CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

December 31	Millions of yen 2005	2004	Thousands of U.S.dollars (Note 1) 2005
Assets			
Current assets:			
Cash and time deposits	¥ 13,119	¥ 19,309	$ 111,178
Notes and accounts receivable (Note 14)—			
Trade	121,444	109,751	1,029,186
Other	14,335	10,656	121,483
Allowance for doubtful accounts	(2,650)	(2,450)	(22,458)
Inventories (Note 4)	57,205	48,953	484,788
Short-term loans (Note 14)	4,623	3,858	39,178
Deferred tax assets (Note 10)	9,469	10,353	80,246
Other	7,640	6,985	64,746
Total current assets	225,185	207,415	1,908,347
Investments and other assets:			
Investments in securities (Note 5)	23,904	17,620	202,576
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14)	68,291	66,623	578,737
Long-term loans	1,050	1,296	8,898
Deferred tax assets (Note 10)	2,086	2,610	17,678
Long-term prepaid expenses	3,466	3,330	29,373
Trademarks (Note 8)	2,859	5,351	24,229
Goodwill and other intangible assets	7,581	6,977	64,246
Prepaid pension cost (Note11)	18,633	17,043	157,907
Other	9,458	9,705	80,153
Allowance for doubtful accounts	(1,700)	(2,000)	(14,407)
Total investments and other assets	135,628	128,555	1,149,390
Property, plant and equipment (Notes 7 and 9):			
Land	42,241	41,060	357,975
Buildings and structures	125,819	120,905	1,066,263
Machinery and equipment	368,181	348,801	3,120,178
Construction in progress	9,705	6,231	82,246
Accumulated depreciation	(343,317)	(332,810)	(2,909,467)
Total property, plant and equipment	202,629	184,187	1,717,195
Total assets	¥ 563,442	¥ 520,157	$ 4,774,932

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	¥ 51,402	¥ 56,178	$ 435,610
Current portion of long-term debt (Note 9)	18,375	25,694	155,720
Notes and accounts payable—			
Trade (Note 14)	78,584	69,035	665,966
Construction	8,790	9,003	74,492
Other	25,850	23,514	219,068
Accrued expenses	16,766	15,812	142,085
Allowance for sales returns	2,226	—	18,864
Accrued income taxes (Note 10)	10,727	11,023	90,907
Other	1,728	3,905	14,642
Total current liabilities	214,448	214,164	1,817,354
Long-term liabilities:			
Long-term debt (Note 9)	135,974	120,057	1,152,322
Deferred tax liabilities (Note 10)	8,767	8,031	74,297
Accrued retirement benefits (Note 11)	11,753	12,670	99,602
Other	9,477	11,154	80,315
Total long-term liabilities	165,971	151,912	1,406,536
Contingent liabilities (Note 15)			
Minority interest in consolidated subsidiaries	8,756	8,589	74,203
Shareholders' equity (Note 17):			
Common stock—			
Authorized: 800,000,000 shares			
Issued: 263,043,057 shares	42,658	42,658	361,508
Capital surplus	38,657	38,656	327,601
Retained earnings	74,626	53,046	632,424
Net unrealized gains on available-for-sale securities	8,519	4,960	72,195
Translation adjustments	10,251	6,416	86,874
	174,711	145,736	1,480,602
Less treasury stock, at cost—			
2005—634,805 shares	(444)	—	(3,763)
2004—467,371 shares	—	(244)	—
Total shareholders' equity	174,267	145,492	1,476,839
Total liabilities and shareholders' equity	¥563,442	¥520,157	$4,774,932

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	2005	2004	2005
Net sales (Note 14)	¥512,838	¥470,562	$4,346,085
Cost of sales (Note 14)	325,286	288,684	2,756,661
Gross profit	187,552	181,878	1,589,424
Selling, general and administrative expenses	137,626	136,352	1,166,322
Operating income	49,926	45,526	423,102
Other income (expenses):			
Interest and dividend income	502	384	4,254
Interest expenses	(2,371)	(1,786)	(20,093)
Loss on sales or disposal of property, plant, and equipment, net	(603)	(1,470)	(5,110)
Exchange loss, net	(1,563)	(783)	(13,246)
Equity in earnings of unconsolidated subsidiaries and affiliates	4,825	717	40,890
Loss on transition to defined contribution plans from defined benefit plans (Note 11)	—	(1,848)	—
Start-up costs in foreign subsidiaries	—	(580)	—
Amortization of initial transition cost of pension and severance plans (Note 11)	(578)	(532)	(4,898)
Expenses relating to product liabilities	(1,029)	(1,215)	(8,720)
Write-down of investments in securities	(482)	—	(4,085)
Write-down of trademarks (Note 8)	(1,659)	—	(14,059)
Other, net	(2,705)	(1,825)	(22,925)
	(5,663)	(8,938)	(47,992)
Income before income taxes and minority interest in consolidated subsidiaries	44,263	36,588	375,110
Income taxes (Note 10):			
Current	17,847	17,038	151,246
Deferred	(292)	(880)	(2,475)
	17,555	16,158	148,771
Income before minority interest in consolidated subsidiaries	26,708	20,430	226,339
Minority interest in consolidated subsidiaries	(1,068)	(1,261)	(9,051)
Net income	¥ 25,640	¥ 19,169	$ 217,288

	Yen		U.S.dollars (Note 1)
Per share amounts:			
Net income	¥97.10	¥78.64	$0.823
Cash dividends paid	20.00	14.00	0.169

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	2005	2004	2005
Common stock:			
Balance at beginning of year	¥ 42,658	¥ 33,905	$ 361,508
Issuance of capital stock	—	8,753	—
Balance at end of year	¥ 42,658	¥ 42,658	$ 361,508
Capital surplus:			
Balance at beginning of year	¥ 38,656	¥ 28,657	$ 327,593
Issuance of capital stock	—	1,246	—
Gain on sales of treasury stock	1	8,753	8
Balance at end of year	¥ 38,657	¥ 38,656	$ 327,601
Retained earnings:			
Balance at beginning of year	¥ 53,046	¥ 41,084	$ 449,542
Net income	25,640	19,169	217,288
Cash dividends	(4,201)	(3,103)	(35,602)
Bonuses to directors and statutory auditors	(140)	(95)	(1,186)
Other comprehensive income of foreign subsidiaries and affiliates	281	200	2,382
Effect of change in reporting entities	—	(4,209)	—
Balance at end of year	¥ 74,626	¥ 53,046	$ 632,424
Net unrealized gains on available-for-sale securities at end of year	¥ 8,519	¥ 4,960	$ 72,195
Translation adjustments at end of year	¥ 10,251	¥ 6,416	$ 86,874
Less treasury stock, at cost at end of year:			
Balance at beginning of year	¥ (244)	¥ (1,824)	$ (2,068)
Acquisition	(202)	(176)	(1,712)
Sale	2	1,756	17
Balance at end of year	¥ (444)	¥ (244)	$ (3,763)
Total shareholders' equity at end of year	¥174,267	¥145,492	$1,476,839

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	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interest in consolidated subsidiaries	¥ 44,263	¥ 36,588	$ 375,110
Adjustments to reconcile income before income taxes and minority interest in consolidated subsidiaries to net cash provided by operating activities—			
Depreciation and amortization	25,755	25,098	218,263
Loss on sales or disposal of property, plant and equipment, net	603	1,470	5,110
Amortization of initial transition cost of pension and severance plans	578	532	4,898
Write-down of trademarks	1,659	—	14,059
Increase in prepaid pension costs, net of payment	(1,590)	(9,336)	(13,475)
Increase (decrease) in pension premium payable for transition to defined contribution plan	(2,624)	4,986	(22,237)
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,825)	(717)	(40,890)
Provision for (reversal of) allowance for doubtful accounts	275	(29)	2,331
Reversal of accrued retirement benefits, net of payment	(705)	(3,011)	(5,975)
Interest and dividend income	(502)	(384)	(4,254)
Interest expenses	2,371	1,786	20,093
Increase in notes and accounts receivable	(10,877)	(2,052)	(92,178)
Increase in inventories	(7,000)	(8,301)	(59,322)
Increase in notes and accounts payable	9,117	280	77,263
Other	(168)	2,761	(1,423)
Subtotal	56,330	49,671	477,373
Interest and dividends received	3,673	1,790	31,127
Interest paid	(2,367)	(1,818)	(20,059)
Income taxes paid	(18,652)	(17,587)	(158,068)
Net cash provided by operating activities	38,984	32,056	330,373
Cash flows from investing activities:			
Capital expenditures	(42,951)	(36,881)	(363,992)
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	1,963	1,034	16,636
Acquisition of investments in securities	(662)	(66)	(5,610)
Proceeds from sales of investments in securities	37	150	314
Additional acquisition of shares in unconsolidated subsidiaries and affiliates	(1,152)	(1,310)	(9,763)
Net increase in short-term loans receivable	(694)	(724)	(5,881)
Increase in long-term loans receivable	(113)	(3,294)	(958)
Decrease in long-term loans receivable	465	3,424	3,941
Other	229	45	1,940
Net cash used in investing activities	(42,878)	(37,622)	(363,373)
Cash flows from financing activities:			
Net decrease in short-term borrowings	(6,208)	(22,300)	(52,610)
Proceeds from long-term debt and newly issued bonds	33,714	33,674	285,712
Repayments of long-term debt and redemption of bonds	(25,810)	(19,940)	(218,729)
Dividends paid	(4,201)	(3,103)	(35,602)
Dividends on minority interest	(675)	(364)	(5,720)
Proceeds from issuance of capital stock	—	17,507	—
Proceeds from sales (payments for purchases) of treasury stock, net	(199)	2,826	(1,686)
Payments relating to issuance of common stock and sales of treasury stock	—	(872)	—
Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries	6	186	51
Other	(3)	(5)	(26)
Net cash provided by (used in) financing activities	(3,376)	7,609	(28,610)
Effect of exchange rate changes on cash and cash equivalents	637	(1)	5,398
Net increase (decrease) in cash and cash equivalents	(6,633)	2,042	(56,212)
Cash and cash equivalents at beginning of year	19,246	16,453	163,102
Increase in cash and cash equivalent due to change in reporting entities	216	751	1,830
Cash and cash equivalents at end of year	¥ 12,829	¥ 19,246	$ 108,720

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 ¥118=U.S.$1, the approximate rate prevailing at December 31, 2005, 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.

SRITP LIMITED, whose operations became 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.

Changshu SRI Tech, Ltd. whose operations became significant in 2005 is included in the 2005 consolidation. Sumitomo Rubber (Thailand) Co., Ltd., Dunlop Falken Kanto Ltd., Dunlop Falken Chiba Ltd., Dunlop Falken Keiji Ltd. and Dunlop Falken San-in Ltd., which were established during fiscal 2005, are included in the consolidation. SRI Finance Co., Ltd., SRI Allied Goods Sales Co., Ltd. and Falken TEC Vietnam Co., Ltd. were liquidated in 2005. T. M. E. Co., Ltd. and Ohtsu Kouki Engineering Co., Ltd. merged with SRI Engineering Ltd. Falken Tires Ltd. was merged with Dunlop Tyres Ltd. and changed its name to Dunlop Falken Tyres Ltd. in 2005.

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.

The differences between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis are incurred when those companies are initially included in consolidation or accounted for under the equity method. Such differences are amortized using the straight-line method over a 5-year period. 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 straight-line method, except for assets held at the Head Office and the Nagoya factory of the Company and some domestic consolidated companies, which are depreciated using the declining-balance method, 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 is effective for fiscal years beginning on January 1, 2006.

(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 as of 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) Allowance for sales returns

An allowance for sales returns is provided for losses incurred on sales returns of snow tires subsequent to the balance sheet date, the estimation of which is based on an average rate of such returns of snow tires in prior years.

(Accounting change)

Effective from January 1, 2005, the Company and its consolidated subsidiaries changed their method of accounting for losses on sales returns of snow tires caused by the seasonal fluctuation of sales returns. The previous method of recognizing accrued expenses by sales returns of snow tires that occurred within one month succeeding the balance sheet date was changed to providing an allowance for future sales returns estimated based on an average rate of such returns of snow tires in prior years.

This change was made to reflect more accurately periodical income and loss due to increases in sales returns of snow tires and the dealers' network system improvements that enable more accurate estimations of the loss on sales returns of snow tires.

As a result of this change, cost of sales increased by ¥815 million ($6,907 thousand), and operating income, income before income taxes and minority interest in consolidated subsidiaries decreased by the same amount.

(13) 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 of certain consolidated subsidiaries 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.

Before March 2005, the Company and certain consolidated subsidiaries also provided for accrued retirement benefits for directors and statutory auditors based on the internal retirement benefit plans. However, in March 2005 the Company and those subsidiaries abolished the retirement benefit plans and decided to pay to directors and statutory auditors the amount which was payable when the plans were abolished, when he or she retires in the future.

(14) 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.

(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, 2005 and 2004.

(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 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 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
	2005	2004	2005
Cash and time deposits	¥13,119	¥19,309	$111,178
Time deposits with a maturity of over three months	(39)	(39)	(331)
Bank overdraft	(251)	(24)	(2,127)
Cash and cash equivalents	¥12,829	¥19,246	$108,720

4. INVENTORIES

Inventories as of December 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods	¥38,167	¥32,822	$323,449
Work in process	3,818	4,096	32,356
Raw materials	10,668	8,147	90,407
Supplies	4,552	3,888	38,576
	¥57,205	¥48,953	$484,788

5. INVESTMENTS IN SECURITIES

As of December 31, 2005 and 2004, 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
	2005	2004	2005
Available-for-sale securities:			
Cost	¥ 7,886	¥ 7,344	$ 66,831
Book value	22,203	15,668	188,161
Unrealized gains	14,332	8,410	121,458
Unrealized losses	(15)	(86)	(127)

Available-for-sale securities sold during the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds	¥37	¥ 150	$314
Realized gains	20	97	169
Realized losses	—	(0)	—

6. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value information regarding derivative financial instruments as of December 31, 2005 and 2004 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Currency related contracts:									
Foreign exchange contracts									
To purchase	¥384	¥381	¥(3)	¥257	¥258	¥1	$3,254	$3,228	$(16)

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Interest rate related contracts:									
Interest rate swap contracts									
Receive variable rate, give fixed rate	¥1,000	¥(16)	¥(16)	¥1,000	¥(32)	¥(32)	$8,474	$(135)	$(135)

7. PROPERTY, PLANT AND EQUIPMENT

The depreciation charges for the years ended December 31, 2005 and 2004 were ¥21,651 million ($183,483 thousand) and ¥20,684 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, 2005 and 2004, amortization charges for capitalized trademarks were ¥975 million ($8,263 thousand) and ¥885 million, respectively.

The write-down of trademarks of ¥1,659 million ($14,059 thousand) in the 2005 consolidated statements of income was related to a foreign subsidiary whose operational 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 ¥36,402 million ($308,491 thousand) and ¥36,678 million as of December 31, 2005 and 2004 bore interest ranging from 0.029% to 6.050%, and from 0.100% to 7.250% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥15,000 million ($127,119 thousand) and ¥19,500 million as of December 31, 2005 and 2004 bore interest ranging from 0.014% to 0.028%, and from 0.011% to 0.014% per annum, respectively.

Long-term debt as of December 31, 2005 and 2004 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
1.900% unsecured bonds due 2006 payable in Japanese yen	**¥ 10,000**	¥ 10,000	**$ 84,746**
0.570% unsecured bonds due 2005 payable in Japanese yen	**—**	10,000	**—**
0.910% unsecured bonds due 2007 payable in Japanese yen	**10,000**	10,000	**84,746**
0.840% unsecured bonds due 2008 payable in Japanese yen	**10,000**	10,000	**84,746**
1.150% unsecured bonds due 2009 payable in Japanese yen	**20,000**	20,000	**169,492**
0.670% unsecured bonds due 2008 payable in Japanese yen	**5,000**	5,000	**42,372**
1.080% unsecured bonds due 2010 payable in Japanese yen	**10,000**	10,000	**84,746**
0.740% unsecured bonds due 2011 payable in Japanese yen	**20,000**	—	**169,492**
Loans payable to banks and other financial institutions due 2006–2019, with interest of 0.414%–4.95% for 2005 and 2004:			
Secured	**22,754**	25,585	**192,821**
Unsecured	**46,595**	45,166	**394,881**
	154,349	145,751	**1,308,042**
Less portion due within one year	**18,375**	25,694	**155,720**
	¥135,974	¥120,057	**$1,152,322**

The aggregate annual maturities of long-term debt as of December 31, 2005 were as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 18,375	$ 155,720
2007	16,895	143,178
2008	25,545	216,483
2009	40,419	342,534
2010	21,823	184,941
2011 and thereafter	31,292	265,186
	¥154,349	$1,308,042

Substantially all loans from banks and other financial institutions are borrowed 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, 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, 2005, property, plant and equipment amounting to ¥29,617 million ($250,992 thousand), net of accumulated depreciation, were pledged as collateral for long-term debt and short-term borrowings amounting to ¥22,954 million ($194,525 thousand).

10. INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate normal cumulative statutory tax rates of approximately 40.4% and 41.7% in Japan for the years ended December 31, 2005 and 2004, respectively.

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 were as follows. Information for 2005 was omitted because the difference between the normal cumulative statutory tax rate and effective tax rate was immaterial.

	2005	2004
Normal cumulative statutory tax rate	—	41.7%
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	—	0.5
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	—	(0.8)
Current operating losses of foreign subsidiaries	—	2.3
Expenses not deductible for tax purposes	—	1.1
Change in valuation allowance for deferred tax assets	—	0.6
Other	—	(1.2)
Effective tax rate per consolidated statements of income	—	44.2%

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

Significant components of the deferred tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets—current:			
Provision for doubtful accounts	¥ 676	¥ 608	$ 5,729
Accrued business enterprise tax	1,270	997	10,763
Unrealized intercompany profits on inventories	2,915	3,342	24,703
Tax loss carryforward	—	1,049	—
Allowance for sales returns	899	—	7,619
Other	3,709	4,357	31,432
Total	¥ 9,469	¥10,353	$ 80,246
Deferred tax assets—non-current:			
Unrealized intercompany profits on fixed assets	¥ 714	¥ 1,002	$ 6,051
Provision for accrued retirement benefits	1,376	875	11,661
Other	(4)	733	(34)
Total	¥ 2,086	¥ 2,610	$ 17,678
Deferred tax liabilities—current:	¥ (73)	¥ (80)	$ (619)
Deferred tax liabilities—non-current:			
Deferred gain on sales of property, plant and equipment	¥(2,338)	¥ (2,283)	$(19,814)
Unrealized gain on land of a consolidated subsidiary	(1,586)	(1,586)	(13,441)
Provision for accrued retirement benefits	(2,032)	(1,580)	(17,220)
Unrealized gains on available-for-sale securities	(5,576)	(3,271)	(47,254)
Other	2,765	689	23,432
Total	¥(8,767)	¥ (8,031)	$(74,297)

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 as 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.

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 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 was as follows:

	Millions of yen
	2004
Decrease in benefit obligation	¥11,519
Decrease in unrecognized initial transition cost at date of adoption of pension accounting	(467)
Decrease in unrecognized actuarial losses	(2,375)
Decrease in unrecognized prior service cost	372
	¥ 9,049

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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Benefit obligation	**¥(51,045)**	¥(46,725)	**$(432,585)**
Fair value of plan assets	**65,521**	50,108	**555,263**
Funded status:			
Benefit obligation in excess of plan assets	**14,476**	3,383	**122,678**
Unrecognized initial transition cost at date of adoption	**—**	466	**—**
Unrecognized actuarial losses	**(3,921)**	5,428	**(33,229)**
Unrecognized prior service cost	**(3,645)**	(3,937)	**(30,890)**
Subtotal	**6,910**	5,340	**58,559**
Prepaid pension cost	**18,633**	17,043	**157,907**
Accrued retirement benefits	**¥(11,723)**	¥(11,703)	**$ (99,347)**

The accrued retirement benefits for directors and statutory auditors as of December 31, 2005 and 2004, amounting to ¥30 million ($254 thousand) and ¥967 million, respectively, were excluded from the above table.

As discussed in Note 2 (13), the Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors and provided a reserve at ¥580 million as of December 31, 2005, which was included in long-term liabilities—"Other".

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 2,459**	¥2,070	**$ 20,839**
Interest cost	**978**	1,031	**8,288**
Expected return on plan assets	**(1,394)**	(951)	**(11,814)**
Amortization of transition obligation at date of adoption	**466**	532	**3,949**
Amortization of actuarial loss	**478**	616	**4,051**
Amortization of prior service cost	**(292)**	(253)	**(2,475)**
Severance and retirement benefit expenses	**¥ 2,695**	¥3,045	**$ 22,839**
Transitional loss into the defined contribution pension plan	**—**	1,848	**—**
Contributions to the defined contribution pension plan	**472**	324	**4,000**
Net periodic benefit costs	**¥ 3,167**	¥5,217	**$ 26,839**

In 2005 and 2004, the discount rates used by the Company and the domestic consolidated subsidiaries were 2.0% and 2.5%, and the range of expected return on plan assets was from 0.84% to 2.5%. 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 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, 2005 and 2004 were ¥16,259 million ($137,788 thousand) and ¥15,730 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 2005	2004	Thousands of U.S. dollars 2005
Net sales:			
Tires—			
Sales to unaffiliated customers	¥398,170	¥356,646	$3,374,322
Intersegment sales and transfers	196	144	1,661
	398,366	356,790	3,375,983
Sports—			
Sales to unaffiliated customers	54,748	57,363	463,966
Intersegment sales and transfers	320	464	2,712
	55,068	57,827	466,678
Industrial and Other Products—			
Sales to unaffiliated customers	59,920	56,553	507,797
Intersegment sales and transfers	2,819	2,866	23,890
	62,739	59,419	531,687
Adjustment and eliminations	(3,335)	(3,474)	(28,263)
	¥512,838	¥470,562	$4,346,085
Operating income:			
Tires	¥ 39,723	¥ 32,899	$ 336,636
Sports	8,305	11,023	70,381
Industrial and Other Products	1,667	1,652	14,127
	49,695	45,574	421,144
Adjustment and eliminations	231	(48)	1,958
	¥ 49,926	¥ 45,526	$ 423,102
Identifiable assets:			
Tires	¥473,507	¥428,311	$4,012,771
Sports	37,871	40,935	320,941
Industrial and Other Products	37,524	41,079	318,000
	548,902	510,325	4,651,712
Corporate assets and eliminations	14,540	9,832	123,220
	¥563,442	¥520,157	$4,774,932
Capital expenditures:			
Tires	¥ 39,158	¥ 36,091	$ 331,847
Sports	1,529	1,255	12,958
Industrial and Other Products	2,399	1,416	20,331
	43,086	38,762	365,136
Corporate assets and eliminations	17	45	144
	¥ 43,103	¥ 38,807	$ 365,280
Depreciation and amortization:			
Tires	¥ 21,780	¥ 20,947	$ 184,576
Sports	1,533	1,636	12,992
Industrial and Other Products	2,430	2,511	20,593
	25,743	25,094	218,161
Corporate assets and eliminations	12	4	102
	¥ 25,755	¥ 25,098	$ 218,263

(2) Information by geographic area

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2005	2004	2005
Net sales:			
Japan—			
Sales to unaffiliated customers	¥440,362	¥409,505	$3,731,881
Sales between geographic areas	19,759	17,273	167,449
	460,121	426,778	3,899,330
Other—			
Sales to unaffiliated customers	72,476	61,057	614,203
Sales between geographic areas	15,562	9,613	131,881
	88,038	70,670	746,084
	548,159	497,448	4,645,414
Adjustment and eliminations	(35,321)	(26,886)	(299,331)
	¥512,838	¥470,562	$4,346,085
Operating income:			
Japan	¥ 48,011	¥ 43,176	$ 406,873
Other	2,021	1,942	17,127
	50,032	45,118	424,000
Adjustment and eliminations	(106)	408	(898)
	¥ 49,926	¥ 45,526	$ 423,102
Identifiable assets:			
Japan	¥464,234	¥439,237	$3,934,186
Other	92,803	71,649	786,466
	557,038	510,886	4,720,662
Corporate assets and eliminations	6,404	9,271	54,271
	¥563,442	¥520,157	$4,774,933

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2005	2004	2005
Net sales:			
North America	¥ 57,928	¥ 47,279	$ 490,915
Europe	43,296	42,369	366,915
Asia	28,994	21,449	245,712
Other areas	47,552	37,142	402,983
Total	¥177,770	¥148,239	$1,506,525

	Percentage	
Percentage of such sales in consolidated net sales	34.7%	31.5%

14. RELATED PARTY TRANSACTIONS

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2005 and 2004, and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes and accounts receivable:			
Trade	¥ 4,364	¥ 3,009	$ 36,983
Other	344	662	2,915
	¥ 4,708	¥ 3,671	$ 38,898
Short-term loans	¥ 3,247	¥ 2,641	$ 27,517
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	¥ 2,967	¥ 3,170	$ 25,144
Notes and accounts payable, trade	¥ 5,617	¥ 4,928	$ 47,602
Sales	¥14,588	¥10,532	$123,627
Purchases	¥14,632	¥11,262	$124,000

15. CONTINGENT LIABILITIES

As of December 31, 2005, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥3,694	$31,305
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	61	517

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, 2005 and 2004 were as follows:

As of December 31, 2005

	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	¥6,319	¥2,953	¥3,366	$53,551	$25,025	$28,525
Other	298	146	152	2,525	1,237	1,288
Total	¥6,617	¥3,099	¥3,518	$56,076	$26,263	$29,814

As of December 31, 2004

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥6,283	¥3,519	¥2,764
Other	91	53	38
Total	¥6,374	¥3,572	¥2,802

Lease payments under non-capitalized finance leases for the years ended December 31, 2005 and 2004 amounted to ¥1,281 million ($10,856 thousand) and ¥1,361 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥1,160	¥1,073	$ 9,831
Due later	2,358	1,729	19,983
	¥3,518	¥2,802	$29,814

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 273	¥ 222	$ 2,314
Due later	1,529	1,435	12,957
	¥1,802	¥1,657	$15,271

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, 2006:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2005	¥83,041	$703,737
Appropriations—		
Cash dividends (¥13 per share outstanding at December 31, 2005)	(3,411)	(28,907)
Bonuses to directors and statutory auditors	(120)	(1,017)
Balance after appropriations	¥79,510	$673,814

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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, 2005 and 2004, 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, 2005 and 2004, 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.

As discussed in Note 2 (12) to the consolidated financial statements, the Company changed its accounting policy for allowance for sales returns effective from January 1, 2005.

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 consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

March 30, 2006