,346	$ (395)	$ (92,296)	$271,901	$2,580,888
Disposal of treasury stock		**0**		**1**					**1**
Dividends from surplus			**(51,815)**						**(51,815)**
Net income			**264,531**						**264,531**
Purchase of treasury stock				**(37)**					**(37)**
Effect of change in reporting entities			**(1,284)**						**(1,284)**
Other			**13,827**		**(12,111)**	**(1,296)**	**(179,025)**	**15,506**	**(163,099)**
Balance at December 31, 2010	**$526,642**	**$477,296**	**$1,575,247**	**$(6,630)**	**$ 42,235**	**$(1,691)**	**$(271,321)**	**$287,407**	**$2,629,185**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2010**	2009	**2010**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 36,201**	¥ 17,296	**$ 446,926**
Depreciation and amortization	**37,885**	37,425	**467,716**
Impairment loss	**1,699**	1,961	**20,975**
Loss on sales and retirement of noncurrent assets	**820**	772	**10,123**
Equity in earnings and losses of affiliates	**(1,284)**	3,519	**(15,852)**
(Decrease) increase in allowance for doubtful accounts	**(125)**	248	**(1,543)**
Increase in provision for retirement benefits	**1,186**	238	**14,642**
Decrease in prepaid pension costs	**2,791**	851	**34,457**
Interest and dividends income	**(754)**	(1,156)	**(9,309)**
Interest expenses	**4,277**	4,722	**52,802**
Increase in notes and accounts receivable—trade	**(6,727)**	(5,224)	**(83,049)**
(Increase) decrease in inventories	**(14,906)**	21,312	**(184,025)**
Increase (decrease) in notes and accounts payable—trade	**12,805**	(20,850)	**158,086**
Increase in accounts payable—other	**4,171**	1,742	**51,494**
Other, net	**4,568**	6,456	**56,395**
Subtotal	**82,607**	69,312	**1,019,838**
Interest and dividends income received	**765**	1,177	**9,444**
Interest expenses paid	**(4,272)**	(4,867)	**(52,741)**
Income taxes paid	**(9,375)**	(1,097)	**(115,741)**
Net cash provided by operating activities	**69,725**	64,525	**860,800**
Cash flows from investing activities:			
Payments into time deposits	**(1,643)**	(747)	**(20,284)**
Proceeds from withdrawal of time deposits	**1,198**	1,715	**14,790**
Purchase of property, plant and equipment	**(31,430)**	(32,062)	**(388,025)**
Purchase of intangible assets	**(3,266)**	(3,050)	**(40,321)**
Proceeds from sales of noncurrent assets	**604**	699	**7,457**
Purchase of investments in subsidiaries	**(14)**	(194)	**(173)**
Purchase of investment securities	**(141)**	(15)	**(1,741)**
Purchase of stocks of subsidiaries and affiliates	**(1,086)**	(438)	**(13,407)**
Proceeds from sales of stocks of subsidiaries and affiliates	**62**	—	**765**
Net decrease in short-term loans receivable	**62**	19	**765**
Payments of long-term loans receivable	**(46)**	(59)	**(568)**
Collection of long-term loans receivable	**110**	88	**1,358**
Other, net	**190**	(216)	**2,346**
Net cash used in investing activities	**(35,400)**	(34,260)	**(437,038)**
Cash flows from financing activities:			
Net decrease in short-term loans payable	**(9,767)**	(20,653)	**(120,580)**
Proceeds from long-term debt and newly issued bonds	**12,762**	47,504	**157,556**
Repayments of long-term debt and redemption of bonds	**(23,642)**	(43,577)	**(291,877)**
Cash dividends paid	**(4,197)**	(4,722)	**(51,815)**
Cash dividends paid to minority shareholders	**(1,244)**	(923)	**(15,358)**
Net increase in treasury stock	**(4)**	(3)	**(49)**
Other, net	**458**	(407)	**5,654**
Net cash used in financing activities	**(25,634)**	(22,781)	**(316,469)**
Effect of exchange rate change on cash and cash equivalents	**(2,535)**	59	**(31,293)**
Net increase in cash and cash equivalents	**6,156**	7,543	**76,000**
Cash and cash equivalents at beginning of period	**27,527**	18,526	**339,840**
Increase in cash and cash equivalents due to change in reporting entities	**474**	1,458	**5,852**
Cash and cash equivalents at end of period (Note 3)	**¥ 34,157**	¥ 27,527	**$ 421,692**

The accompanying notes are an integral part of these statements.

1. Major Policies Applied in Preparing Consolidated Financial Statements

The accompanying consolidated financial statements are a translation of the financial statements publicly issued in Japan and have been modified to enhance foreign readers' understanding. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In addition, the notes to the consolidated financial statements include financial information that is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts appearing in the consolidated financial statements are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent U.S. dollars or have been or could be converted into U.S. dollars. The rate of ¥81=U.S.$1.00, the approximate rate prevailing at December 31, 2010, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

2. Significant Accounting Policies

(1) Consolidation and accounting for investments in affiliates

The consolidated financial statements consist of the accounts of Sumitomo Rubber Industries, Ltd. (the "Company") and, with minor exceptions, those of its majority-owned subsidiaries at the relevant balance sheet dates. All significant intercompany transactions and accounts are eliminated in consolidation. Investments in unconsolidated subsidiaries and affiliates (companies in which the Company has a 20% to 50% ownership interest) are, with minor exceptions, accounted for on an equity basis. Using an equity basis, investments are stated at cost plus/minus the Company's equity in undistributed earnings or losses. Consolidated net income includes the Company's equity in current earnings or losses of such companies after the elimination of unrealized intercompany profits.

SUMITOMO RUBBER MIDDLE EAST FREE ZONE ESTABLISHMENT and Falken Tyre Europe GmbH, whose operations became significant in 2009, were included in the 2009 consolidation. Also in 2009, Sumirubber Industries Shikoku, Ltd. was merged with Sumirubber Industries, Ltd., and Cleveland Golf Asia, Ltd. was liquidated.

Sumitomo Rubber Latin America Limitada, whose operations became significant in 2010, was included in the 2010 consolidation. Sumitomo Rubber (China) Co., Ltd. and Sumitomo Rubber (Hunan) Co., Ltd. were included in the 2010 consolidation due to their being founded during the year. In 2010, Dunlop Falken Tyres Ltd. and SRI Hybrid Limited were merged with Sumitomo Rubber Industries, Ltd. and 11 domestic tire wholesale subsidiaries were merged into 7 entities in 2010. Also in 2010, Sumitomo Rubber (Suzhou) Co., Ltd. was merged with Sumitomo Rubber (Changshu) Co., Ltd.

All consolidated subsidiaries are consolidated using the same fiscal period as that of the Company.

If there is a change in the reporting entity, the consolidated financial statements are not restated. The effect of the change is directly debited or credited to retained earnings during the period.

The differences between the cost of and the underlying net equity in investments in consolidated subsidiaries and affiliates accounted for on an equity basis are recognized when those companies are initially included in consolidation or accounted for by the equity method. Generally, such differences are amortized using the straight-line method within 20 years. Minor differences are charged or credited to income as incurred. The difference related to Goodyear Dunlop Tires Europe B.V. is being amortized over a 10-year period, and it has just been fully amortized during the fiscal year ended December 31, 2009.

(2) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities of three months or less are considered to be cash and cash equivalents.

(3) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at current rates at the balance sheet date, and the resulting translation gains or losses are charged to income to the extent that they are not hedged by forward exchange contracts.

In preparing the accompanying consolidated financial statements, the asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates, and shareholders' equity is translated at historical exchange rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at the average rates of exchange prevailing during the year. The resulting translation adjustments are shown as a component of net assets.

(4) Marketable securities and investments in securities

Securities classified as available-for-sale securities are stated at fair market value with unrealized gains and losses, net of applicable taxes, recorded as a component of net assets. Securities with no fair market value are stated at cost. If securities decline in value significantly and the decline is not considered recoverable, the value of the securities is reduced to net realizable value by charges to income. The cost of securities sold is determined based on the average cost of all shares of the securities held at the time of sale.

(5) Derivative financial instruments and hedging

The Company and its consolidated subsidiaries use derivative financial instruments, which include foreign exchange forward contracts, currency swap contracts and interest rate swap contracts, in order to offset risks associated with fluctuations in currency exchange rates and interest rates with respect to financial assets and liabilities in accordance with internal policies and procedures.

a. Hedge accounting
The Company and its consolidated subsidiaries have adopted a method for hedging instruments that defers the recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related gain or loss on the hedged item is recognized.

All derivatives are stated at fair value. However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated using the contract rate. In addition, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged item.

Hedging instruments and hedged items are summarized as follows:

Hedging instruments	Hedged items
Foreign exchange forward contracts	Accounts receivable and accounts payable in foreign currencies and forecasted transactions
Interest rate swap contracts	Short-term borrowings and long-term debt, bonds

b. Hedging policy
The Company and its consolidated subsidiaries use financial instruments to hedge market or interest rate fluctuation risks in accordance with their internal policies and procedures.

c. Method for assessing hedge effectiveness
The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing the cumulative changes in fair value or the cumulative changes in cash flow on hedging instruments with those of the related hedged items from the commencement of the hedge.

(6) Inventories
Inventories are mainly stated at the lower of average cost or market.

In fiscal 2009, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Measurement of Inventories" ("ASBJ Statement No. 9" issued by the Accounting Standards Board of Japan on July 5, 2006). As a result of this change, operating income and income before income taxes and others were ¥694 million less than they would have been with the previous method.

(7) Allowance for doubtful accounts
The Company and its consolidated subsidiaries provide an allowance for doubtful accounts principally at an amount based on the historical bad debt ratio during certain reference periods plus the estimated uncollectible amount of certain individual accounts.

(8) Property, plant and equipment
Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method, except for assets held at the Company's head office, the Nagoya factory, the Kakogawa factory and some domestic consolidated companies. These latter assets are depreciated using the declining balance method over the estimated useful life of the asset. The estimated useful lives of assets from the major classes of depreciable assets range from 3 to 60 years for buildings and structures and from 1 to 20 years for machinery and equipment.

In fiscal 2009, the Company and its domestic consolidated subsidiaries changed their estimates of the useful lives of machinery based on a reassessment of the useful lives in light of revisions in the Japanese Corporate Tax Law (the "Tax Law") in 2008. As a result of this change, operating income was ¥1,075 million less and income before income taxes and minority interests was ¥1,088 million less than they would have been with the previous method.

(9) Accounting for leases
Finance leases which transfer ownership are depreciated in the same manner as owned fixed assets. Finance leases which do not transfer title are accounted for as purchase and sale transactions and are depreciated by the straight-line method, in which it is assumed that the useful life is the lease period and that the residual value of the relevant asset at the end of the leased period is zero. Finance lease transactions which were executed on or before December 31, 2008 and which do not involve a transfer of ownership are accounted for using the same method as that used for operating leases.

In fiscal 2009, in accordance with the Accounting Standard for Lease Transactions ("ASBJ Statement No.13" issued by the Accounting Standards Board of Japan on March 30, 2007) and the Implementation Guidance on the Accounting Standard for Lease Transactions ("ASBJ Guidance No.16" issued by the Accounting Standards Board of Japan on March 30, 2007), finance leases which do not transfer ownership were accounted for as purchase and sale transactions. They had been accounted for in the same manner as operating leases with the disclosure of certain "as if capitalized" information until fiscal 2008. This change had no material effect on income or segment information. Any effects from the above-mentioned change for fiscal 2009 have been insignificant.

(10) Intangible assets
Intangible assets are stated at cost, less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the asset.

(11) Research and development expenses
Research and development expenses are charged to income when incurred.

(12) Allowance for sales returns
An allowance for sales returns is provided for losses incurred on the return of snow tires sold during the fiscal year but returned subsequent to the balance sheet date. The allowance is based on an estimate using the average rate of such returns in prior years.

(13) Accrued retirement benefits
Liabilities and expenses for retirement and severance benefits are accounted for based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. Accrued retirement benefits for directors and statutory auditors of certain consolidated subsidiaries, which are included in long-term liabilities other, are recorded at an amount equivalent to 100% of such benefits that the subsidiaries would be required to pay at the balance sheet date based on their internal rules. Payments of benefits are subject to resolution at the shareholders' meeting.

Because the number of employees exceeded 300 by the time of the amalgamation, a number of domestic consolidated subsidiaries have changed their calculation method for accrued retirement benefits from the prima facie method to the principal method since the third quarter of the 2010 fiscal year. As a result of this change, operating income was ¥31 million ($383 thousand) more and income before income taxes was ¥1,012 million ($12,494 thousand) less than they would have been with the previous method.

(14) Income taxes
The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes that, in the case of costs and expenses, are not currently tax deductible and, in the case of income, are not currently taxable. The Company and its consolidated subsidiaries have adopted interperiod income tax allocation using the asset and liability method of accounting with respect to all such temporary differences, including tax loss carryforwards.

(15) Per share amounts
Net income per share is computed based on the average number of shares outstanding during each period. Diluted net income per share is not presented because there were no outstanding common stock equivalents as of December 31, 2010 or December 31, 2009.

(16) Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the accompanying consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(17) Reclassifications
Certain reclassifications of previously reported amounts have been made to conform to current classifications.

(18) Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements
On May 17, 2006, the Accounting Standards Board of Japan issued ASBJ Practical Issues Task Force No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 provides that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. As a result of this change, the beginning balance of retained earnings in 2009 was ¥293 million ($3,185 thousand) less than it would have been without the change. The effect of the change on the income statement and segment information for fiscal 2009 was insignificant.

3. Cash Flow Information

Reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and time deposits	**¥35,391**	¥28,222	**$436,926**
Securities	**—**	200	**—**
Time deposits with a maturity of over three months	**(1,234)**	(895)	**(15,234)**
Cash and cash equivalents	**¥34,157**	¥27,527	**$421,692**

4. Financial Instruments

a) Qualitative Information on Financial Instruments

(1) Policies for using financial instruments

The Company and its consolidated subsidiaries raise capital for investment in equipment and operating capital mainly through bank loans and bond issuances based on cash flow planning. Temporary excess cash is managed with low risk financial assets. The Company and its consolidated subsidiaries utilize derivative transactions only to hedge risks of future changes in cash flows and fair values and not for trading purpose.

(2) Financial instruments and exposure to risk
Trade notes and accounts receivable are exposed to the credit risks of customers. However, the Company and its consolidated subsidiaries seek to reduce the risk through the implementation of rules for credit controls. Operating receivables denominated in foreign currency are exposed to foreign exchange risk, but the risks are hedged using forward exchange contracts, etc., for the net position of foreign currency operating payables and foreign currency debt. Investment securities are mainly held to build and maintain good customer relationships. The Company and its consolidated subsidiaries periodically review the circumstances under which such securities are held and evaluate the fair value of the securities and/or the financial condition of the issuers, which are generally business counterparties.

The main purpose of holding debt and issuing bonds is to secure financing for equipment and operating capital. The derivative transactions entered into comprise forward exchange contracts to hedge exchange risks of foreign currency debts and credit, currency swap contracts and interest swap contracts to hedge the fluctuation risks associated with interest rates for and fair values of debt and bonds. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

b) Fair Value of Financial Instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet at March 31, 2010 were as follows. Financial instruments whose fair values were hard to determine were not included in the table.

	Millions of yen			Thousands of U.S. dollars		
			2010			2010
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	**¥ 35,391**	**¥ 35,391**	**¥ —**	**$ 436,926**	**$ 436,926**	**$ —**
Trade notes and accounts receivable	**130,399**	**130,399**	**—**	**1,609,864**	**1,609,864**	**—**
Investments in securities	**14,234**	**14,234**	**—**	**175,728**	**175,728**	**—**
Total assets	**180,024**	**180,024**	**—**	**2,222,518**	**2,222,518**	**—**
Trade notes and accounts payable	**(72,813)**	**(72,813)**	**—**	**(898,926)**	**(898,926)**	**—**
Short-term borrowings	**(52,270)**	**(52,270)**	**—**	**(645,309)**	**(645,309)**	**—**
Accrued accounts payable	**(32,440)**	**(32,440)**	**—**	**(400,494)**	**(400,494)**	**—**
Bonds	**(75,000)**	**(77,449)**	**(2,449)**	**(925,926)**	**(956,160)**	**(30,235)**
Long-term debt	**(109,851)**	**(111,795)**	**(1,944)**	**(1,356,185)**	**(1,380,185)**	**(24,000)**
Total liabilities	**(342,374)**	**(346,767)**	**(4,393)**	**(4,226,840)**	**(4,281,074)**	**(54,235)**
Derivative transactions						
Contracts for which hedge accounting was not adopted	**(207)**	**(207)**	**—**	**(2,556)**	**(2,556)**	**—**
Contracts for which hedge accounting was adopted	**(108)**	**(108)**	**—**	**(1,333)**	**(1,333)**	**—**

(1) Valuation approach for the fair value of financial instruments

Cash and time deposits, trade notes and accounts receivable:
The carrying amount approximates fair value because of the short maturity.

Investments in securities:
The carrying amount is only for listed stock that has quoted market value and is stated at fair market value.

Trade notes and accounts payable, construction notes and accounts payable:
The carrying amount approximates fair value because of the short maturity.

Short-term borrowings:
The carrying amount approximates fair value because of the short maturity.

Accrued accounts payable:
The carrying amount approximates fair value because of the short maturity.

Bonds and long-term debt:
For items with floating rates, book value is applied since the market interest rate will be reflected in a short period and the market value is an approximation of book value. For items with fixed rates, the value is stated based on present value with the interest added discounted based on the interest rate assumed for similar fund raising. For long-term borrowings used in interest rate swaps in which the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed, values are based on present value with interest added discounted based on the interest rate assumed for similar fund raising and are processed as a unit using the rate set by the interest rate swap.

Derivative transactions:
See Notes 7.

(2) Financial instruments whose fair value is difficult to determine

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Unlisted securities (available-for-sale securities)	**¥ 1,127**	**$ 13,914**
Unlisted investments in affiliates	**40,767**	**503,297**

The above financial instruments do not have quoted market values and their future cash flows cannot be estimated. Because the fair value is difficult to determine, these instruments are not included in "Investments in securities."

5. Inventories

Inventories as of December 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished goods	**¥54,601**	¥49,741	**$ 674,086**
Raw materials	**20,597**	15,153	**254,284**
Work-in-process	**4,755**	3,723	**58,704**
Supplies	**5,617**	5,827	**69,346**
	¥85,570	¥74,444	**$1,056,420**

6. Investments in Securities

As of December 31, 2010 and 2009, the cost, book value and related unrealized gains and losses pertaining to marketable equity securities classified as available-for-sale securities with readily determinable fair values were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Available-for-sale securities:			
Cost	**¥ 8,743**	¥ 8,646	**$107,938**
Book value	**14,234**	15,822	**175,728**
Unrealized gains	**5,780**	7,571	**71,358**
Unrealized losses	**(289)**	(395)	**(3,568)**

7. Derivative Financial Instruments

Fair value information regarding derivative financial instruments as of December 31, 2010 and 2009 was as follows:

(a) Derivative transactions for which hedge accounting has not been applied

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			**2010**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Currency related contracts:									
Forward foreign exchange contracts									
To buy foreign currencies	**¥ 243**	**¥ (11)**	**¥ (11)**	¥ 543	¥ 4	¥ 4	**$ 3,000**	**$ (136)**	**$ (136)**
To sell foreign currencies	**1,485**	**49**	**49**	6,062	(130)	(130)	**18,333**	**605**	**605**
Currency swap contracts	**8,580**	**(159)**	**(89)**	3,295	(71)	(71)	**105,926**	**(1,963)**	**(1,099)**
			¥ (51)			¥(197)			**$ (630)**
Interest rate related contracts:									
Interest rate swap contracts									
Receive variable rate, give fixed rate	**¥20,000**	**¥(267)**	**¥ 259**	¥20,552	¥(540)	¥ (60)	**$246,914**	**$(3,296)**	**$ 3,197**
Give variable rate, receive fixed rate	**24,600**	**180**	**(249)**	42,600	429	58	**303,704**	**2,222**	**(3,074)**
			¥ 10			¥ (2)			**$ 123**

(b) Derivative transaction for which hedge accounting has been applied

	Millions of yen		Thousands of U.S. dollars	
	2010		2010	
	Contract amount	Fair value	Contract amount	Fair value
Currency related contracts:				
Forward foreign exchange contracts				
Deferred hedges				
To buy foreign currencies	**¥ 3,316**	**¥(131)**	**$ 40,938**	**$(1,617)**
To sell foreign currencies	**15**	**(22)**	**185**	**272**
Designation method for forward foreign exchange contracts, etc.				
To buy foreign currencies	**¥ 574**	(Note)	**$ 7,086**	(Note)
To sell foreign currencies	**502**	(Note)	**6,198**	(Note)
Interest rate related contracts:				
Interest rate swap contracts				
Receive variable rate, give fixed rate	**¥35,200**	(Note)	**$434,568**	(Note)

Note: Fair value calculation method:
Because forward foreign exchange contracts, etc., and interest rate swap contracts subject to the designation method are recognized together with accounts receivable, accounts payable and long-term debt, which are hedged items, their fair values are included in accounts receivable, accounts payable and long-term debt.

8. Property, Plant and Equipment

Depreciation expense for the years ended December 31, 2010 and 2009 was ¥33,557 million ($414,284 thousand) and ¥33,378 million, respectively.

9. Trademarks

For the years ended December 31, 2010 and 2009, amortization expense for capitalized trademarks was ¥303 million ($3,741 thousand) and ¥351 million, respectively.

10. Short-Term Borrowings and Long-Term Debt

Short-term borrowings other than commercial paper of ¥52,270 million ($645,309 thousand) and ¥51,592 million as of December 31, 2010 and 2009 respectively bore interest ranging from 0.35% to 5.3% and from 0.05% to 4.62% per annum, respectively.

For the years ended December 31, 2010 and 2009, finance lease obligations, included in short-term borrowings, were ¥745 million ($9,198 thousand) and ¥299 million, respectively.

Long-term debt as of December 31, 2010 and 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
1.08% unsecured bonds due 2010 payable in Japanese yen	**¥ —**	¥ 10,000	**$ —**
0.74% unsecured bonds due 2011 payable in Japanese yen	**20,000**	20,000	**246,914**
1.83% unsecured bonds due 2013 payable in Japanese yen	**10,000**	10,000	**123,457**
1.84% unsecured bonds due 2014 payable in Japanese yen	**10,000**	10,000	**123,457**
1.25% unsecured bonds due 2014 payable in Japanese yen	**10,000**	10,000	**123,457**
2.19% unsecured bonds due 2017 payable in Japanese yen	**5,000**	5,000	**61,728**
2.17% unsecured bonds due 2018 payable in Japanese yen	**10,000**	10,000	**123,457**
2.07% unsecured bonds due 2019 payable in Japanese yen	**10,000**	10,000	**123,457**
Loans payable to banks and other financial institutions due from 2010 to 2019 with interest of 0.64% to 5.41% for 2010 and 2009			
Secured	**—**	13,000	**—**
Unsecured	**109,851**	98,069	**1,356,184**
Current portion of long-term debt and finance lease obligations	**4,129**	1,911	**50,975**
	188,980	197,980	**2,333,086**
Less portion due within one year	**36,459**	23,967	**450,111**
	¥152,521	¥174,013	**$1,882,975**

The aggregate annual maturities of long-term debt as of December 31, 2010 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 36,459	$ 450,111
2012	20,253	250,037
2013	24,803	306,210
2014	54,495	672,778
2015	25,611	316,185
2016 and thereafter	27,359	337,766
	¥188,980	$2,333,087

Substantially all loans from banks and other financial institutions are under agreements which provide that under certain conditions a borrower may be required to provide collateral (or additional collateral) or guarantors with respect to the loans and that collateral, whether furnished as security for short-term or long-term loans or otherwise, may be treated by the lender as collateral for all indebtedness to that bank or financial institutions. Default provisions in the agreements grant certain rights of possession to the banks and other financial institutions.

As of December 31, 2009, property, plant and equipment amounting to ¥24,612 million ($267,522 thousand), net of accumulated depreciation, was pledged as collateral for long-term debt and short-term borrowings amounting to ¥13,000 million ($141,304 thousand).

11. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different income taxes in Japan which, in the aggregate, indicate a normal cumulative statutory tax rate of approximately 40.4% for the years ended December 31, 2010 and 2009. Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statements of income for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Normal cumulative statutory tax rate	**40.4%**	40.4%
Undistributed benefits of consolidated subsidiaries	**3.1**	—
Expenses not deductible for tax purposes	**0.8**	1.8
Depreciation of goodwill	**0.6**	1.1
Difference in statutory tax rates of foreign subsidiaries	**(6.1)**	(9.2)
Valuation allowance	**(3.1)**	(0.4)
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(1.4)**	8.2
Tax credits for research and development costs	**(1.4)**	(3.6)
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	**—**	2.4
Foreign tax credits	**—**	(3.6)
Other	**(0.5)**	(0.8)
Effective tax rate for consolidated statements of income	**32.4%**	36.3%

Significant components of deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Unrealized profits	**¥ 5,025**	¥ 5,562	**$ 62,037**
Tax loss carryforwards	**4,187**	6,325	**51,691**
Provision for accrued retirement benefits	**3,158**	1,851	**38,988**
Loss on impairment of fixed assets	**2,902**	2,297	**35,827**
Incentive bonuses	**1,217**	851	**15,025**
Inventories	**1,102**	1,101	**13,605**
Allowance for sales returns	**1,073**	968	**13,247**
Accrued bonuses	**1,038**	886	**12,815**
Advertising	**993**	804	**12,259**
Provision for doubtful accounts	**899**	1,126	**11,099**
Accrued business enterprise tax	**775**	349	**9,568**
Loss on impairment of investment securities	**619**	—	**7,642**
Depreciation	**542**	436	**6,691**
Loss on impairment of golf club memberships	**321**	339	**3,963**
Undistributed losses of consolidated subsidiaries	**—**	841	**—**
Foreign tax credits	**—**	320	**—**
Other	**4,070**	3,872	**50,247**
Total deferred tax assets	**¥ 27,921**	¥ 27,928	**$ 344,704**
Less valuation allowance	**(7,611)**	(9,694)	**(93,963)**
Net deferred tax assets	**¥ 20,310**	¥ 18,234	**$ 250,741**
Deferred tax liabilities:			
Provision for accrued retirement benefits	**¥ (5,507)**	¥ (5,783)	**$ (67,988)**
Deferred gains on sales of property, plant and equipment	**(2,240)**	(2,366)	**(27,654)**
Unrealized gains on available-for-sale securities	**(2,103)**	(2,814)	**(25,963)**
Unrealized gain on land of a consolidated subsidiary	**(1,328)**	(1,328)	**(16,395)**
Undistributed benefits of consolidated subsidiaries	**(845)**	—	**(10,432)**
Other	**(1,658)**	(2,240)	**(20,469)**
Total deferred tax liabilities	**¥(13,681)**	¥(14,531)	**$(168,901)**

Deferred income taxes, net as of December 31, 2010 were included in the following accounts:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Current assets—deferred tax assets	**¥10,291**	**$ 127,049**
Investments and other assets—deferred tax assets	**5,616**	**69,333**
Current liabilities—deferred tax liabilities	**(86)**	**(1,062)**
Long-term liabilities—deferred tax liabilities	**(9,192)**	**(113,481)**

12. Accrued Retirement Benefits

Upon terminating employment, employees of the Company and the domestic consolidated subsidiaries are entitled, under most circumstances, to lump-sum indemnities or pension (annuity) payments. For an employee who voluntarily retires under normal circumstances, a minimum payment amount is calculated based on the rate of pay at the time of retirement, length of service and conditions under which the employee retires. In calculating the payment amount for an employee who retires involuntarily, including an employee who retires due to reaching the mandatory retirement age, the Company or the domestic consolidated subsidiaries may grant additional benefits.

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans that cover substantially all of their employees and under which the cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on rates of pay at the time of retirement and length of service.

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of December 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligation	**¥(52,510)**	¥(48,852)	**$(648,272)**
Fair value of plan assets	**53,550**	55,389	**661,111**
Funded status:			
Benefit obligation in excess of plan assets	**1,040**	6,537	**12,839**
Unrecognized actuarial differences	**11,896**	11,760	**146,864**
Unrecognized prior service cost	**(882)**	(2,486)	**(10,889)**
Subtotal	**12,054**	15,811	**148,814**
Prepaid pension cost	**24,009**	26,800	**296,407**
Accrued retirement benefits	**¥(11,955)**	¥(10,989)	**$(147,593)**

The Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors in March 2005. The accrued retirement benefits for directors and statutory auditors, amounting to ¥304 million ($3,753 thousand) and ¥325 million as of December 31, 2010 and 2009 respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥2,451**	¥2,309	**$ 30,259**
Interest cost	**933**	834	**11,519**
Expected return on plan assets	**(942)**	(917)	**(11,630)**
Amortization of actuarial differences	**908**	1,388	**11,210**
Amortization of prior service cost	**(101)**	(287)	**(1,247)**
Other	**3,090**	—	**38,148**
Severance and retirement benefit expenses	**6,339**	3,327	**78,259**
Contributions to the defined contribution pension plan	**634**	633	**7,827**
Net periodic benefit costs	**¥5,705**	¥3,960	**$ 70,432**

The discount rate used by the Company and the domestic consolidated subsidiaries was mainly 2.0% in 2010 and 2009, and the expected return on plan assets was mainly 2.5% in 2010 and 2009. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial losses are recognized in the statements of income using the straight-line method, mainly over a period of 15 years. The amortization periods for prior service cost is mainly 15 years.

A number of domestic consolidated subsidiaries have changed their calculation method for the benefit obligation from the simplified method based on the amount that would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date to the principal method. The difference of ¥1,043 million ($12,877 thousand) due to the application of the changed calculation method was recorded under other expenses. In addition, a loss from prior term adjustments of ¥2,047 million ($25,272 thousand) due to a miscalculation by pension actuaries was recorded under other expenses.

13. Research and Development Expenses

Research and development expenses for the years ended December 31, 2010 and 2009 were ¥18,698 million ($230,840 thousand) and ¥17,983 million, respectively.

14. Segment Information

The Company and its consolidated subsidiaries operate principally in three industries: Tires, Sports and Industrial and Other Products. Operations in the Tires segment involve the production and sale of a wide range of tires for a variety of vehicles such as passenger cars, trucks, buses and motorcycles and applications such as industrial applications. Operations in the Sports segment involve the production and sale of a variety of sporting goods, principally golf balls, golf clubs, golf bags and tennis balls. Operations in the Industrial and Other Products segment involve the production and sale of a variety of rubber and rubber-based products, including vibration-control products, flooring for gymnasiums, all-weather tennis courts, track and field facilities, marine fenders, precision rubber parts for office machines and blankets for offset printing presses.

In accordance with Japanese accounting standards, capital expenditures included in the segment information comprise the acquisition of tangible assets, depreciable assets such as long-term prepaid expenses, trademarks and other intangible assets.

(1) Information by industry segment

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2010**	2009	**2010**
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥513,775**	¥433,411	**$6,342,901**
Intersegment sales and transfers	**26**	61	**321**
	513,801	433,472	**6,343,222**
Sports—			
Sales to unaffiliated customers	**63,225**	65,220	**780,556**
Intersegment sales and transfers	**330**	345	**4,074**
	63,555	65,565	**784,630**
Industrial and Other Products—			
Sales to unaffiliated customers	**27,549**	25,904	**340,111**
Intersegment sales and transfers	**46**	670	**568**
	27,595	26,574	**340,679**
Adjustments and eliminations	**(402)**	(1,076)	**(4,963)**
	¥604,549	¥524,535	**$7,463,568**
Operating income:			
Tires	**¥ 39,412**	¥ 22,518	**$ 486,568**
Sports	**6,114**	4,735	**75,481**
Industrial and Other Products	**2,123**	1,419	**26,210**
	47,649	28,672	**588,259**
Adjustments and eliminations	**(78)**	67	**(963)**
	¥ 47,571	¥ 28,739	**$ 587,296**
Identifiable assets:			
Tires	**¥534,478**	¥521,233	**$6,598,494**
Sports	**51,344**	55,227	**633,877**
Industrial and Other Products	**23,805**	23,287	**293,887**
	609,627	599,747	**7,526,258**
Corporate assets and eliminations	**12,616**	13,483	**155,753**
	¥622,243	¥613,230	**$7,682,011**
Capital expenditures:			
Tires	**¥ 30,979**	¥ 30,031	**$ 382,457**
Sports	**1,656**	1,435	**20,444**
Industrial and Other Products	**2,231**	1,955	**27,543**
	34,866	33,421	**430,444**
Corporate assets and eliminations	**—**	—	**—**
	¥ 34,866	¥ 33,421	**$ 430,444**
Depreciation and amortization:			
Tires	**¥ 35,043**	¥ 34,588	**$ 432,630**
Sports	**1,656**	1,804	**20,444**
Industrial and Other Products	**1,186**	1,033	**14,642**
	37,885	37,425	**467,716**
Corporate assets and eliminations	**—**	—	**—**
	¥ 37,885	¥ 37,425	**$ 467,716**
Loss on asset impairment:			
Tires	**¥ 1,695**	¥ 1,618	**$ 20,926**
Sports	**4**	101	**49**
Industrial and Other Products	**—**	242	**—**
	1,699	1,961	**20,975**
Corporate assets and eliminations	**—**	—	**—**
	¥ 1,699	¥ 1,961	**$ 20,975**

a. Assets included in "Corporate assets and eliminations" of ¥12,810 million ($158,144 thousand) and ¥13,738 million at December 31, 2010 and 2009, respectively, consist mainly of cash and time deposits, investment securities and administration divisions owned by the Company.

b. Changes in Accounting Policies and Estimates

As stated in "Notes to Consolidated Financial Statements" Note 2(13), in fiscal 2010, a number of domestic consolidated subsidiaries changed their calculation method for accrued retirement benefits from the prima facie method to the principal method. The effect of this change was to increase operating income by ¥31 million ($385 thousand) in the Tires segment compared to the amounts that would have been recorded without the change.

As stated in "Notes to Consolidated Financial Statements" Note 2(6), in fiscal 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006). The effect of this change was to decrease operating income by ¥672 million in the Tires segment and ¥22 million in the Industrial and Other Products segment in fiscal 2009 compared to the amounts that would have been recorded without the adoption.

As stated in "Notes to Consolidated Financial Statements" Note 2(8), in fiscal 2009, the Company and its domestic consolidated subsidiaries changed their estimates of the useful lives of machinery. The effect of this change was to decrease operating income by ¥1,012 million in the Tires segment, ¥34 million in the Sports segment and ¥29 million in the Industrial and Other Products segment in fiscal 2009 compared to the amounts that would have been recorded without the change.

(2) Information by geographic area

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2010**	2009	**2010**
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥ 414,968**	¥ 395,245	**$ 5,123,062**
Sales between geographic areas	**99,885**	59,203	**1,233,148**
	514,853	454,448	**6,356,210**
Asia—			
Sales to unaffiliated customers	**76,265**	53,782	**941,543**
Sales between geographic areas	**56,088**	45,208	**692,444**
	132,353	98,990	**1,633,987**
Other—			
Sales to unaffiliated customers	**113,315**	75,507	**1,398,951**
Sales between geographic areas	**1,370**	1,172	**16,914**
	114,685	76,679	**1,415,865**
	761,891	630,117	**9,406,062**
Adjustments and eliminations	**(157,342)**	(105,582)	**(1,942,494)**
	¥ 604,549	¥ 524,535	**$ 7,463,568**
Operating income:			
Japan	**¥ 32,732**	¥ 20,278	**$ 404,099**
Asia	**8,017**	8,897	**98,975**
Other	**6,156**	(94)	**76,000**
	46,905	29,081	**579,074**
Adjustments and eliminations	**666**	(342)	**8,222**
	¥ 47,571	¥ 28,739	**$ 587,296**
Identifiable assets:			
Japan	**¥ 616,951**	¥ 607,671	**$ 7,616,679**
Asia	**138,539**	125,946	**1,710,358**
Other	**68,414**	55,046	**844,616**
	823,904	788,663	**10,171,653**
Corporate assets and eliminations	**(201,661)**	(175,433)	**(2,489,642)**
	¥ 622,243	¥ 613,230	**$ 7,682,011**

Changes in Accounting Policies and Estimates

As stated in "Notes to Consolidated Financial Statements" Note 2(13), in fiscal 2010, a number of domestic consolidated subsidiaries changed their calculation method for accrued retirement benefits from the prima facie method to the principal method. The effect of this change was to increase operating income by ¥31 million ($385 thousand) in Japan compared to the amounts that would have been recorded without the change.

As stated in "Notes to Consolidated Financial Statements" Note 2(6), in fiscal 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006). In the fiscal year ended December 31, 2009, the effect of this change was to decrease operating income by ¥694 million in Japan compared to the amount that would have been recorded without the adoption.

As stated in "Notes to Consolidated Financial Statements" Note 2(8), in fiscal 2009, the Company and domestic consolidated subsidiaries changed their estimates of the useful lives of machinery. The effect of this change was to decrease operating income by ¥1,075 million in Japan compared to the amount that would have been recorded without the change.

(3) Sales outside Japan by the Company and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2010**	2009	**2010**
Net sales:			
North America	**¥ 81,501**	¥ 74,545	**$1,006,185**
Europe	**35,785**	23,739	**441,790**
Asia	**87,519**	65,356	**1,080,481**
Other areas	**78,163**	70,315	**964,975**
Total	**¥282,968**	¥233,955	**$3,493,431**

	Percentage	
Percentage of such sales in consolidated net sales	**46.8%**	44.6%

15. Related Party Transactions

Significant balances and transactions with a principal shareholder and unconsolidated subsidiaries and affiliates as of December 31, 2010 and 2009 and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes and accounts receivable:			
Trade	**¥ 905**	¥ 1,043	**$ 11,173**
Other	**382**	226	**4,716**
	1,287	1,269	**15,889**
Short-term loans	**239**	118	**2,951**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**2,821**	2,871	**34,827**
Notes and accounts payable:			
Trade	**4,327**	4,311	**53,420**
Other	**236**	262	**2,913**
	4,563	4,573	**56,333**
Sales	**2,522**	2,611	**31,136**
Purchases	**¥11,933**	¥11,788	**$147,321**

(Supplementary Information)

ASBJ Statement No. 11, "Accounting Standard for Related Party Disclosures," and ASBJ Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures," issued by the Accounting Standards Board of Japan on October 17, 2006, require certain additional related party disclosures effective for years beginning on or after April 1, 2008. Pursuant to the new accounting standards, a financial summary of Goodyear Dunlop Tires Europe B.V., a significant affiliated company, is disclosed for the year ended December 31, 2010 and 2009.

A summary of the financial statements of Goodyear Dunlop Tires Europe B.V. is as follows:

	Millions of yen	
	2010	2009
Current assets	**$1,994**	$1,855
Noncurrent assets	**870**	875
Current liabilities	**1,244**	941
Noncurrent liabilities	**1,088**	1,334
Shareholders' equity	**532**	455
Net sales	**5,165**	5,044
Income (loss) before income taxes	**96**	(49)
Net income (loss)	**54**	(72)

16. Contingent Liabilities

As of December 31, 2010 and 2009, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Trade notes discounted	**¥740**	¥3,194	**$9,136**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**85**	161	**1,049**

17. Leases

The original costs of leased assets under finance lease transactions which do not transfer ownership of the leased assets to the lessee and the related accumulated depreciation and accumulated impairment loss, assuming they were calculated using the straight-line method over the term of the lease, as of December 31, 2010 and 2009 were as follows:

As of December 31, 2010	Millions of yen				Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property
Machinery and equipment	**¥7,448**	**¥3,760**	**¥355**	**¥3,333**	**$ 91,951**	**$46,420**	**$4,383**	**$41,148**
Other	**689**	**276**	**—**	**413**	**8,506**	**3,407**	**—**	**5,099**
Total	**¥8,137**	**¥4,036**	**¥355**	**¥3,746**	**$100,457**	**$49,827**	**$4,383**	**$46,247**

As of December 31, 2009	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥8,756	¥3,910	¥4,846
Other	762	253	509
Total	¥9,518	¥4,163	¥5,355

Finance lease transactions executed on or before December 31, 2008 which do not involve a transfer of ownership are accounted for using the same method as that used for operating leases.

Lease payments under finance lease transactions which do not transfer ownership of the leased assets to the lessee for the years ended December 31, 2010 and 2009 amounted to ¥1,203 million ($14,852 thousand) and ¥1,554 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 991**	¥1,228	**$12,235**
Due later	**3,109**	4,127	**38,382**
	¥4,100	¥5,355	**$50,617**

The balances of future lease payments under non-cancelable operating leases, including interest, as of December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 823**	¥ 805	**$10,160**
Due later	**2,054**	2,427	**25,359**
	¥2,877	¥3,232	**$35,519**

18. Impairment Loss

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2010.

Group	Location	Assets	Millions of yen	Thousands of U.S. dollars
			Impairment loss	
Rental property	Shunan City, Yamaguchi and other	Land and buildings	**¥ 128**	**$ 1,580**
Idle assets	Izumiotsu City, Osaka and other	Buildings, leases and other	**1,278**	**15,778**
Assets to be disposed of	Izumiotsu City, Osaka and other	Buildings, tools and other	**293**	**3,617**

The Company and its consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties, unused assets, and assets to be disposed of as decided by the Board of the Directors are tested for recoverability on an individual basis.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because (1) the market price of assets in certain asset groups fell significantly; (2) the fair value of assets in certain idle asset groups declined substantially; and (3) the Company decided to dispose of certain assets. The recoverable amount for the assets in each group of assets is the higher of net realizable value or use value. The recoverable amount of certain business assets was measured at the net realizable value of the memorandum value since it was difficult to calculate the selling price. The recoverable amount for land was measured mainly at net realizable value based on the publicly assessed land value.

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2009.

Group	Location	Assets	Millions of yen Impairment loss
Rental property	Ono City, Hyogo and other	Land and building	¥ 308
Idle assets	Izumiotsu City, Osaka and other	Buildings, structures and other	73
Assets to be disposed of	Izumiotsu City, Osaka and other	Buildings, structures and other	1,580

19. Loss on Voluntary Recall of Products

To provide for direct expenses and related expenses for the voluntarily recall of products, an amount based upon the loss already incurred and the loss that can be reasonably estimated to be incurred after the current period is recorded.

20. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings of the Company were proposed and approved at the general meeting of shareholders held on March 30, 2011:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2010	**¥99,608**	**$1,229,728**
Appropriations—		
Cash dividends (¥12 per share outstanding at December 31, 2010)	**(3,148)**	**(38,864)**
Balance after appropriations	**¥96,460**	**$1,190,864**

Effects of the Great East Japan Earthquake in 2011

The Shirakawa factory, logistic facilities and business office located in the Tohoku region were damaged in the Great East Japan Earthquake that struck on March 11, 2011. The damaged assets are accounted for under inventories and facilities. At present, it is difficult to estimate recovery cost, removal cost, and other losses that will be incurred over the current fiscal year. Having confirmed the safety of certain facilities and recovered electrical power at the Shirakawa factory, the logistic facilities and business office have resumed operations. As of December 31, 2010, the Shirakawa factory accounted for approximately 23% of the Sumitomo Rubber Group's overall production capacity on a production weight basis; therefore, the effect of several days' shutdown on the business operations of the Sumitomo Rubber Group has been limited.

In order to minimize the impact of this situation on our customers and Sumitomo Rubber Group, we are making heartfelt companywide efforts toward the prompt restoration of full operations.

Independent Auditors' Report

To the Board of Directors of
Sumitomo Rubber Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Sumitomo Rubber Industries, Ltd. and consolidated subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated 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 present fairly, in all material respects, the financial position of Sumitomo Rubber Industries, Ltd. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) Note 2(6) to the consolidated financial statements, effective as of the fiscal year ended December 31, 2009, Sumitomo Rubber Industries, Ltd. and its domestic consolidated subsidiaries have adopted new accounting standards for measurement of inventories.

(2) "Effects of The Great East Japan Earthquake" in Note 20, "Subsequent Events," of the Notes to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2010 are presented solely for convenience. Our audit also included the translation of 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.

KPMG AZSA LLC

Kobe, Japan
March 30, 2011