CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2004**	2003	**2004**
Assets			
Current assets:			
Cash and time deposits	**¥ 19,309**	¥ 16,534	**$ 185,663**
Notes and accounts receivable (Note 14)—			
Trade	**109,751**	107,744	**1,055,298**
Other	**10,656**	9,760	**102,462**
Allowance for doubtful accounts	**(2,450)**	(2,650)	**(23,558)**
Inventories (Note 4)	**48,953**	40,741	**470,702**
Short-term loans (Note 14)	**3,858**	3,096	**37,096**
Deferred tax assets (Note 10)	**10,353**	8,316	**99,548**
Other	**6,985**	4,922	**67,163**
Total current assets	**207,415**	188,463	**1,994,374**
Investments and other assets:			
Investments in securities (Note 5)	**17,620**	15,393	**169,423**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14)	**66,623**	68,810	**640,606**
Long-term loans	**1,296**	1,449	**12,462**
Deferred tax assets (Note 10)	**2,610**	2,555	**25,096**
Long-term prepaid expenses	**3,330**	3,063	**32,019**
Trademarks (Note 8)	**5,351**	6,231	**51,452**
Goodwill and other intangible assets	**6,977**	7,199	**67,087**
Prepaid pension cost (Note 11)	**17,043**	7,707	**163,875**
Other	**9,705**	10,755	**93,317**
Allowance for doubtful accounts	**(2,000)**	(2,600)	**(19,231)**
Total investments and other assets	**128,555**	120,562	**1,236,106**
Property, plant and equipment (Notes 7 and 9)**:**			
Land	**41,060**	41,091	**394,808**
Buildings and structures	**120,905**	115,374	**1,162,548**
Machinery and equipment	**348,801**	325,680	**3,353,856**
Construction in progress	**6,231**	12,429	**59,913**
Accumulated depreciation	**(332,810)**	(322,046)	**(3,200,096)**
Total property, plant and equipment	**184,187**	172,528	**1,771,029**
Total assets	**¥ 520,157**	¥ 481,553	**$ 5,001,509**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 56,178**	¥ 78,517	**$ 540,173**
Current portion of long-term debt (Note 9)	**25,694**	20,416	**247,058**
Notes and accounts payable—			
Trade (Note 14)	**69,035**	68,576	**663,798**
Construction	**9,003**	7,101	**86,567**
Other	**23,514**	21,603	**226,096**
Accrued expenses	**15,812**	13,180	**152,039**
Accrued income taxes (Note 10)	**11,023**	10,873	**105,990**
Other	**3,905**	5,468	**37,548**
Total current liabilities	**214,164**	225,734	**2,059,269**
Long-term liabilities:			
Long-term debt (Note 9)	**120,057**	111,747	**1,154,394**
Deferred tax liabilities (Note 10)	**8,031**	5,619	**77,221**
Accrued retirement benefits (Note 11)	**12,670**	14,513	**121,827**
Other	**11,154**	6,122	**107,250**
Total long-term liabilities	**151,912**	138,001	**1,460,692**
Minority interest in consolidated subsidiaries	**8,589**	7,423	**82,587**
Shareholders' equity (Note 17)**:**			
Common stock—			
Authorized: 800,000,000 shares in 2004 and 2003			
Issued: 263,043,057 and 242,543,057 shares in 2004 and 2003	**42,658**	33,905	**410,173**
Capital surplus	**38,656**	28,657	**371,692**
Retained earnings	**53,046**	41,084	**510,058**
Net unrealized gains on available-for-sale securities	**4,960**	3,603	**47,692**
Translation adjustments	**6,416**	4,970	**61,692**
	145,736	112,219	**1,401,307**
Less treasury stock, at cost—			
2004—467,371 shares	**(244)**	—	**(2,346)**
2003—3,782,837 shares	**—**	(1,824)	**—**
Total shareholders' equity	**145,492**	110,395	**1,398,961**
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	**¥ 520,157**	¥ 481,553	**$ 5,001,509**

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	**2004**	2003	**2004**
Net sales (Note 14)	**¥ 470,562**	¥ 450,491	**$ 4,524,635**
Cost of sales (Note 14)	**288,684**	281,392	**2,775,808**
Gross profit	**181,878**	169,099	**1,748,827**
Selling, general and administrative expenses	**136,352**	131,333	**1,311,077**
Operating income	**45,526**	37,766	**437,750**
Other income (expenses):			
Interest and dividend income	**384**	453	**3,693**
Interest expenses	**(1,786)**	(2,123)	**(17,173)**
Loss on sales or disposal of property, plant, and equipment, net	**(1,470)**	(1,151)	**(14,135)**
Exchange gain (loss), net	**(783)**	657	**(7,529)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**717**	(2,261)	**6,894**
Loss on transition to defined contribution plans from defined benefit plans (Note 11)	**(1,848)**	—	**(17,769)**
Start-up costs in foreign subsidiaries	**(580)**	—	**(5,577)**
Amortization of initial transition cost of pension and severance plans (Note 11)	**(532)**	(733)	**(5,115)**
Expenses relating to product liabilities	**(1,215)**	(884)	**(11,683)**
Gain on return of substituted portion of employee pension fund (Note 11)	**—**	1,851	**—**
Write-down of trademarks (Note 8)	**—**	(2,442)	**—**
Other, net	**(1,825)**	672	**(17,548)**
	(8,938)	(5,961)	**(85,942)**
Income before income taxes and minority interest in consolidated subsidiaries	**36,588**	31,805	**351,808**
Income taxes (Note 10)**:**			
Current	**17,038**	14,200	**163,827**
Deferred	**(880)**	2,455	**(8,461)**
	16,158	16,655	**155,366**
Income before minority interest in consolidated subsidiaries	**20,430**	15,150	**196,442**
Minority interest in consolidated subsidiaries	**(1,261)**	(2,055)	**(12,125)**
Net income	**¥ 19,169**	¥ 13,095	**$ 184,317**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥78.64**	¥55.07	**$0.756**
Cash dividends paid	**14.00**	12.00	**0.135**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2004**	2003	**2004**
Common stock:			
Balance at beginning of year	**¥ 33,905**	¥ 33,905	**$ 326,010**
Issuance of capital stock	**8,753**	—	**84,163**
Balance at end of year	**¥ 42,658**	¥ 33,905	**$ 410,173**
Capital surplus:			
Balance at beginning of year	**¥ 28,657**	¥ 28,657	**$ 275,548**
Issuance of capital stock	**8,753**	—	**84,163**
Gain on sales of treasury stock	**1,246**	—	**11,981**
Balance at end of year	**¥ 38,656**	¥ 28,657	**$ 371,692**
Retained earnings:			
Balance at beginning of year	**¥ 41,084**	¥ 31,268	**$ 395,038**
Net income	**19,169**	13,095	**184,317**
Cash dividends	**(3,103)**	(2,343)	**(29,836)**
Bonuses to directors and statutory auditors	**(95)**	(100)	**(913)**
Other comprehensive income of foreign subsidiaries and affiliates	**(4,209)**	(713)	**(40,471)**
Effect of change in reporting entities	**200**	(123)	**1,923**
Balance at end of year	**¥ 53,046**	¥ 41,084	**$ 510,058**
Net unrealized gains on available-for-sale securities at end of year	**¥ 4,960**	¥ 3,603	**$ 47,692**
Translation adjustments at end of year	**¥ 6,416**	¥ 4,970	**$ 61,692**
Less treasury stock, at cost at end of year	**¥ (244)**	¥ (1,824)	**$ (2,346)**
Total shareholders' equity at end of year	**¥ 145,492**	¥ 110,395	**$ 1,398,961**

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	**2004**	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interest in consolidated subsidiaries	**¥ 36,588**	¥ 31,805	**$ 351,808**
Adjustments to reconcile income before income taxes and minority interest in consolidated subsidiaries to net cash provided by operating activities—			
Depreciation and amortization	**25,098**	24,313	**241,327**
Loss on sales or disposal of property, plant and equipment, net	**1,470**	1,151	**14,135**
Gain on return of substituted portion of employee pension fund	**—**	(1,851)	**—**
Amortization of initial transition cost of pension and severance plans	**532**	733	**5,115**
Write-down of trademarks	**—**	2,442	**—**
Increase in prepaid pension costs, net of payment	**(9,336)**	(7,707)	**(89,769)**
Increase in pension premium payable for transition to defined contribution plan	**4,986**	—	**47,942**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(717)**	2,261	**(6,894)**
Reversal of allowance for doubtful accounts	**(29)**	(1,216)	**(279)**
Provision for (reversal of) accrued retirement benefits, net of payment	**(3,011)**	3,703	**(28,952)**
Interest and dividend income	**(384)**	(453)	**(3,692)**
Interest expenses	**1,786**	2,123	**17,173**
Increase in notes and accounts receivable	**(2,052)**	(4,119)	**(19,731)**
(Increase) decrease in inventories	**(8,301)**	1,332	**(79,817)**
Increase (decrease) in notes and accounts payable	**280**	(1,430)	**2,692**
Other	**2,761**	(1,707)	**26,548**
Subtotal	**49,671**	51,380	**477,606**
Interest and dividends received	**1,790**	2,160	**17,212**
Interest paid	**(1,818)**	(2,180)	**(17,481)**
Income taxes paid	**(17,587)**	(7,135)	**(169,106)**
Net cash provided by operating activities	**32,056**	44,225	**308,231**
Cash flows from investing activities:			
Capital expenditures	**(36,881)**	(29,171)	**(354,625)**
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	**1,034**	373	**9,942**
Acquisition of investments in securities	**(66)**	(613)	**(635)**
Proceeds from sales of investments in securities	**150**	123	**1,442**
Payment for purchase of consolidated subsidiaries, net of cash acquired	**—**	(544)	**—**
Additional acquisition of shares in unconsolidated subsidiaries and affiliates	**(1,310)**	—	**(12,596)**
Net (increase) decrease in short-term loans receivable	**(724)**	1,001	**(6,961)**
Increase in long-term loans receivable	**(3,294)**	(275)	**(31,673)**
Decrease in long-term loans receivable	**3,424**	349	**32,923**
Other	**45**	212	**433**
Net cash used in investing activities	**(37,622)**	(28,545)	**(361,750)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**(22,300)**	(5,108)	**(214,423)**
Proceeds from long-term debt and newly issued bonds	**33,674**	25,244	**323,788**
Repayments of long-term debt and redemption of bonds	**(19,940)**	(28,596)	**(191,731)**
Dividends paid	**(3,103)**	(2,343)	**(29,836)**
Dividends on minority interest	**(364)**	(451)	**(3,500)**
Proceeds from issuance of capital stock	**17,507**	—	**168,337**
Proceeds from sales (payments for purchases) of treasury stock, net	**2,826**	(9,828)	**27,173**
Payments relating to issuance of common stock and sales of treasury stock	**(872)**	—	**(8,385)**
Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries	**186**	254	**1,788**
Other	**(5)**	7	**(48)**
Net cash provided by (used in) financing activities	**7,609**	(20,821)	**73,163**
Effect of exchange rate changes on cash and cash equivalents	**(1)**	(425)	**(9)**
Net increase (decrease) in cash and cash equivalents	**2,042**	(5,566)	**19,635**
Cash and cash equivalents at beginning of year	**16,453**	20,785	**158,202**
Increase in cash and cash equivalent due to change in reporting entities	**751**	1,234	**7,221**
Cash and cash equivalents at end of year	**¥ 19,246**	¥ 16,453	**$ 185,058**

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 which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars. The rate of ¥104=U.S.$1, the approximate rate prevailing at December 31, 2004, 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 20%- to 50%-owned companies ("affiliates") are, with minor exceptions, accounted for on an equity basis. On 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 elimination of unrealized intercompany profits.

Dunlop Tyres Ltd., Falken Tires Ltd., SRI Tire Trading Ltd., Falken Tire Trading Ltd., SRI Sports Ltd., SRI Hybrid Ltd., SRI Engineering Ltd. and SRI Research & Development Ltd., which were established during fiscal 2003, are included in the 2004 and 2003 consolidation. Subsidiaries whose operations became materially significant in 2003, including Sumitomo Rubber (Changshu) Co., Ltd., Sumitomo Rubber (Suzhou) Co., Ltd. and Srixon Sports Europe Ltd., and subsidiaries that launched their businesses in 2003, including Srixon Sports Australasia Pty. Ltd. and SRI Automotive Technology, Inc., are also included in the 2004 and 2003 consolidation. Sakurambo Country Club Co., Ltd. was excluded from consolidation in 2003 due to reduction of shareholding that year.

SRITP LIMITED, whose operations became materially significant in 2004, is included in the 2004 consolidation. Shanghai Dunlop Trading Co., Ltd., Tianjin Dunlop Global Trading Co., Ltd., Dalian Dunlop Trading Co., Ltd., and Guangzhou Dunlop Trading Co., Ltd., which were established during fiscal 2004, are included in the 2004 consolidation. Falken TEC Taiwan Corp. and Srixon Sports (Malaysia) Sdn. Bhd. were liquidated in 2004. Falken Tire Trading Ltd. was merged with SRI Tire Trading Ltd. in 2004.

In case of 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.

Amortized using the straight-line method over a 5-year period are the differences between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis incurred when those companies are initially included in consolidation or accounted for under the equity method.

Two exceptions to this policy are the difference related to Goodyear Dunlop Tires Europe B.V., which is being amortized over a 10-year period, and the difference related to Falken Tire Corporation, which is no longer amortized from fiscal 2003 in compliance with SFAS No. 142 of the United States of America (see note 2 (10)). Minor differences are charged or credited to income as incurred.

(2) Consolidated statements of cash flows

The form of the accompanying consolidated statements of cash flows is defined by the Financial Services Agency of Japan.

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.

Capital expenditures presented in the consolidated statements of cash flows comprise acquisition of tangible assets, long-term prepaid expenses, trademarks and other intangible assets.

(3) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency 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, except for shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at average rates of exchange prevailing during the year. The resulting translation adjustments are shown as a separate component of shareholders' equity.

(4) Marketable securities and investments in securities

Securities classified as available-for-sale securities are stated at fair market value with unrealized gains or losses, net of applicable taxes, which are recorded as a component of shareholders' equity. Securities with no fair market value are stated at cost. Loss on significant decline of the fair value of securities that is not temporary is charged 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 and interest rate swap contracts, in order to offset risks of exposure to fluctuation in currency exchange rates and interest in respect of their financial assets and liabilities in accordance with their internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives used for hedging purposes.

b. Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments deferring any gain or loss over the period of the hedging contracts together with offsetting against the deferred loss or gain on the related hedged items.

However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated by using the contract rates. 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 items.

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
Interest rate swap contracts	Short-term borrowings and long-term debt

c. 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.

d. Assessment method of hedging 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 and the related hedged items from the commencement of the hedges.

(6) Inventories

Inventories are principally stated at the lower of cost or market, cost being determined using the average-cost method.

(7) Allowance for doubtful accounts

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

(8) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the declining-balance method, except for assets held at the Shirakawa factory, the Miyazaki factory and the Izumiohtsu factory of the Company, assets held at foreign subsidiaries and assets held under capitalized leases, which are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets.

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of an impaired asset or a group of the assets to recoverable amount to be measured at the higher of net realizable value and value in use.

The standard shall be effective for fiscal years beginning on January 1, 2006. However, an early adoption is permitted for the fiscal year beginning January 1, 2005.

The Company has not determined the effect of applying the new standard in the Company's consolidated financial statements.

(9) Accounting for leases

Finance leases which are not subject to transfer of ownership of property to the lessees at the end of the lease term are principally accounted for as operating leases.

(10) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives (5 to 20 years). The new standard discussed in (8) above will be also subject to intangible assets when it is adopted.

Goodwill and intangible assets with indefinite useful lives held by U.S. subsidiaries are not amortized but tested for impairment on an annual basis under certain circumstances and written down when impaired. Their intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment. In addition, the value of goodwill and trademarks held by foreign subsidiaries other than U.S. subsidiaries are reassessed annually at December 31.

(11) Research and development expenses

Research and development expenses for improvement of existing products or development of new products, including basic research and fundamental development costs, are charged to income when incurred.

(12) Accrued retirement benefits

The liabilities and expenses for retirement and severance benefits are accounted for based on the estimated amounts of projected benefit obligation and plan assets at the balance sheet date.

Accrued retirement benefits for directors and statutory auditors are recorded at an amount equivalent to 100% of such benefits that the Company would be required to pay based on the internal rule at the balance sheet date.

Payments of the benefits are subject to resolution at the shareholders' meeting.

(13) Income taxes

The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes, which, in 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 adopt interperiod income tax allocation using the asset and liability method of accounting with respect to all such temporary differences including tax loss carryforward.

(14) 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, 2004 and 2003.

(15) 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 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.

(16) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

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 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash and time deposits	**¥19,309**	¥16,534	**$185,663**
Time deposits with a maturity of over three months	**(39)**	(52)	**(375)**
Bank overdraft	**(24)**	(29)	**(230)**
Cash and cash equivalents	**¥19,246**	¥16,453	**$185,058**

4. INVENTORIES

Inventories as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥32,822**	¥27,868	**$315,596**
Work in process	**4,096**	3,628	**39,385**
Raw materials	**8,147**	6,107	**78,336**
Supplies	**3,888**	3,138	**37,385**
	¥48,953	¥40,741	**$470,702**

5. INVESTMENTS IN SECURITIES

As of December 31, 2004 and 2003, cost, book value and the related unrealized gains and losses pertaining to available-for-sale securities with readily determinable fair values of marketable equity securities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Available-for-sale securities:			
Cost	**¥ 7,344**	¥ 6,872	**$ 70,615**
Book value	**15,668**	12,896	**150,654**
Unrealized gains	**8,410**	6,261	**80,866**
Unrealized losses	**(86)**	(237)	**(827)**

Available-for-sale securities sold during the years ended December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Proceeds	**¥150**	¥182	**$1,442**
Realized gains	**97**	66	**933**
Realized losses	**(0)**	(9)	**(0)**

6. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value information regarding derivative financial instruments as of December 31, 2004 and 2003 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain
Currency related contracts:									
Foreign exchange contracts									
To purchase	**¥257**	**¥258**	**¥1**	¥224	¥227	¥3	**$2,471**	**$2,481**	**$10**

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss
Interest rate related contracts:									
Interest rate swap contracts									
Receive variable rate, give fixed rate	**¥1,000**	**¥(32)**	**¥(32)**	—	—	—	**$9,615**	**$(308)**	**$(308)**

7. PROPERTY, PLANT AND EQUIPMENT

The depreciation charges for the years ended December 31, 2004 and 2003 were ¥20,684 million ($198,885 thousand) and ¥19,702 million, respectively. Estimated useful lives of the major classes of depreciable assets ranged from 2 to 60 years (principally 31 years) for buildings and structures, and from 2 to 20 years (principally 10 years) for machinery and equipment.

8. TRADEMARKS

For the years ended December 31, 2004 and 2003, amortization charges for capitalized trademarks were ¥885 million ($8,510 thousand) and ¥1,586 million, respectively.

The write-down of trademarks in the 2003 consolidated statements of income was related to a foreign subsidiary whose performance had deteriorated, and was recorded in addition to the amortization.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings, other than commercial paper, of ¥36,678 million ($352,673 thousand) and ¥56,517 million as of December 31, 2004 and 2003 bore interest ranging from 0.100% to 7.250%, and from 0.310% to 5.280% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥19,500 million ($187,500 thousand) and ¥22,000 million as of December 31, 2004 and 2003 bore interest ranging from 0.011% to 0.014%, and from 0.014% to 0.0196% per annum, respectively.

Long-term debt as of December 31, 2004 and 2003 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
1.900% unsecured bonds due 2006 payable in Japanese yen	**¥ 10,000**	¥ 10,000	**$ 96,154**
0.570% unsecured bonds due 2005 payable in Japanese yen	**10,000**	10,000	**96,154**
0.910% unsecured bonds due 2007 payable in Japanese yen	**10,000**	10,000	**96,154**
0.840% unsecured bonds due 2008 payable in Japanese yen	**10,000**	10,000	**96,154**
1.150% unsecured bonds due 2009 payable in Japanese yen	**20,000**	20,000	**192,307**
0.670% unsecured bonds due 2008 payable in Japanese yen	**5,000**	—	**48,077**
1.080% unsecured bonds due 2010 payable in Japanese yen	**10,000**	—	**96,154**
2.150% unsecured bonds due 2004 payable in Japanese yen	**—**	5,000	**—**
Loans payable to banks and other financial institutions due 2005-2019, with interest of 0.414%-4.95% for 2004 and 2003			
Secured	**25,585**	26,379	**246,010**
Unsecured	**45,166**	40,784	**434,288**
	145,751	132,163	**1,401,452**
Less portion due within one year	**25,694**	20,416	**247,058**
	¥120,057	¥111,747	**$1,154,394**

The aggregate annual maturities of long-term debt as of December 31, 2004 are as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 25,694	$ 247,058
2006	18,364	176,577
2007	16,495	158,606
2008	25,404	244,269
2009	38,763	372,721
2010 and thereafter	21,031	202,221
	¥145,751	$1,401,452

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

As of December 31, 2004, property, plant and equipment amounting to ¥30,075 million ($289,183 thousand), net of accumulated depreciation, were pledged as collateral for long-term debt and short-term borrowings amounting to ¥25,834 million ($248,404 thousand).

10. INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate a normal cumulative statutory tax rate of approximately 41.7% in Japan for the years ended December 31, 2004 and 2003.

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, 2004 and 2003 were as follows:

	2004	2003
Normal cumulative statutory tax rate	**41.7%**	41.7%
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	**0.5**	2.6
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(0.8)**	2.3
Current operating losses of foreign subsidiaries	**2.3**	2.4
Expenses not deductible for tax purposes	**1.1**	1.2
Change in valuation allowance for deferred tax assets	**0.6**	4.9
Other	**(1.2)**	(2.7)
Effective tax rates per consolidated statements of income	**44.2%**	52.4%

On March 31, 2003, the law governing local taxes in Japan was revised to impose a size-based enterprise tax on corporations and accordingly, income tax rates for the enterprise taxes will be reduced for the fiscal year commencing on January 1, 2005, or later.

As of December 31, 2003, based on the change of income tax rates, for the calculation of deferred tax assets and liabilities, the Company and certain of its domestic consolidated subsidiaries used the statutory tax rates of 41.7% and 40.4% for current items and non-current items, respectively. The effect of this change was immaterial.

Significant components of the deferred tax assets and liabilities as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets—current:			
Provision for doubtful accounts	**¥ 608**	¥ 779	**$ 5,846**
Accrued business enterprise tax	**997**	857	**9,587**
Unrealized intercompany profits on inventories	**3,342**	3,043	**32,135**
Tax loss carryforward	**1,049**	836	**10,086**
Other	**4,357**	2,801	**41,894**
Total	**¥10,353**	¥ 8,316	**$ 99,548**
Deferred tax assets—non-current:			
Unrealized intercompany profits on fixed assets	**1,002**	1,141	**9,635**
Provision for accrued retirement benefits	**875**	373	**8,413**
Other	**733**	1,041	**7,048**
Total	**¥ 2,610**	¥ 2,555	**$ 25,096**
Deferred tax liabilities—current:	**¥ (80)**	¥ (81)	**$ (769)**
Deferred tax liabilities—non-current:			
Deferred gain on sales of property, plant and equipment	**(2,283)**	(2,359)	**(21,952)**
Unrealized gain on land of a consolidated subsidiary	**(1,586)**	(1,586)	**(15,250)**
Provision for accrued retirement benefits	**(1,580)**	869	**(15,192)**
Unrealized gains on available-for-sale securities	**(3,271)**	(2,368)	**(31,452)**
Other	**689**	(175)	**6,625**
Total	**¥(8,031)**	¥ (5,619)	**$(77,221)**

11. 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 voluntarily retiring under normal circumstance, minimum payment amount is calculated based on current rate of pay, length of service and condition under which the employee retires. In calculating the payment amount for an involuntarily retiring employee, including an employee retiring due to meeting mandatory retirement age, the Company or the domestic consolidated subsidiaries may grant additional benefit.

The Company and most of the domestic consolidated subsidiaries have established their own defined benefit pension plans and defined contribution pension plans described below.

Before April 1, 2004 the Company had a contributory defined benefit pension plan, which was pursuant to the Japanese Welfare Pension Insurance Law. The pension plan covered a portion of the benefits provided by a government welfare pension program, under which contributions were made by the Company and its employees. The other portion of the pension plan represented a non-contributory pension plan. Under the pension plan, the non-contributory portion covered (i) payments to those employees who had served with the Company for more than 20 years and retired at the age limit and (ii) a 25% portion of the lump-sum retirement indemnities for the employees who were not qualified to receive the annuity payments. Contributions to the plan were deposited with and managed by several financial institutions in accordance with the applicable laws and regulations.

Accompanying the newly enacted "Defined Benefit Corporate Pension Law," in January 2003 the Company and these subsidiaries obtained approval of the Ministry of Health, Labour and Welfare for an exemption from the future benefit obligation related to the substituted government's portion of pension benefits provided by social welfare pension funds.

In accordance with the transitional measures prescribed in Article 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants, the Company and these subsidiaries, on the approval date, recognized the relinquishment of the substituted portion of benefit obligation of welfare pension funds and the corresponding portion of plan assets. The effect of adopting the Guidelines was ¥1,851 million, which was recorded as a gain on return of substituted portion of employee pension funds in the consolidated statement of income for the year ended December 31, 2003.

The amount of plan assets to be transferred back to the government was approximately ¥19,090 million as of December 31, 2003.

On April 1, 2004, upon the enactment of the Defined Contribution Pension Law, the Company and some of its domestic consolidated subsidiaries transferred a portion of lump-sum benefit plans to defined contribution pension plans.

As a result, the Company and the subsidiaries recorded loss of ¥1,848 million ($17,769 thousand) in aggregate in the consolidated statement of income for the year ended December 31, 2004 pursuant to Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan.

The transition to defined contribution plan increased prepaid pension cost and decreased accrued retirement benefit.

The net effect of the above is as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	**2004**
Decrease in benefit obligation	**¥11,519**	**$110,760**
Decrease in unrecognized initial transition cost at date of adoption of pension accounting	**(467)**	**(4,490)**
Decrease in unrecognized actuarial losses	**(2,375)**	**(22,837)**
Decrease in unrecognized prior service cost	**372**	**3,577**
	¥ 9,049	**$ 87,010**

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans that substantially cover all of their employees, under which the cost of benefit is currently funded or accrued. Benefits awarded under these plans are based primarily on current rate of pay 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, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Benefit obligation at end of year	**¥(46,725)**	¥ (60,989)	**$(449,279)**
Fair value of plan assets at end of year	**50,108**	44,898	**481,808**
Funded status:			
Benefit obligation in excess of plan assets	**3,383**	(16,091)	**32,529**
Unrecognized initial transition cost at date of adoption	**466**	1,465	**4,481**
Unrecognized actuarial losses	**5,428**	9,849	**52,192**
Unrecognized prior service cost	**(3,937)**	(1,514)	**(37,856)**
Subtotal	**5,340**	(6,291)	**51,346**
Prepaid pension cost	**17,043**	7,707	**163,875**
Accrued retirement benefits	**¥(11,703)**	¥ (13,998)	**$(112,529)**

The accrued retirement benefits for directors and statutory auditors as of December 31, 2004 and 2003, amounting to ¥967 million ($9,298 thousand) and ¥515 million, respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 2,070**	¥ 2,268	**$ 19,904**
Interest cost	**1,031**	1,266	**9,913**
Expected return on plan assets	**(951)**	(745)	**(9,144)**
Amortization of transition obligation at date of adoption	**532**	733	**5,115**
Amortization of actuarial loss	**616**	968	**5,923**
Amortization of prior service cost	**(253)**	(9)	**(2,433)**
Severance and retirement benefit expenses	**¥ 3,045**	¥ 4,481	**$ 29,278**
Transitional loss into the defined contribution pension plan	**1,848**	—	**17,769**
Contributions to the defined contribution pension plan	**324**	—	**3,115**
Gain on return of substituted portion of the employee pension fund	**—**	(1,851)	**—**
Net periodic benefit costs	**¥ 5,217**	¥ 2,630	**$ 50,162**

In 2004 and 2003, the discount rate and a range of the rates of expected return on plan assets used by the Company and the domestic consolidated subsidiaries were 2.5% and from 0.84% to 2.5%, respectively. 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 transition charges at the date of adoption of the pension accounting and prior service cost are 5 years and 15 years, respectively.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended December 31, 2004 and 2003 were ¥15,730 million ($151,250 thousand) and ¥14,058 million, respectively.

13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate principally in three industries: tires, sports and industrial products.

Operations in the Tires segment involve the production and sales of a wide range of tires for a variety of vehicles and applications, such as passenger cars, trucks, buses, motorcycles and industrial applications.

Operations in the Sports segment involve the production and sales 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 sales of a variety of rubber and rubber-based products, including flooring for gymnasiums, all-weather tennis courts, track and field facilities, industrial flooring coating, marine fenders, precision rubber parts for office machines, blankets for offset printing presses, and beds.

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

(1) Information by industry segment

Years ended December 31	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥356,646**	¥338,915	**$3,429,288**
Intersegment sales and transfers	**144**	93	**1,385**
	356,790	339,008	**3,430,673**
Sports—			
Sales to unaffiliated customers	**57,363**	58,856	**551,567**
Intersegment sales and transfers	**464**	360	**4,462**
	57,827	59,216	**556,029**
Industrial and Other Products—			
Sales to unaffiliated customers	**56,553**	52,720	**543,779**
Intersegment sales and transfers	**2,866**	1,453	**27,558**
	59,419	54,173	**571,337**
Adjustment and eliminations	**(3,474)**	(1,906)	**(33,404)**
	¥470,562	¥450,491	**$4,524,635**
Operating income:			
Tires	**¥ 32,899**	¥ 31,208	**$ 316,337**
Sports	**11,023**	7,958	**105,990**
Industrial and Other Products	**1,652**	(1,198)	**15,885**
	45,574	37,968	**438,212**
Adjustment and eliminations	**(48)**	(202)	**(462)**
	¥ 45,526	¥ 37,766	**$ 437,750**
Identifiable assets:			
Tires	**¥428,311**	¥398,806	**$4,118,375**
Sports	**40,935**	36,723	**393,606**
Industrial and Other Products	**41,079**	38,794	**394,990**
	510,325	474,323	**4,906,971**
Corporate assets and eliminations	**9,832**	7,230	**94,538**
	¥520,157	¥481,553	**$5,001,509**
Capital expenditures:			
Tires	**¥ 36,091**	¥ 29,094	**$ 347,029**
Sports	**1,255**	1,228	**12,067**
Industrial and Other Products	**1,416**	1,167	**13,615**
	38,762	31,489	**372,711**
Corporate assets and eliminations	**45**	1	**433**
	¥ 38,807	¥ 31,490	**$ 373,144**
Depreciation and amortization:			
Tires	**¥ 20,947**	¥ 19,172	**$ 201,413**
Sports	**1,636**	1,899	**15,731**
Industrial and Other Products	**2,511**	3,231	**24,144**
	25,094	24,302	**241,288**
Corporate assets and eliminations	**4**	11	**39**
	¥ 25,098	¥ 24,313	**$ 241,327**

(2) Information by geographic area

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2004**	2003	**2004**
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥409,505**	¥397,544	**$3,937,548**
Sales between geographic areas	**17,273**	14,594	**166,087**
	426,778	412,138	**4,103,635**
Other—			
Sales to unaffiliated customers	**61,057**	52,947	**587,086**
Sales between geographic areas	**9,613**	6,493	**92,433**
	70,670	59,440	**679,519**
	497,448	471,578	**4,783,154**
Adjustment and eliminations	**(26,886)**	(21,087)	**(258,519)**
	¥470,562	¥450,491	**$4,524,635**
Operating income:			
Japan	**¥ 43,176**	¥ 37,765	**$ 415,154**
Other	**1,942**	125	**18,673**
	45,118	37,890	**433,827**
Adjustment and eliminations	**408**	(124)	**3,923**
	¥ 45,526	¥ 37,766	**$ 437,750**
Identifiable assets:			
Japan	**¥439,237**	¥400,139	**$4,223,432**
Other	**71,649**	65,197	**688,933**
	510,886	465,336	**4,912,365**
Corporate assets and eliminations	**9,271**	16,217	**89,144**
	¥520,157	¥481,553	**$5,001,509**

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2004**	2003	**2004**
Net sales:			
North America	**¥ 47,279**	¥ 41,623	**$ 454,606**
Europe	**42,369**	36,680	**407,394**
Asia	**21,449**	17,048	**206,240**
Other areas	**37,142**	37,888	**357,135**
Total	**¥148,239**	¥133,239	**$1,425,375**
	Percentage		
Percentage of such sales in consolidated net sales	**31.5%**	29.6%	

14. RELATED PARTY TRANSACTIONS

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2004 and 2003, and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Notes and accounts receivable:			
Trade	**¥ 3,009**	¥ 2,978	**$ 28,933**
Other	**662**	510	**6,365**
	¥ 3,671	¥ 3,488	**$ 35,298**
Short-term loans	**¥ 2,641**	¥ 1,634	**$ 25,394**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**¥ 3,170**	¥ 3,170	**$ 30,481**
Notes and accounts payable, trade	**¥ 4,928**	¥ 4,743	**$ 47,385**
Sales	**¥10,532**	¥10,183	**$101,269**
Purchases	**¥11,262**	¥ 9,634	**$108,288**

15. CONTINGENT LIABILITIES

As of December 31, 2004, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	**¥3,139**	**$30,183**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**86**	**827**

16. LEASES

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation, assuming they were calculated using the straight-line method over the lease terms, as of December 31, 2004 and 2003 were as follows:

As of December 31, 2004

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	**¥6,283**	**¥3,519**	**¥2,764**	**$60,413**	**$33,836**	**$26,577**
Other	**91**	**53**	**38**	**875**	**510**	**365**
Total	**¥6,374**	**¥3,572**	**¥2,802**	**$61,288**	**$34,346**	**$26,942**

As of December 31, 2003

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥8,051	¥4,744	¥ 3,307
Other	777	726	51
Total	¥8,828	¥5,470	¥ 3,358

Lease payments under non-capitalized finance leases for the years ended December 31, 2004 and 2003 amounted to ¥1,361 million ($13,087 thousand) and ¥1,460 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2003**
Due within one year	**¥ 1,073**	¥ 1,464	**$ 10,317**
Due later	**1,729**	1,894	**16,625**
	¥ 2,802	¥ 3,358	**$ 26,942**

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 222**	¥ 235	**$ 2,135**
Due later	**1,435**	1,485	**13,798**
	¥ 1,657	¥ 1,720	**$ 15,933**

17. 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, 2005:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2004	**¥68,735**	**$660,913**
Appropriations—		
Cash dividends (¥9 per share outstanding at December 31, 2004)	**(2,363)**	**(22,721)**
Bonuses to directors and statutory auditors	**(100)**	**(961)**
Balance after appropriations	**¥66,272**	**$637,231**

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Nakanoshima Mitsui Building 16F
3-3-3, Nakanoshima,
Kita-Ku, Osaka 530-8248 Japan

To the Board of Directors and Shareholders of
Sumitomo Rubber Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

March 30, 2005