**SUMITOMO**
**RUBBER INDUSTRIES**

# Go for Value

ANNUAL REPORT
**2006**

Adhering to its Go-for-Value concept, the Sumitomo Rubber Group is committed to increasing value for all stakeholders including customers, shareholders and employees. To that end, the Group will further refine its product and technological development, front-line capabilities as well as its earnings power to ensure sustainable growth.

# Go for Value

# 70%

## non-petroleum-based tire

The Sumitomo Rubber Group has continued to focus on eco-tire development as part of its environmental efforts to help curb global warming and the depletion of petroleum resources. In addition to making greater use of natural rubber, the Dunlop ENASAVE ES801 tire, which was released in March 2006, successfully raised the ratio of non-petroleum-based materials to 70% with the use of natural materials for filler, oil and reinforcing agents. The ENASAVE ES801 tire also reduces rolling resistance by 30% compared with conventional tires, contributing to improved fuel efficiency. The Group is proactively engaging in development activities associated with the launch of a 97% non-petroleum-based tire set for 2008.

# 30% use of production facilities


The *Taiyo* cell production system is a cutting-edge tire production method that compactly integrates the automated processes from components manufacture to final product inspection. This system has enhanced high-speed uniformity by 50% compared with the conventional method, contributing greatly to improvements in product quality, performance and investment efficiency while using existing production facility space of approximately 30%. The Group is in the process of introducing this system to its domestic factories following its installation in the new Thai factory that came on line in November 2006. This marked the system's overseas debut as part of concerted efforts to maintain superior efficiency and quality in tire production. Dunlop's high-performance SP SPORT MAXX A1 A/S tire was also produced using the *Taiyo* cell production system for fitting on Lexus luxury vehicles.


A special acoustic sponge mounted inside the Dunlop VEURO VE302 premium tire realizes excellent noise-level reduction and thus a more comfortable drive by damping the air vibration inside a tire that is caused by road contours. The sponge boasts Dunlop's proprietary noise-reduction technology, which featured as a world first*2 in the launch of the LE MANS LM703 tire in 2006.

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*1 Tire compared with: VEURO VE301 ■ Vehicle tested on: Toyota Mark X (with one passenger) ■ Tire size: 215/60R16 95H ■ Rim: 16×6. 5JJ ■ Tire pressure (kPa): 220 (front and rear) ■ Road surface: Smooth asphalt road on Sumitomo Rubber's Okayama test track. Note: In the absence of a specific Japanese Industrial Standard, a proprietary Sumitomo Rubber method was applied for trials.

*2 A world first in the commercial production of passenger tires with an internally mounted, non-ring configured special acoustic sponge that realizes noise reduction. This tire acquired three patents in Japan (including Patent No. 3612059) and six patents overseas (including Patent No. 6726289) as of March 31, 2007. In addition to these achievements, the Group is currently applying for 93 patents around the world, including Japan. Following a search of general information, including patent documents, non-patent technical literature, newspapers and journals issued between January 1, 1985 and August 31, 2005, the Group concluded that the invention and adoption of this technology marked a world first. Sumitomo Rubber Industries commissioned a specialist third-party to conduct this search.

The Sumitomo Rubber Group has been implementing a technical inspection education system for young engineers for over 40 years. Under this system, teams of one incumbent engineer and three young engineers are formed to engage in on-site improvement activities for four weeks. This experience enables engineers to become familiar with the Group's technology and philosophy of *monozukuri* (manufacturing) and provides an opportunity for on-the-job training covering front-line capabilities to proactively discover and solve problems. Furthermore, the Group established a manufacturing training center in January 2007 to build a system for passing on manufacturing skills from one generation to the next and to inspire young engineers.

# 40+

## years experience in technical inspection education systems

The Group achieved complete zero emissions at each of its six factories in Japan. In November 2006, all four of the Group's overseas factories achieved zero emissions, defined as landfill waste disposal of less than 1% of the total amount of waste. This requires each employee to maintain a strong awareness of environmental preservation. The Group continues to focus on daily environmental control and improvement activities in its efforts to contribute to the formation of a sustainable, environmentally friendly society.

## • Three Business Domains

**The Sumitomo Rubber Group is comprised of three principal companies: the Tire business of Sumitomo Rubber Industries, Ltd. as its core, the Sports business of SRI Sports Ltd., and the Industrial Products business of SRI Hybrid Ltd.**

## • Three Major Pillars

**THE SUMITOMO BUSINESS PHILOSOPHY**

Positioned as a member of the Sumitomo Group in 1963, Sumitomo Rubber Industries is guided by the Sumitomo Business Philosophy, a principle that "steadiness and reliability are of the greatest importance."

**DUNLOP'S PIONEERING SPIRIT**

The history of Sumitomo Rubber Industries dates back to 1909 with Japan's first modern rubber factory established by Dunlop U.K. Since its inauguration, the company has consistently pursued new challenges, resulting in the production of Japan's first radial tires and golf balls.

**THE FREE AND VIGOROUS EXCHANGE OF IDEAS**

Free and vigorous discussions play an important role within the Sumitomo Rubber Group.
Our corporate culture is also defined by a keen sense of teamwork as we work toward our established goals.

## • Global Alliance with The Goodyear Tire & Rubber Company

Sumitomo Rubber Industries, Ltd. formed a global tire business alliance with The Goodyear Tire & Rubber Company in 1999. Consistent with the agreement, the company engages in the production and sale of tires through a joint venture in Europe and North America and has set up two domestic joint ventures to market Goodyear brand tires. Furthermore, separate joint-venture companies have been established to promote technology exchange, and joint procurement of raw materials and manufacturing equipment, respectively.

## • The Sumitomo Rubber Group's Long-Term Vision —Go for Value—

Guided by its Long-Term Vision and the momentum provided by its world-class product and technological development, front-line capabilities, and industry-leading earnings power, the Sumitomo Rubber Group strives to consistently generate superior corporate value.

## • Global Pursuits

In its flagship Tire business, the Group aims to double sales of replacement tires in its overall overseas operations and to secure a threefold sales increase particularly in Asia by 2015. With the accomplishment of these goals, the Group is confident of securing a position in its own right in the global market.

## CONTENTS

## CONSOLIDATED FINANCIAL HIGHLIGHTS

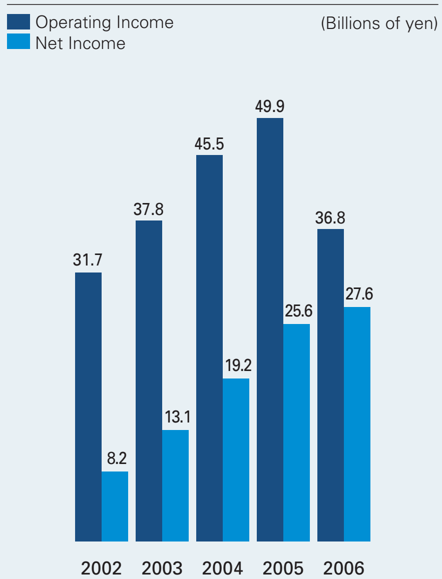
Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

| | | | | | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| Years ended December 31 | **2006** | 2005 | 2004 | 2003 | 2002 | **2006** |
| **For the year:** | | | | | | |
| Net sales | **¥534,086** | ¥512,838 | ¥470,562 | ¥450,491 | ¥447,893 | **$4,488,118** |
| Operating income | **36,790** | 49,926 | 45,526 | 37,766 | 31,744 | **309,160** |
| Net income | **27,586** | 25,640 | 19,169 | 13,095 | 8,239 | **231,815** |
| Capital expenditures | **45,308** | 40,415 | 36,881 | 29,171 | 30,557 | **380,739** |
| **At year-end:** | | | | | | |
| Total assets | **606,938** | 563,442 | 520,157 | 481,553 | 477,293 | **5,100,320** |
| Net assets | **223,852** | — | — | — | — | **1,881,110** |
| Shareholders' equity | **—** | 174,267 | 145,492 | 110,395 | 101,633 | **—** |
| | | | | | Yen | U.S. dollars (Note 1) |
| **Per share amounts:** | | | | | | |
| Net income | **¥ 105.13** | ¥ 97.10 | ¥ 78.64 | ¥ 55.07 | ¥ 33.97 | **$ 0.883** |
| Cash dividends paid | **20.00** | 20.00 | 14.00 | 12.00 | 10.00 | **0.168** |
| | | | | | % | |
| **Key ratios:** | | | | | | |
| Operating income ratio | **6.9%** | 9.7% | 9.7% | 8.4% | 7.1% | |
| ROE | **14.7** | 16.0 | 15.0 | 12.4 | 7.9 | |
| Equity ratio | **33.3** | 30.9 | 28.0 | 22.9 | 21.3 | |

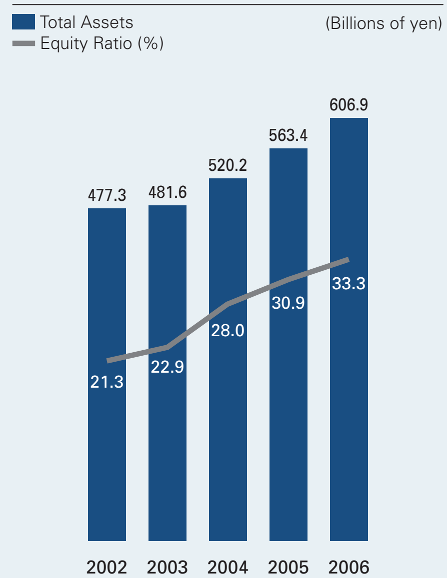
Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥119 per US$1.00, the approximate exchange rate prevailing at December 31, 2006.
2. For 2006, Sumitomo Rubber has applied Accounting Standards for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5, December 9, 2005) by the Accounting Standards Board of Japan (ASBJ) and its Implementation Guidance - Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8, December 9, 2005).
3. Capital expenditure figures include both tangible assets and intangible assets.

### NET SALES


### OPERATING INCOME AND NET INCOME




### TOTAL ASSETS AND EQUITY RATIO



In the fiscal year ended December 31, 2006, Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries (“Sumitomo Rubber Group” or “the Group”) recorded a decline in operating income, despite net sales that exceeded those of the previous fiscal year. This was attributable to price hikes in raw materials. Amid such adverse conditions, the Sumitomo Rubber Group will make all-out efforts toward a business recovery that will keep it on track to achieve the goals set out in its Medium-Term Management Plan for fiscal 2006–2008.

## INCREASED REVENUE AND DECLINING EARNINGS UNDER ADVERSE OPERATING CONDITIONS

Operating conditions in the fiscal year under review were harsh due to record-high prices for natural rubber and petroleum-related materials. Under these circumstances, we proactively undertook far-reaching cost reductions and reinforced our unique innovative technologies to develop more attractive products. Simultaneously, we went to great lengths to expand sales in overseas markets.

As a result, consolidated net sales rose 4.1% year on year to ¥534,086 million. Soaring raw material prices, however, significantly affected the Group’s performance, and operating income declined 26.3% from the previous fiscal year to ¥36,790 million. In contrast, consolidated net income grew 7.6% to ¥27,586 million. This was attributable to the gain on sale of securities relating to the listing of the Group’s subsidiary, SRI Sports Limited.

## SUMITOMO RUBBER GROUP LONG-TERM VISION

In August 2006, the Group announced the Sumitomo Rubber Group Long-Term Vision. This sets out what the Group sees as its ideal position in 2015 and encourages all employees to consider what they should be doing now to achieve its goals. With the Long-Term Vision firmly in its sights—for which the unique “Go-for-Value” concept has been adopted—the Group will become a company that consistently generates superior corporate value with a momentum guided by its world-class product and technological development, front-line capabilities and industry-leading earnings power. For details of the Long-Term Vision, please refer to pages 10–13 of this annual report.

The Medium-Term Management Plan for fiscal 2006–2008 is regarded as the first step to realizing the Long-Term Vision. During fiscal 2006, the Group showed a steady improvement in its financial standing to achieve the goals set for the fiscal year ending December 31, 2008. This improvement has yet to be reflected in earnings. The Group will reverse profit declines in fiscal 2007 to build a firm foundation to achieve the goals prescribed for the final year of the Medium-Term Management Plan.

## RESULTS FROM STRUCTURAL REFORM

During the fiscal year under review, the Group sold its Europe-based bed business and the LCD backlight unit business. In contrast, the Group is expanding its presence in growing markets including precision rubber parts and anti-vibration devices through its subsidiary SRI Hybrid Limited. Moreover, SRI Sports Limited, a company responsible for the Group's Sports business, was listed on the First Section of the Tokyo Stock Exchange in October 2006 on the back of its stable earnings foundation. Utilizing the advantages inherent in a publicly listed company, SRI Sports Limited will accelerate growth by promoting more agile business operations. In maximizing the benefits of corporate spin-off and the characteristics of each company, and pursuing continuous development, we will work toward additional growth of the overall Group.

## PROACTIVE INVESTMENT IN GROWING MARKETS

The global demand for tires is expected to show a constant increase over the long term. Responding to robust demand, the Group plans to proceed with capital expenditures to increase production primarily overseas. As part of these activities, the Group established the first factory to manufacture tires in Thailand, which commenced operations in November 2006. This represents the Group's third tire factory in Asia, after those in Indonesia and Changshu, China. The Group is in the process of building a second factory in Thailand to come on stream in November 2007. To create higher-quality products more efficiently, the Group has introduced its innovative *Taiyo* cell production system to production facilities at the first factory in Thailand. Taking the second factory's conventional system into account, the production capacity at the end of 2010 will be 73,000 tires per day. Furthermore, in order to reinforce the replacement market in Thailand, the Group established a local sales company in collaboration with Sumitomo Corporation and local business partners. Located in Bangkok, Dunlop Tire (Thailand) Co., Ltd. was inaugurated in September 2006. The Sumitomo Rubber Group will promote development and sales activities that meet the demands of each specific market and aim to triple sales in the Asian replacement market by 2015.

In the North American and European markets, the Group works in close cooperation with The Goodyear Tire & Rubber Company. In addition, the Group will boost Falken Tire Corporation's sales capabilities. The Group will also make optimum use of the office it established in Moscow in April 2006 to conduct aggressive sales promotion activities, in anticipation of rapid expansion in the Russian automobile market.

## RETURNING PROFITS TO SHAREHOLDERS

Sumitomo Rubber Industries regards the return of profits to shareholders as a priority issue. In light of this, the company has established a basic policy to ensure long-term sustainable returns to shareholders while comprehensively reviewing the levels of dividend payout ratios on a consolidated basis, performance prospects and retained earnings. Based on this policy, annual cash dividends for the fiscal year under review were set at ¥20 per share.

## TOWARD ENHANCED CORPORATE VALUE

Operating conditions in the fiscal year ending December 31, 2007, are delicately balanced due to intensifying market competition and raw material prices that are set to remain at high levels mainly in the Group's flagship Tire business. Under these circumstances, the Group will thoroughly reduce overall costs while adjusting sales prices in response to spiraling raw material prices. In addition, the Group will expand sales in the global market in order to derive maximum benefit from the injection of capital expenditures to increase production.

Amid intense competition, the global market is also presenting development opportunities that are ripe for the taking. You can be assured that all Sumitomo Rubber Group employees have their eyes fixed on the same goal: to work together toward enhanced corporate value.

We gratefully ask for your continued support on the road to higher growth.

April 2007

Tetsuji Mino

Tetsuji Mino
President

In August 2006, the Sumitomo Rubber Group announced its Long-Term Vision that set out its ideal position 10 years from now. Spurred by this vision, all Group employees will be keeping the "Go-for-Value" concept firmly in mind as they work together toward enhanced corporate value.

## TARGETS

In its Long-Term Vision, the Sumitomo Rubber Group has established the goal of becoming a company that consistently generates superior corporate value guided by its world-class product and technological development, front-line capabilities, and industry-leading earnings power. Numerical targets to be achieved by the fiscal year ending December 31, 2015 are consolidated net sales of ¥800 billion and an operating income ratio greater than 10%. The Group's Medium-Term Management Plan for Fiscal 2006–2008, which will be completed in the fiscal year ending December 31, 2008, is regarded as the first step on the road to accomplishing the Long-Term Vision.

# Go for

## VISUAL REPRESENTATION OF THE LONG-TERM VISION

**Go for Value**

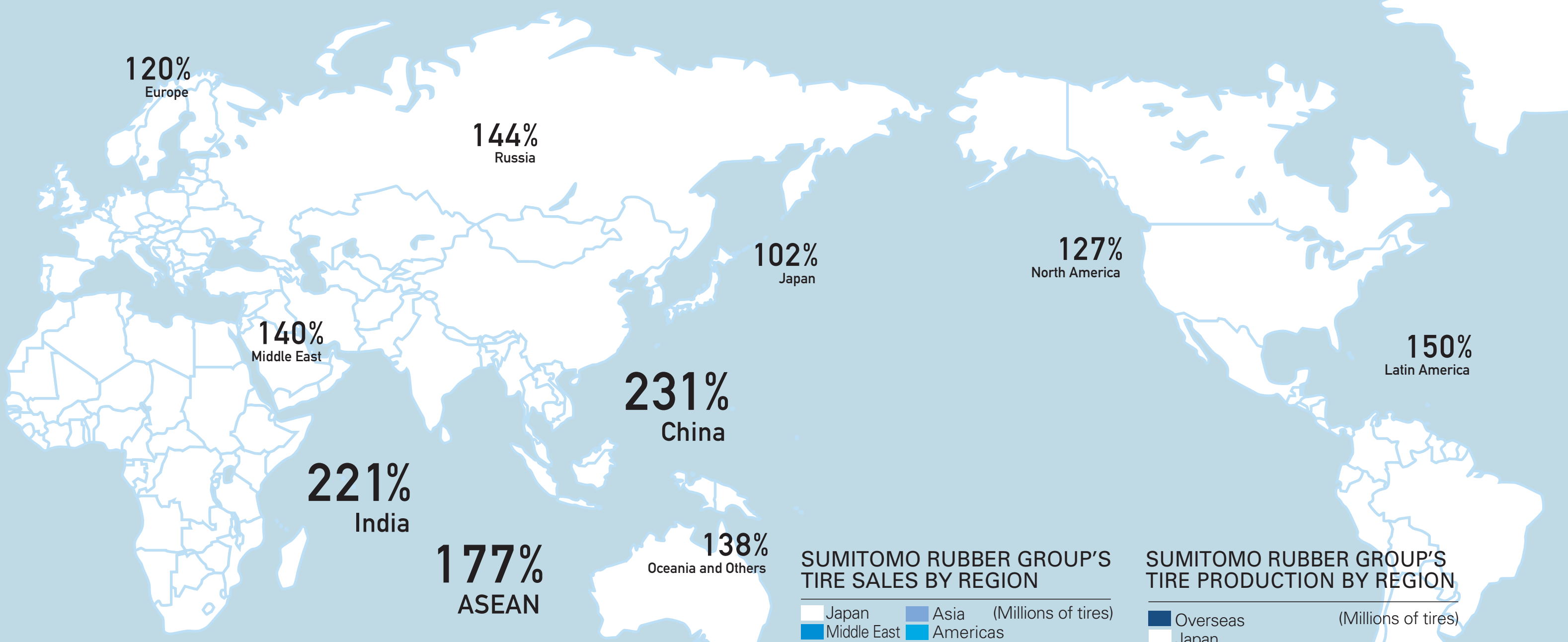
Increasing corporate value for all stakeholders


## NUMERICAL TARGETS

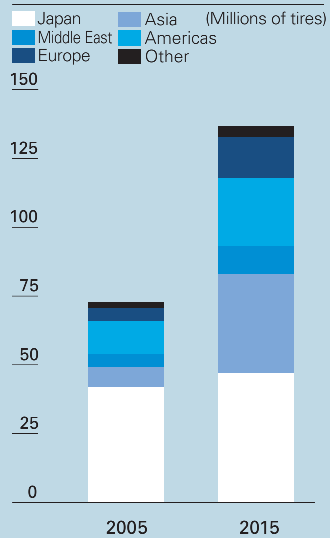
(Millions of yen)

| | 2005 Result | 2006 Result | 2008 Target | 2015 Target |
|---|---|---|---|---|
| Net Sales | ¥512,838 | ¥534,086 | ¥550,000 | ¥800,000 |
| Tire business | ¥398,170 | ¥430,620 | ¥450,000 | ¥630,000 |
| Sports business | ¥54,748 | ¥57,649 | ¥60,000 | ¥100,000 |
| Industrial products and new business | ¥59,920 | ¥45,817 | ¥40,000 | ¥70,000 |
| Operating Income Ratio | 9.7% | 6.9% | 10% or greater | 10% or greater |
| Net Income Ratio | 5.0% | 5.2% | 5% or greater | 5% or greater |
| ROA (operating income base) | 9.2% | 6.3% | 10% or greater | 10% or greater |
| ROE | 16.0% | 14.7% | 10% or greater | 15% or greater |
| Interest-Bearing Debt | ¥205,751 | ¥219,372 | ¥200,000 | ¥200,000 |
| Equity Ratio | 30.9% | 33.3% | 35.0% | 40.0% |
| Debt-to-Equity Ratio | 1.2 times | 1.1 times | 1.0 times | 0.7 times |

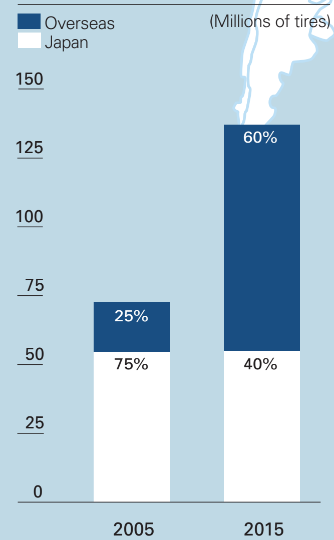
TIRE SALES VOLUME FORECASTS FOR 2015 (COMPARISON WITH 2005 FIGURES)
(AS ESTIMATED BY SUMITOMO RUBBER INDUSTRIES)




SUMITOMO RUBBER GROUP'S TIRE SALES BY REGION




SUMITOMO RUBBER GROUP'S TIRE PRODUCTION BY REGION




# Value

## TIRE BUSINESS

### MARKET OVERVIEW

Propelled by emerging economies, including those of BRICs countries, the global demand for tires is expected to show a constant increase over the long term. The number of cars owned and tire sales volumes are expected to climb at an average of 3% annually. At the same time, sales for standard and high-value-added products are expected to increase in the tire market reflecting structural changes to car models.

### IMPROVING EARNINGS CAPABILITIES: GLOBAL STRATEGY

In the domestic tire market, demand is expected to remain flat. At the same time, the volume of low-priced products imported from overseas is forecast to increase. Against this backdrop, the Sumitomo Rubber Group has positioned the pursuit of its global strategies as a top priority in an effort to improve earnings capacity. The Sumitomo Rubber Group aims to raise the ratio of tires produced overseas to 60% by 2015 and double its sales in the overseas replacement market compared with the 2005 figure. To that end, the Group will establish a unique, firm foothold in the global tire industry.

Particularly in Asia, the Group will then continue its ongoing capital expenditures to increase production while promptly developing its sales network to secure a threefold sales increase in the Asian replacement market.

Over and above the global alliance with The Goodyear Tire & Rubber Company in North America and Europe, the Group will reinforce subsidiary Falken Tire Corporation's sales potential in line with the Group's unique sales expansion measures. Furthermore, the Group will attempt to expand sales volume in North America by offering tires through major sales channel TBC Corporation, a company that has a huge sales network throughout the United States.

In Russia, the rapid expansion of the automobile market is expected as a result of the country's accession to the World Trade Organization. The Group is conducting tire market research and providing support for sales promotions at its Moscow Office, which opened in April 2006.

### DOMESTIC REPLACEMENT MARKET

In the domestic replacement market, the Group will reinforce brand power and product competitiveness; increase directly operated stores and improve the efficiency of the Group's overall sales operations; and develop distribution systems. With these efforts, the Group will win outstanding customer value.

### ORIGINAL EQUIPMENT MARKET

With regard to tires for the original equipment market, it is expected that Japanese automakers will boost production and that automobile production volume in Asian countries will grow. Under these circumstances, the Group will offer sophisticated technical proposals and ensure product quality backed up by improved cost competitiveness and enhanced supply systems. Based on these efforts, the Group will maintain its reputation as one of the most reliable global suppliers.

### STRENGTHENED DEVELOPMENT AND TECHNOLOGICAL CAPABILITIES

As is the case with automobiles, tire development necessitates concern being shown for the safety, environment and quality. The Sumitomo Rubber Group Long-Term Vision drew up six technical product development goals: tires with less noise; more fuel-efficient tires; tires made from non-petroleum-based materials; runflat tires; and tires manufactured by the new *Taiyo* cell production system and through simulation. The Group has focused on the development of non-petroleum-based tires in particular. In 2006, the Group released the ENASAVE ES801 eco-tire, which raised the ratio of non-petroleum-based materials to 70% and received a number of prestigious industry awards in Japan. Currently, the Group is in the process of developing an upgraded product under the ENASAVE brand for release in 2008 that increases the ratio of non-petroleum-based materials to 97%. In addition to these efforts, the Group will aggressively conduct R&D into technical issues that anticipate what cutting-edge automobile models will look like in 2025.

On the manufacturing technology front, the Group will expand and improve its innovative, proprietary *Taiyo* cell production system that compactly integrates the automated processes from parts manufacture to inspection. This has contributed greatly to improvements in product quality and performance and realized higher investment efficiency while using approximately 30% of the area needed for the installation of the conventional production facilities. Products manufactured by the *Taiyo* cell production system steadily grew, exceeding 2.5 million tires by the end of 2006. This figure is expected to surpass 5 million by the end of 2007.

### REINFORCED FRONT-LINE CAPABILITIES

The term "front-line capabilities" refers to each employee using his or her skills and ingenuity to proactively discover and solve business-related problems. The Group's value will not be improved without greater front-line capabilities. In the manufacturing division, improving cost competitiveness to minimize the impact of escalating raw material prices is an issue. Given these conditions, the Group will implement thorough overall cost reductions by enhancing front-line capabilities.

In January 2007, the Group established a manufacturing training center to improve front-line capabilities in the manufacturing division. This serves to integrate and build on the on-site training sessions that have been held separately at each factory. Taking into consideration upcoming changes in labor conditions, including globalized business operations and the generation shift at factories in Japan, it was essential to introduce the new integrated training center to enhance personnel value in the manufacturing division. The Group will conduct effective technical training sessions for manufacturing engineers as well as effective programs for managers at this production center to improve leadership abilities and teaching skills.

## SPORTS BUSINESS

In the Sports business, the Group plans to focus on golf and tennis goods to increase its share of overseas sales to total sales from 14% in 2006 to 30% by 2015 and is targeting net sales of ¥100 billion, up 74% from 2006. In its efforts to achieve this goal, the Group will leverage its simulation technology to develop high-performance products, increase awareness of the SRIXON brand in Japan and overseas, and strengthen the sales network in Europe, North America, Southeast Asia and Australia.

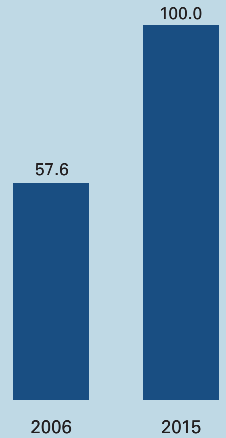
## INDUSTRIAL PRODUCTS AND NEW BUSINESS

In Industrial products and new business, the Group aims to increase net sales by 53% compared with the 2006 mark of ¥70 billion by 2015. To this end, the Group will expand the precision rubber parts and anti-vibration businesses by utilizing high-damping rubbers and improving earnings capabilities in the artificial turf and rubber glove businesses.

In addition to these efforts, the Group will make effective use of the material and processing technologies it possesses primarily in rubber to develop new businesses in the environmental, information and health sectors.

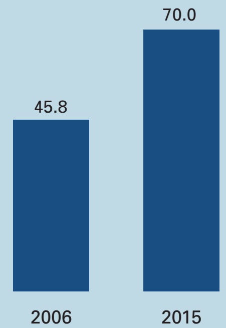
### SALES IN SPORTS BUSINESS

(Billions of yen)




### SALES IN INDUSTRIAL PRODUCTS AND NEW BUSINESS

(Billions of yen)




# TIRE BUSINESS

## FISCAL 2006 RESULTS

Sales in the Tire business rose 8.1% year on year to ¥430,620 million for the fiscal year under review while operating income declined 33.6% to ¥26,381 million.

Overall sales topped the previous fiscal year due to robust results mainly in overseas markets. Despite the shift toward high-value-added products and additional efforts to reduce costs, the Group confronted harsh operating conditions from an earnings perspective, impacted by the sharp increase in raw material prices.

## DOMESTIC REPLACEMENT MARKET

During the fiscal year under review, the Group conducted aggressive sales promotions for new products in the domestic replacement market while raising product prices in response to sharply rising raw material costs. Reflecting the impact of unusual weather, however, demand was stagnant. As a result, sales volume edged down year on year while results were effectively on par compared with the previous fiscal year.

For the Dunlop brand, the Group undertook aggressive sales activities focusing on a variety of products. These included the LE MANS LM703 tire for passenger cars, which enjoyed a high reputation for its quiet ride realized through a special acoustic sponge to absorb cavernous resonance. In addition, the Group launched the ENASAVE ES801 eco-tire for passenger cars, which raises the ratio of non-petroleum-based materials to 70%. Furthermore, the Group opened 56 new directly operated “Tire Land” and “Tire Select” stores nationwide in pursuit of better customer service and selling power.

Under the Goodyear brand, the Sumitomo Rubber Group released the new ICE NAVI ZEA studless tire for passenger cars, a product that delivers stable performance on any road surface. In this manner, the Group worked diligently to expand sales.

## ORIGINAL EQUIPMENT MARKET

Automobile production in Japan surpassed the previous fiscal year due to increased exports. Under these conditions, the Group efficiently supplied products in response to each automobile manufacturer’s needs for both performance and cost efficiency leveraging its robust development and manufacturing technology capabilities. As a result, sales outstripped the previous fiscal year.

## OVERSEAS REPLACEMENT MARKET

Overall sales in the overseas replacement market exceeded those of the pervious fiscal year. This is attributed to successful efforts to adjust product prices in response to spiraling raw material prices. At the same time, the Group undertook aggressive sales promotions tailored to individual market characteristics. As a result, sales mainly in the Middle East and Latin America remained strong, while results for locally produced goods increased steadily in China. Complementing

VEURO VE302

ZIEX ZE329

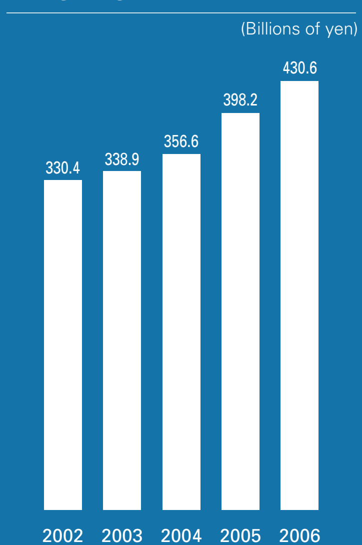
EAGLE LS2000 Hybrid II

favorable conditions, the weak yen contributed to sales increase.

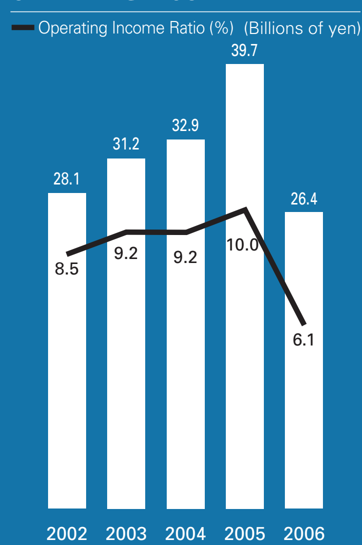
## FISCAL 2007 OUTLOOK

In fiscal 2007, the Sumitomo Rubber Group expects to increase sales in the replacement and original equipment markets in Japan and overseas. On the earnings front, there are concerns surrounding ongoing price hikes in natural rubber and petroleum-based materials. The Group, however, will continue efforts to reduce costs, leverage its proprietary technologies to launch new products, conduct aggressive sales promotion activities and strike a balance between production costs and sales prices. Based on these measures, the Sumitomo Rubber Group plans to secure and expand profits.

### NET SALES




### OPERATING INCOME




# TOPICS

### ENASAVE ES801 RECEIVES FOUR PRESTIGIOUS AWARDS

Recognized for the significant use, 70%, of non-petroleum-based materials, the Dunlop ENASAVE ES801 tire has received four awards: the *Nikkei Sangyo Shimbun* Award of the 2006 Nikkei Superior Products and Services Awards; the Energy Conservation Center Chairman's Prize of the 17th Energy Conservation Grand Awards 2006; Japan's Minister of Economy, Trade and Industry Prize, the 16th Global Environment Award, and; the Hyogo Prefectural Governor Prize of the First Hyogo *Monozukuri* Technology Awards. Each award hails the Sumitomo Rubber Group's endeavors to address high-technology issues, increase the ratio of natural materials such as natural rubber to lower the dependence on oil and contribute to the reduction of $CO_2$ emissions by improving rolling resistance.

### DUNLOP RELEASES VEURO VE302

In February 2007, the Dunlop brand commenced sale of the VEURO VE302 premium comfort tire with a mounted special acoustic sponge. This special acoustic sponge was a world first and initially used in the Dunlop LE MANS LM703 tire for passenger cars. In addition, the VEURO VE302 tire boasts highly rigid edge bands and an asymmetry pattern, realizing both a quiet and high-performance driving experience required for high-end vehicles. Given its favorable reputation, the Group mounted special acoustic sponges to all sizes of the LE MAN LM703 tire.



# SPORTS BUSINESS

## FISCAL 2006 RESULTS

Sales in the Sports business increased 5.3% year on year to ¥57,649 million while operating income was down 10.1% to ¥7,469 million due to escalating prices of raw materials including titanium.

In the mainstay domestic golf business, the Group continued to garner wide market acclaim. During the fiscal year under review, the Sumitomo Rubber Group launched the ALL NEW XXIO series, a model change in the hit XXIO brand as well as the SRIXON ZR-600 series for competition use.

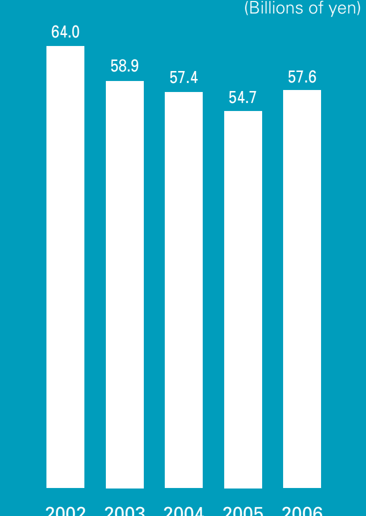
In the golf ball market, the Group actively released new products including MIRACLE EVERIO, SRIXON Z-URC and XXIO DC in the pursuit of sales expansion. Overseas, sales of SRIXON brand products were strong in the key markets of North America and Europe while exports of XXIO brand products to South Korea and Taiwan were robust.

During fiscal 2006, domestic sales were strong in tennis balls, a market in which the Group holds a high market share. Amid stagnant market conditions, the Group's tennis rackets gained popularity, owing to the release of new products in the Diacluster RIM series and the Babolat brand.

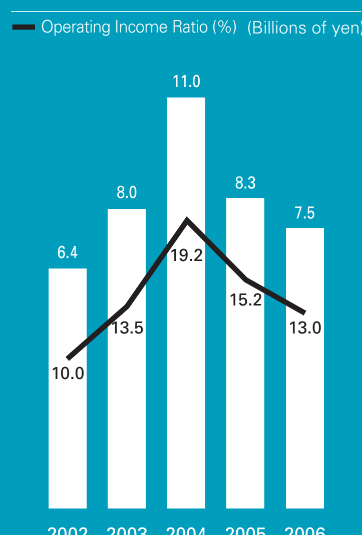
## FISCAL 2007 OUTLOOK

On the back of spiraling raw material prices, the Group will aim for sales expansion mainly in golf clubs and balls under the SRIXON and XXIO brands as well as tennis rackets that are currently enjoying favorable sales. Buoyed by these initiatives, the Group is expecting sales and profit in this segment to remain flat.

### NET SALES




### OPERATING INCOME




## TOPICS

### SRI SPORTS LIMITED IS LISTED ON THE FIRST SECTION OF THE TOKYO STOCK EXCHANGE

On October 13, 2006, SRI Sports Limited, a company responsible for the Sumitomo Rubber Group's sports business activities, was listed on the First Section of the Tokyo Stock Exchange. SRI Sports Limited was formed from a spin off of the Sumitomo Rubber Industries' sports business segment in July 2003. Public listing will facilitate SRI Sports Limited in its efforts to accelerate business development and to forge a position within the global market.

# INDUSTRIAL AND OTHER PRODUCTS BUSINESS

## FISCAL 2006 RESULTS

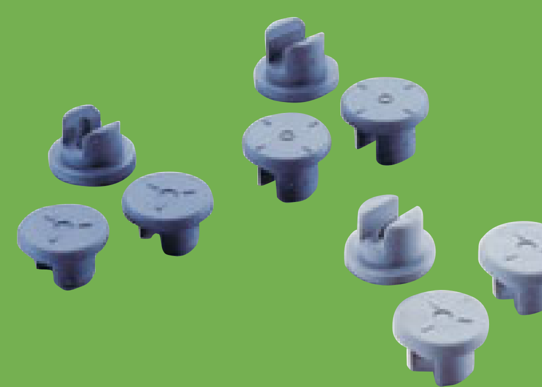
Sales in the Industrial and Other Products business declined 23.5% from the previous fiscal year to ¥45,817 million. Operating income on the other hand surged 74.4% to ¥2,907 million.

Sales of precision rubber parts for printers and photocopiers were strong on the back of robust demand. Results in anti-vibration devices using high damping rubber significantly exceeded the previous fiscal year particularly in the residential and office building sectors. In addition, sales of the highly acclaimed sand- and rubber chip-filled Hibrid-Turf used at a variety of athletic facilities and stadiums, household goods including rubber gloves and civil works and marine facilities products such as marine fenders showed steady increase.

During the fiscal year under review, the Group sold the European bed and LCD backlight unit businesses in line with its commitment toward selective and concentrated allocation of management resources. Reflecting the impact of business withdrawals, sales declined by approximately ¥17,000 million. As a result, overall sales in the Industrial and Other Products business were down year on year.

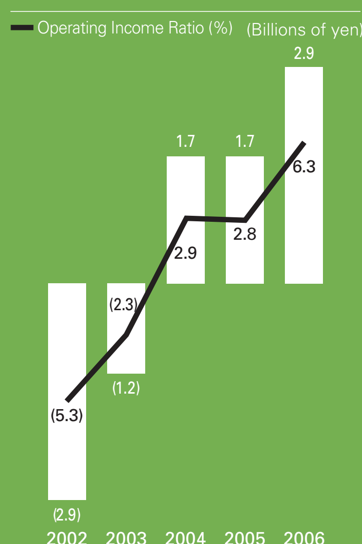
## FISCAL 2007 OUTLOOK

The Sumitomo Rubber Group will make every effort to expand sales by focusing on precision rubber parts, artificial turf and anti-vibration devices.



NET SALES


OPERATING INCOME




## TOPICS

### LONG PILE HIBRID-TURF BREAKS THROUGH THE ONE MILLION SQUARE METERS MARK

In June 2006, the cumulative supply of long-pile Hibrid-Turf exceeded one million square meters across Japan. Utilizing sand and fine rubber chips, this long-pile Hibrid-Turf has enjoyed steady sales increase since its release in 2000. The product is used extensively at training pitches for J.League professional soccer teams and Top League professional rugby teams. The long-pile turf market has continued to grow since 2000. As the leading manufacturer of long-pile artificial turf in Japan, the Group will pursue complementary services in response to maintenance and replacement demand.

The Sumitomo Rubber Group positions environmental preservation as its top priorities. Accordingly, the entire Group has continued to make progress across all of its business activities in the area of environmental management. The Group also vigorously implements contributions to local communities mainly in the area of its business operations. Principal activities in the fiscal year under review are discussed below.

## COMPLETE ZERO EMISSIONS ACHIEVED AT ALL SIX FACTORIES IN JAPAN AND AT ALL FOUR FACTORIES OVERSEAS

Sumirubber Malaysia Sdn. Bhd. and Zhongshan Sumirubber Precision Rubber Ltd. in China achieved zero emissions* in August and November 2006, respectively.

All six of the Sumitomo Rubber Group's domestic factories have already eliminated landfill waste and achieved complete zero emissions* in 2005. With these accomplishments, all of the Group's domestic and principal overseas factories, excluding the Thailand and Vietnam factories newly started in November 2006 and in March 2007, respectively, have achieved either zero or complete zero emissions.

* "Zero emission" is achieved when waste disposed of in landfills is maintained at less than 1% of the total amount of waste. "Complete zero emissions" is achieved when 0% of waste is disposed of in landfills.

## COMPLETION OF ISO 14001 CERTIFICATION AT ALL MAJOR BUSINESS FACILITIES IN JAPAN AND OVERSEAS

The Group promoted ISO 14001 certification acquisition and ensures that certification standards are maintained in pursuit of better environmental management in daily operations. All six domestic factories gained certification by 1998 and continue to renew accreditation annually. Overseas, the Group also promotes environmental management and the participation of all employees by holding study sessions for local employees, enhancing energy-saving activities and implementing separate waste collection. As a result, Sumitomo Rubber (Changshu) Co., Ltd. and Sumitomo Rubber (Suzhou) Co., Ltd. in China acquired certification in October 2005, following P. T. Sumi Rubber Indonesia, Zhongshan Sumirubber Precision Rubber Ltd. and Sumirubber Malaysia Sdn. Bhd. in 2003, 2004 and 2005, respectively. This completed the acquisition process for all of the Group's major business facilities in Japan and overseas.

## INSTALLATION OF COGENERATION SYSTEMS AT ALL DOMESTIC TIRE FACTORIES, PLANS FOR FURTHER EXPANSION

In October 2005, the Group installed a large-scale cogeneration system utilizing the ESCO scheme** at the Nagoya tire factory. With this initiative, the Group completed the introduction of cogeneration systems at all four of its tire factories in Japan including Shirakawa, Miyazaki and Izumiohtsu.

In addition, SRI Hybrid Limited began using natural gas instead of heavy oil at the Kakogawa factory in August 2006, and installed a cogeneration system in April 2007. With the system in full operation, total $CO_2$ emissions at the Kakogawa factory are expected to drop 37.0% from the previous fiscal year.

** ESCO: Abbreviation for Energy Service Company. A company that offers general services regarding energy conservation and receives partial compensation from customers that benefit from energy conservation.

## A FOURTH CONSECUTIVE 3R (REDUCE, REUSE & RECYCLE) PROMOTION COUNCIL CHAIRMAN'S AWARD

In October 2006, Sumitomo Rubber (Changshu) and Sumitomo Rubber (Suzhou) in China received an award in recognition of each company's outstanding results in 3R activities. This marks the fourth consecutive year the Group has been recognized, following awards

Cogeneration system introduced in the Kakogawa factory


Building facade of Sumitomo Rubber (Changshu) and Sumitomo Rubber (Suzhou) and the environmental report presented to the Head Office, Shirakawa, Nagoya, Ichijima and Kakogawa factories. The Sumitomo Rubber Group's Indonesian factory had previously received the 3R Promotion Council Chairman's Award in 2005. This was the first such award to an overseas factory of a Japanese rubber production company and represented a milestone for the Group. In an effort to augment disclosure of Group company environmental preservation activities, Sumitomo Rubber (Changshu) and Sumitomo Rubber (Suzhou) also published an environmental report in March 2006.

### SOIL AND GROUNDWATER DECONTAMINATION AT THE KAKOGAWA FACTORY

Volatile organic compound levels in excess of environmental standards were identified on the premises of SRI Hybrid's Kakogawa factory in 2004. SRI Hybrid made a report to Kakogawa City and simultaneously commenced implementation of decontamination countermeasures. The company also held an explanatory session for neighboring residents. Issues relating to land pollution were resolved in December 2004 after the removal and treatment of the contaminated soil in compliance with the Soil Contamination Countermeasures Law. SRI Hybrid continues to pipe up contaminated groundwater to purify it through the use of processing equipment.

### DONATION OF LONG-PILE HIBRID-TURF PG FOR KINDERGARTENS AND PLAYGROUNDS IN KAKOGAWA CITY

In July 2006, the Group donated 150 $m^2$ of long-pile Hibrid-Turf PG to Kakogawa City, Hyogo Prefecture, where one of its factories is located. Comprising long-pile turf filled with sand and elastic cushioning properties, the Hibrid-Turf PG boasts enhanced shock absorption and is used as a cushioning material under children's playing equipment. It is suitable for places where a high degree of safety is required. It helps to reduce the risk of injury when children fall from playing equipment and is aesthetically appealing with its evergreen features. In addition to Kakogawa City, the Sumitomo Rubber Group also donates Hibrid-Turf PG to kindergartens and nursery schools near its other factories. On top of the contribution to playground safety, it also creates an atmosphere where children can play outside for longer periods, and thus contributes to children's fitness. For these reasons, Hibrid-Turf PG is attracting acclaim from a variety of parties.

### GOLF LESSONS FOR CHILDREN

The Sumitomo Rubber Group has cooperated with the NPO-sponsored "Dunlop Junior Golf School" since 2002. The school's goals are to raise the profile of golf among young people and ultimately to help build healthy minds and bodies. The school is open to both inexperienced and experienced elementary to high school students. Dividing students according to their level of expertise, the classes provide instruction on correct technique, etiquette and rules.

### SELECTED FOR THE FTSE4GOOD GLOBAL INDEX FOR THE SECOND CONSECUTIVE YEAR

Sumitomo Rubber Industries was selected for inclusion in the "FTSE4Good Global Index," a global social responsibility investment (SRI) index in 2006 for the second consecutive year. Crested by the global index company FTSE International Limited, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognized corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalize on the benefits of responsible business practice.

FTSE4Good

The long-pile Hibrid-Turf PG donated to playgrounds in Kakogawa City

Dunlop Junior Golf School

Constantly targeting new value creation, the Sumitomo Rubber Group engages proactively in research and development (R&D). In addition to these efforts, the Group preserves the fruits of its research as intellectual property and has established structures to fully capitalize on its intellectual property rights.

## R&D ACTIVITIES

In close cooperation with its subsidiaries and affiliates around the world, the Sumitomo Rubber Group promotes R&D activities in its wide-ranging fields—which include tire, sports and industrial and other product businesses. In addition, the Group has pursued the exchange of technology in its Tire business based on a global alliance with The Goodyear Tire & Rubber Company since 1999. In conjunction with this, the Group formed dedicated project teams to carry out joint research for specific themes. Furthermore, the Group spun off the R&D function and established SRI Research & Development Ltd. on July 1, 2003.

Total R&D expenses in the fiscal year under review amounted to ¥17,291 million, which accounted for 3.2% of consolidated net sales.

### TIRE BUSINESS

In the Tire business, the Group utilizes its proprietary technologies to develop high-value-added products. To that end, the Group employed Digi-Tyre DRS III simulation that analyzes air pressure fluctuation inside the tire to release Dunlop's VEURO VE302 tire for luxury vehicles in February 2007. A special acoustic sponge fitted inside this premium ride tire reduces cavernous resonance. In fiscal 2006, R&D expenses in the Tire business totaled ¥14,215 million.

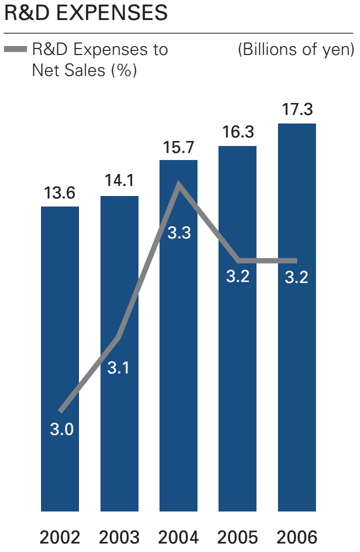
### SPORTS BUSINESS

In the Sports business, the Group engages in the improvement of its unique Digital Impact Technology simulation by using a super computer and expands its use to product development. Thanks to these efforts, the Group focuses primarily on the development of sophisticated products mainly for its golf club and golf ball lineups. R&D expenses in the Sports business stood at ¥1,391 million.

### INDUSTRIAL AND OTHER PRODUCTS BUSINESS

In the Industrial and Other Products business, the Group endeavors to expand businesses in the field of precision rubber parts for office automation (OA) equipment, printer blankets, artificial turf, rubber gloves and medical rubber products. At the same time, the Group develops products that meet consumer needs. Reflecting these approaches, R&D expenses in the Industrial and Other Products business were ¥1,684 million in the fiscal year under review.

### R&D EXPENSES




## INTELLECTUAL PROPERTY STRATEGIES

The Sumitomo Rubber Group carries out intellectual property activities in order to support each business. Activities include the acquisition and utilization of intellectual property rights, namely patents, designs and trademarks, as well as the prevention of rights infringements.

### EXPANDING INTELLECTUAL PROPERTY BUSINESS TO BRICs AND ASEAN COUNTRIES

So far, the intellectual property business has been limited to areas including Japan, the United States and Europe. However, with the aim of realizing its long-term vision, the Sumitomo Rubber Group has expanded its intellectual property rights-related business to the BRICs and ASEAN economic groupings. For example, the number of patent applications filed overseas exceeded those filed in Japan in 2006. The number of patent and design applications grew particularly in China, and now equals those in Europe. This was followed by Indonesia, Thailand and South Korea.

On the back of the increasing number of overseas patent applications, the Group will expand the numbers of countries and regions on which it focuses. Specifically, the Group plans to expand its intellectual property activities to Russia, India, Brazil, Vietnam and the Middle East. In light of this, by 2010 the total number of overseas patent applications is expected to be 1.8 times greater than those filed in Japan.

In addition to the Group's concern about intellectual property rights infringements, another issue relates to imitation tires. Until recently, these were only occasionally found overseas, but now have been discovered on the Japanese market in greater volume. Against this backdrop, the Group has requested that the Japanese customs authorities suspend imports while it carries out an investigation of those countries subject to the enforcement of rights.

### BUILDING STRONGER RELATIONSHIPS WITH LEGAL AND PATENT OFFICES

Given that legal systems differ from country to country, for the overseas intellectual property business it is vital to keep in regular contact with such agents as patent lawyers and attorneys. The expansion of the intellectual property business requires identifying appointing and closely liaising with reliable agents such as patent offices or law firms specialized in intellectual property rights. In 2006, the Group selected law offices in Russia, India, South Korea and Thailand as part of moves to reinforce its legal network to include offices in other countries. The Group will expand this network to South America and Vietnam for the purpose of enhancing its intellectual property business by 2010.

### EFFECTIVE UTILIZATION OF PATENT INFORMATION

In order to maintain and control Sumitomo Rubber Group's patents, a database was compiled covering all intellectual property rights and placed under the Patent Control System. Data is regarded as administrative and technological information, so they are disclosed to each development division to support their technological development activities.

The Sumitomo Rubber Group values its competitors' patent information as a way of monitoring technical advances and preventing its products from infringing other companies' rights. To that end, the Group distributes the weekly patent bulletins necessary to keep each technical division informed. Although there used to be difficulties in obtaining such information by overseas factories and subsidiaries, the Group introduced an online database accessible to all Group companies in April 2007.

Sumitomo Rubber Industries' basic management policy is to enhance its corporate value as a promising and reliable global company for the benefit of all stakeholders including shareholders. Under this policy, the Company considers the enhancement of corporate governance as a major management objective in its efforts to better fulfill its social responsibility and enhance transparency to strengthen Group management and establish deep relationships of trust with society while ensuring Group-wide business efficiency.

## CORPORATE GOVERNANCE STRUCTURE, IMPLEMENTATION AND STATUS OF AN INTERNAL CONTROL SYSTEM

### CORPORATE GOVERNANCE STRUCTURE

Sumitomo Rubber Industries has adopted an auditing system that is driven by its Board of Auditors. This Board is composed of five corporate auditors, three of whom are external appointments. This effectively facilitates a fair and objective system and enhances the overall audit function. The Company's Board of Directors deliberates and determines matters of managerial importance and supervises the execution of operations. As of March 29, 2007, the Board of Directors was comprised of 11 members, one of whom was an external director. In an effort to better promote the separation of supervisory and executive management functions and to clarify the responsibilities and authority of each business, Sumitomo Rubber Industries also introduced an executive officer system in March 2003. Through these means, the Company has established the organizational tools to promptly and appropriately respond to changes in its operating environment.

### IMPLEMENTATION AND STATUS OF AN INTERNAL CONTROL SYSTEM

Based on compliance with social norms, which are stipulated in the Company's Code of Conduct, Sumitomo Rubber Industries maintains the guideline that corporate activities must adhere to laws and ordinances, social norms and public decency. In addition, the Company strives to increase awareness and ensure strict legal compliance. In order to fulfill its corporate social responsibility, Sumitomo Rubber Industries established the basic objective to comply with laws and its Articles of Incorporation while establishing a strict code of corporate ethics and ensuring sound business operations. To that end, the Company formulated its "regulations on corporate ethics activities" and established the Corporate Ethics Committee in February 2003. In addition, Sumitomo Rubber Industries set up a compliance counseling room directly controlled by the president as a corporate ethics helpline for employees. This enables the Corporate Ethics Committee to investigate any problems that arise, and give sufficient attention to ensure that those employees who come forward are not penalized. Furthermore, the Company pays close attention to legal aspects by taking advice from a corporate attorney as circumstances demand.

### INTERNAL AUDIT AND AUDIT BY CORPORATE AUDITORS

Sumitomo Rubber Industries' internal audit function is effectively the responsibility of the Audit Office. Under the direct control of the president, the Audit Office is comprised of seven staff. In accordance with audit policies and annual internal audit plans, the Audit Office implements on-site audits of the Group as a whole including Head Office, major business sites and subsidiaries, to evaluate the efficacy, efficiency and degree of compliance adequacy in connection with the execution of operations at each division and department, and related Group companies. On completion of an internal audit, the results and any recommendations for improvement are reported to the president and the Board of Auditors in an effort to ensure reciprocal collaboration. In addition, reporting meetings are held on a periodic basis or as needs require among corporate auditors, the Audit Office and independent auditors to facilitate the exchange of information as well as closer collaboration.

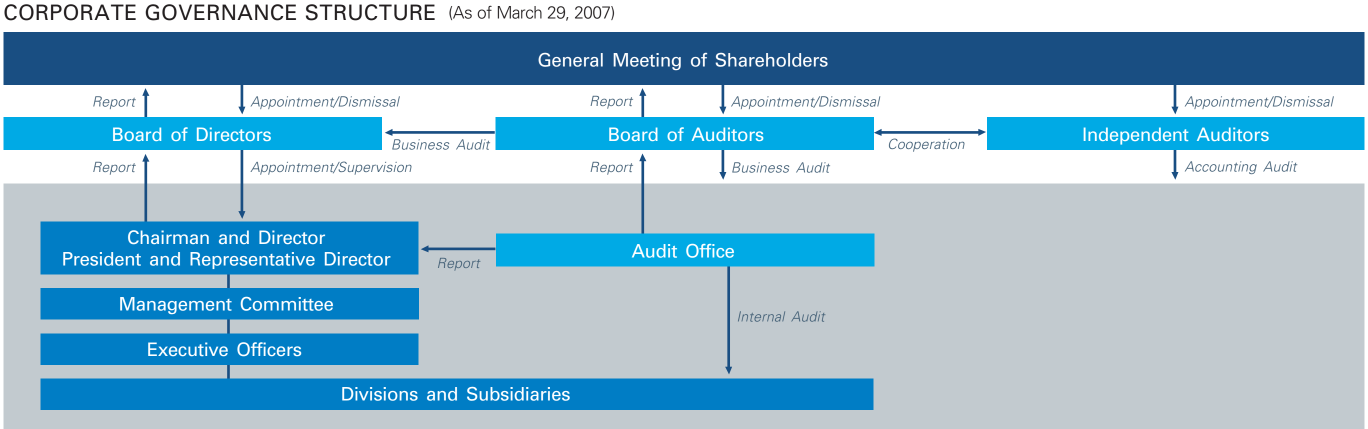
### ACCOUNTING AUDIT

The Company entered into an audit agreement with KPMG AZSA & Co. for the implementation of accounting audits under the Corporation and Securities and Exchange laws. For the fiscal year ended December 31, 2006, the Company's accounting audit was conducted by three certified public accountants (CPAs). These three CPAs were supported by 15 additional CPAs, 18 junior accountants and two others.

### RELATIONSHIPS WITH EXTERNAL DIRECTORS AND CORPORATE AUDITORS

Norio Okayama, the Company's external director, is chairman and representative director of Sumitomo Electric Industries, Ltd. Kimio Toma, one of Sumitomo Rubber Industries' external corporate auditors, is also an auditor for Sumitomo Electric Industries. Though Sumitomo Rubber Industries purchases products such as steel cords from Sumitomo Electric Industries, purchase prices are determined after receiving estimates from several other companies, negotiations with suppliers each fiscal year and a comparison with market prices and conditions. While Hiroshi Izumitani, another external auditor, holds the concurrent position of advisor to Murata Manufacturing Co., Ltd., there is no special interest between Murata Manufacturing and the Company.

### CORPORATE GOVERNANCE STRUCTURE (As of March 29, 2007)



Furthermore, Tadao Kagono, the Company's external corporate auditor, is an auditor to both Santen Pharmaceutical Co., Ltd. and NTN Corporation. These companies also have no special interests with Sumitomo Rubber Industries.

### IMPLEMENTATION AND STATUS OF RISK MANAGEMENT

In the conduct of its business activities, Sumitomo Rubber Industries constantly confronts a variety of risks. These include but are not limited to risks relating to the Company's business operations, legal requirements, the environment, accidents and disasters. With regard to factors that have the potential to materially impact the Group's business activities, each division and department undertakes an analysis of potential risks and formulates appropriate countermeasures, which are discussed at management meetings. With regard to the environment, accidents and disasters, the Occupational Health and Safety Management Committee formulates appropriate countermeasures, which are deliberated at management meetings as and when required. In support of its risk management activities, the Group also receives advice from specialists such as corporate attorneys when necessary.

# DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

(As of March 29, 2007)

## BOARD OF DIRECTORS

| | |
|---|---|
| CHAIRMAN AND DIRECTOR | Mitsuaki Asai |
| PRESIDENT AND REPRESENTATIVE DIRECTOR | Tetsuji Mino |
| REPRESENTATIVE DIRECTOR AND MANAGING EXECUTIVE OFFICER | Toshiyuki Noguchi |
| REPRESENTATIVE DIRECTOR AND MANAGING EXECUTIVE OFFICER | Hisao Takahashi |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Koji Soeda |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Yasuyuki Sasaki |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Takaki Nakano |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Yoshinori Yamada |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Hiroaki Tanaka |
| DIRECTOR AND SENIOR EXECUTIVE OFFICER | Ikuji Ikeda |
| DIRECTOR | Norio Okayama |

## CORPORATE AUDITORS

| | |
|---|---|
| CORPORATE AUDITOR (Full-time) | Hiroo Jikihara |
| CORPORATE AUDITOR (Full-time) | Masashi Mine |
| CORPORATE AUDITOR | Kimio Toma |
| CORPORATE AUDITOR | Hiroshi Izumitani |
| CORPORATE AUDITOR | Tadao Kagono |

## EXECUTIVE OFFICERS

| | |
|---|---|
| SENIOR EXECUTIVE OFFICER | Yasushi Nojiri |
| EXECUTIVE OFFICER | Hironobu Nakamura |
| EXECUTIVE OFFICER | Kaoru Taniguchi |
| EXECUTIVE OFFICER | Kenji Onga |
| EXECUTIVE OFFICER | Takahiro Fukumoto |
| EXECUTIVE OFFICER | Kosaburo Nakaseko |
| EXECUTIVE OFFICER | Minoru Nishi |
| EXECUTIVE OFFICER | Yasutaka Ii |

# FINANCIAL SECTION

## CONTENTS

# 11-YEAR SUMMARY OF CONSOLIDATED FINANCIAL DATA

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

| | | | | Millions of yen |
|---|---|---|---|---|
| Years ended December 31 | **2006** | 2005 | 2004 | 2003 |
| **For the year:** | | | | |
| Net sales | **¥534,086** | ¥512,838 | ¥470,562 | ¥450,491 |
| Cost of sales | **342,856** | 307,538 | 288,684 | 281,392 |
| Selling, general and administrative expenses | **154,440** | 155,374 | 136,352 | 131,333 |
| Operating income | **36,790** | 49,926 | 45,526 | 37,766 |
| Net income (loss) | **27,586** | 25,640 | 19,169 | 13,095 |
| Depreciation and amortization | **27,052** | 25,755 | 25,098 | 24,313 |
| Capital expenditures | **45,308** | 40,415 | 36,881 | 29,171 |
| Cash flows from operating activities | **23,872** | 38,984 | 32,056 | 44,225 |
| Cash flows from investing activities | **(33,923)** | (42,878) | (37,622) | (28,545) |
| Cash flows from financing activities | **14,687** | (3,376) | 7,609 | (20,821) |
| **At year-end:** | | | | |
| Total assets | **¥606,938** | ¥563,442 | ¥520,157 | ¥481,553 |
| Net assets | **223,852** | — | — | — |
| Shareholders' equity | — | 174,267 | 145,492 | 110,395 |
| Interest-bearing debt | **219,372** | 205,751 | 201,929 | 210,681 |

| | | | | Yen |
|---|---|---|---|---|
| **Per share amounts:** | | | | |
| Net income (loss) | **¥ 105.13** | ¥ 97.10 | ¥ 78.64 | ¥ 55.07 |
| Net income—diluted | — | — | — | — |
| Cash dividends paid | **20.00** | 20.00 | 14.00 | 12.00 |

| | | | | Percent |
|---|---|---|---|---|
| **Key ratios:** | | | | |
| Operating income ratio | **6.9%** | 9.7% | 9.7% | 8.4% |
| ROE | **14.7** | 16.0 | 15.0 | 12.4 |
| ROA (operating income base) | **6.3** | 9.2 | 9.1 | 7.9 |
| Equity ratio | **33.3** | 30.9 | 28.0 | 22.9 |

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥119 per US$1.00, the approximate exchange rate prevailing at December 31, 2006.

2. In 1999, the Company changed its reporting entity due to the global alliance in the Tire business with Goodyear. The change reduced its net sales, operating income, total assets and interest-bearing debt but the effect to net income and shareholders' equity was immaterial. The Company changed its amortization method for past service liability of the contributory defined pension plan. This change reduced net income by ¥3,545 million.

3. In 2000, the Company changed the accounting policy for technical aid income and expense. As a result of these changes, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million, however, there were no effects on net income.

4. For 2006, Sumitomo Rubber has applied *Accounting Standards for Presentation of Net Assets in the Balance Sheet* (ASBJ Statement No. 5, December 9, 2005) by the Accounting Standards Board of Japan (ASBJ) and its Implementation Guidance—*Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet* (ASBJ Guidance No. 8, December 9, 2005).

5. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

| | | | | | | | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | **2006** |
| | ¥447,893 | ¥434,463 | ¥423,247 | ¥509,215 | ¥653,525 | ¥613,753 | ¥582,360 | **$4,488,118** |
| | 286,755 | 279,074 | 273,451 | 351,492 | 456,705 | 433,573 | 411,237 | **2,881,143** |
| | 129,394 | 132,813 | 124,355 | 133,971 | 169,032 | 160,973 | 151,855 | **1,297,815** |
| | 31,744 | 22,576 | 25,441 | 23,752 | 27,770 | 19,207 | 19,268 | **309,160** |
| | 8,239 | (7,207) | 5,335 | 4,929 | 5,034 | 5,850 | 4,683 | **231,815** |
| | 25,163 | 24,645 | 25,275 | 32,911 | 40,218 | 38,366 | 35,564 | **227,328** |
| | 30,557 | 25,372 | 19,944 | 41,634 | 46,754 | 46,527 | 52,003 | **380,739** |
| | 50,700 | 42,359 | 36,086 | 20,327 | 58,814 | 47,024 | 36,411 | **200,605** |
| | (31,269) | (25,284) | (21,685) | 43,403 | (43,213) | (40,310) | (47,120) | **(285,067)** |
| | (19,628) | (15,172) | (25,690) | (64,559) | (4,871) | (9,385) | 12,489 | **123,420** |
| | | | | | | | | |
| | ¥477,293 | ¥514,415 | ¥523,560 | ¥441,707 | ¥614,197 | ¥644,631 | ¥629,828 | **$5,100,319** |
| | — | — | — | — | — | — | — | **1,881,109** |
| | 101,633 | 107,391 | 109,995 | 97,475 | 96,091 | 93,855 | 89,962 | **—** |
| | 220,085 | 241,600 | 252,143 | 223,727 | 311,574 | 324,327 | 313,069 | **1,843,462** |
| | | | | | | | Yen | U.S. dollars (Note 1) |
| | ¥ 33.97 | ¥ (29.71) | ¥ 23.24 | ¥ 22.57 | ¥ 23.06 | ¥ 26.79 | ¥ 22.46 | **$ 0.883** |
| | — | — | — | 20.63 | — | — | — | **—** |
| | 10.00 | 10.00 | 10.00 | 9.00 | 9.00 | 9.00 | 9.00 | **0.168** |
| | | | | | | | Percent | |
| | 7.1% | 5.2% | 6.0% | 4.7% | 4.2% | 3.1% | 3.3% | |
| | 7.9 | — | 5.1 | 5.1 | 5.3 | 6.4 | 5.7 | |
| | 6.4 | 4.4 | 5.3 | 4.5 | 4.4 | 3.0 | 3.1 | |
| | 21.3 | 20.9 | 21.0 | 22.1 | 15.6 | 14.6 | 14.3 | |

## SCOPE OF CONSOLIDATION

In fiscal 2006, ended December 31, 2006, three subsidiary companies and one equity-method affiliate were newly included in Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries' scope of consolidation, while 17 subsidiary companies were excluded. One of the three newly included subsidiary companies is regarded as being under the substantive control of Sumitomo Rubber Industries due to the transfer of directors. The remaining two are a tire sales subsidiary in Thailand and a production subsidiary making precision rubber parts for office automation equipment in Vietnam, both of which were established in 2006. The exclusion of the 17 subsidiaries was due to the sale of the Europe-based Oniris S.A.S. Group, which is engaged in the bed business; the liquidation of overseas subsidiaries involved in the LCD backlights business; and the merger of domestic sports sales subsidiaries.

## BUSINESS ENVIRONMENT

During fiscal 2006, although consumer spending was weak, growing exports and corporate capital investment contributed to the robust Japanese economy. Overseas, the U.S. and European economies remained strong and, led by China, Asian markets continued to enjoy high growth rates.

The Group's core Tire business recorded stagnant sales in the domestic replacement market due to unusual weather patterns. In contrast, the original equipment market saw favorable sales owing to year-on-year growth in domestic automobile production on the back of increased exports. In the Middle East and Latin America, solid sales were recorded thanks to the Group's aggressive sales promotion activities tailored to individual market characteristics. The earnings environment was harsh, however, due to record-high prices for natural rubber and petroleum-based materials.

## NET SALES

In fiscal 2006, consolidated net sales rose 4.1% compared with the previous fiscal year to ¥534,086 million. In the Group's mainstay Tire business, sales grew mainly in the overseas replacement market. In addition, sales in the domestic original equipment market surpassed those of the previous fiscal year, owing to the efficient supply of products that address each automaker's needs. As a result, sales in the Tire business rose 8.1% year on year to ¥430,620 million. Sales in the Sports business grew 5.3% to ¥57,649 million, reflecting the release of the ALL NEW XXIO series, the remodeling of the hit XXIO golf brand, strong sales of new SRIXON brand products for competition use and robust sales in overseas markets. In the Industrial and Other Products business, the Group enjoyed strong sales of precision rubber parts for office automation equipment, anti-vibration equipment that utilizes high damping rubber and products for civil engineering and marine facility applications. Despite these favorable results, overall sales in this business dropped approximately ¥17,000 million due to the withdrawal from the European bed and LCD backlights businesses. Accordingly, sales in the Industrial and Other Products business declined 23.5% year on year to ¥45,817 million.

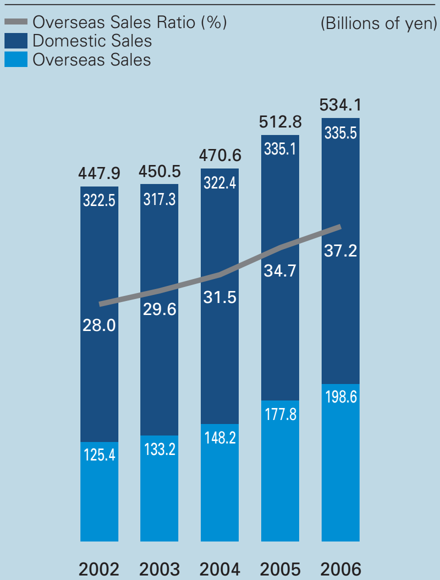
Overseas sales increased 11.7% to ¥198,622 million and the overseas sales ratio was up 2.5 percentage points to 37.2%. In North America, the Group's tire and sports goods sales subsidiaries reported increases. In Europe, however, revenues declined due to the sale of the Group's bed business. In Asia, sales grew on the back of a China-based tire production subsidiary's expansion of its production capacity.

## EARNINGS

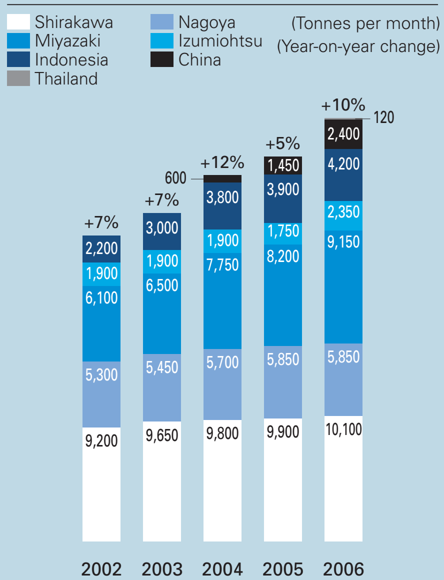
During the fiscal year under review, consolidated operating income decreased 26.3% to ¥36,790 million and the operating income ratio was down 2.8 percentage points year on year to 6.9%.

The Sumitomo Rubber Group's core Tire business faced record-high prices for natural rubber and petroleum-based materials in fiscal 2006. Natural rubber prices jumped approximately 50% from the previous fiscal year while those of such petroleum-based materials as synthetic rubber rose about 20%. The overall hike in raw materials prices contributed to a decline of approximately ¥293,000 million in Group profit. To counter the effects of these negative factors, the Group continued to work to contain costs while passing on a portion of the sharp increase in raw material prices to customers. Thus far,

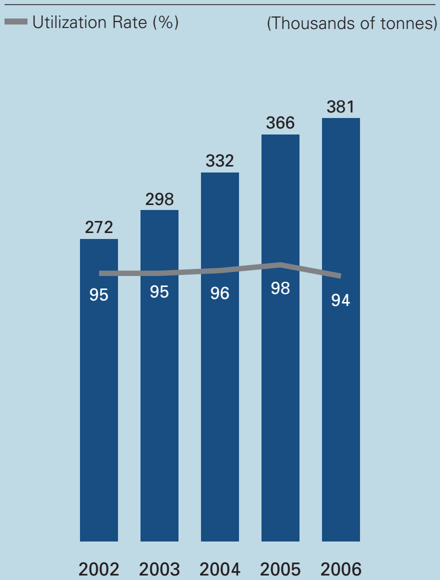
### DOMESTIC AND OVERSEAS SALES




### TIRE PRODUCTION CAPACITY




### TIRE PRODUCTION VOLUME



however, our efforts have not been far-reaching enough. As a result, operating income in the Tire business fell 33.6% from the previous fiscal year to ¥26,381 million.

The Sports business was also affected by the sharp raw material price increases, including for titanium and carbon fiber, with operating income declining 10.1% to ¥7,469 million. In contrast, in the Industrial and Other Products business, operating income surged 74.4% to ¥2,907 million due to higher sales of precision rubber parts for office automation equipment.

Net other income (expenses) went from an expense of ¥5,663 million in fiscal 2005 to income of ¥5,093 million in the year under review. Major expenses included a ¥3,557 million loss on asset impairment and ¥2,970 million in interest expenses. Equity in earnings of unconsolidated subsidiaries and affiliates leaped from ¥4,825 million in the previous fiscal year to ¥7,118 million due to a reversal of the reserve for income taxes that resulted in a significant increase in profits from European joint ventures established with The Goodyear Tire & Rubber Company. In addition, the Group recorded a ¥6,069 million gain on sales of investments in subsidiaries along with the public listing of its subsidiary in the Sports business, SRI Sports Limited.

Reflecting these factors, income before income taxes and minority interests declined 5.4% year on year to ¥41,883 million. Income taxes were also down, falling 23.0% to ¥13,522 million and representing an effective tax rate of 32.3%, a drop of 7.4 percentage points. As a result, net income rose 7.6% to ¥27,586 million, marking the fifth consecutive year of record profit.

Net income per share was ¥105.13, and ROE (net income base) fell 1.3 percentage points to 14.7%.

## R&D EXPENSES

Research and development expenses climbed 6.3% year on year to ¥17,291 million, representing 3.2% of consolidated net sales. The Tire business accounted for ¥14,215 million of these expenses, up 8.0% from the previous fiscal year, the Sports business ¥1,391 million, down 7.8%, and the Industrial and Other Products business ¥1,684 million, up 5.7%.

## DIVIDENDS

Sumitomo Rubber Industries, Ltd. recognizes the return of gains to shareholders as a priority issue. While comprehensively assessing the standards for dividend payout ratios on a consolidated basis as well as performance prospects and retained earnings, the Group has adopted a basic policy of steadily rewarding shareholders over the long term. To that end, the Company has decided to distribute retained earnings twice a year as dividends. The amount of the year-end dividend payment is resolved by the General Shareholders' meetings and that for the interim dividend payment by the Board of Directors.

The full-year dividend for fiscal 2006 was ¥20.00 per share, an amount equal to that of the previous fiscal year. The dividend payout ratio on a consolidated basis was 19.0%.

## FINANCIAL POSITION

Total assets as of December 31, 2006, were up 7.7% year on year to ¥606,938 million.

Total current assets climbed 8.8% to ¥245,019 million, reflecting the increase in inventories caused by higher sales.

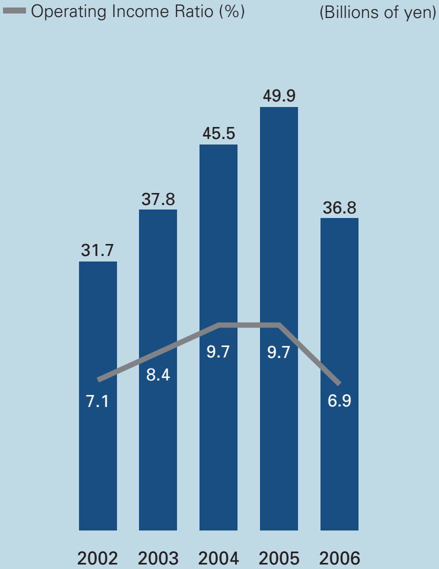
Total investments and other assets rose 7.0% to ¥145,096 million. This was largely due to an increase in investments in securities that reflected the application of the equity method and growth in prepaid pension cost.

Total property, plant and equipment expanded 7.0% year on year to ¥216,823 million due to a rise in buildings and structures as well as machinery and equipment in connection with capital expenditures aimed at increasing production.

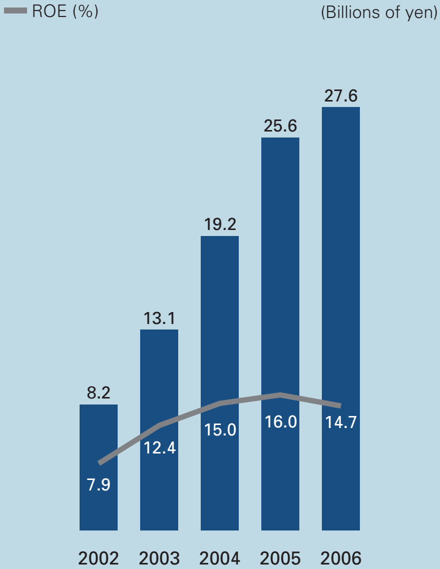
As of the end of the fiscal year under review, total liabilities were up ¥2,667 million. Current liabilities declined 5.3% to ¥203,018 million while long-term liabilities grew 8.5% to ¥180,068 million. Interest-bearing debt as of fiscal 2006 year-end increased ¥13,621 million compared with the previous fiscal year-end to ¥219,372 million.

Total net assets at the fiscal year-end stood at ¥223,852 million and net assets per share were ¥769.86. From fiscal 2006, Sumitomo Rubber Industries has adopted a new accounting standard regarding the presentation of net assets in the balance sheet whereby minority

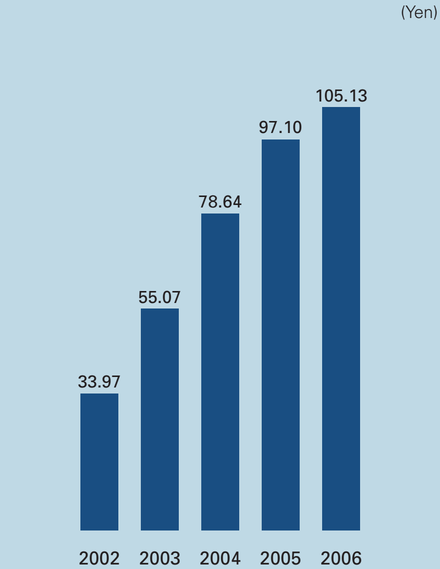
## OPERATING INCOME




## NET INCOME




## NET INCOME PER SHARE



interests in consolidated subsidiaries are included in net assets.

The ratio of equity (net assets minus minority interests in consolidated subsidiaries) to total assets at the end of fiscal 2006 rose 2.4 percentage points to 33.3%. ROA (operating income base) decreased 2.9 percentage points to 6.3%, and the debt-to-equity ratio improved by 0.1 of a point from a year earlier to 1.1 times.

## CAPITAL EXPENDITURES

During the fiscal year under review, Sumitomo Rubber Industries made capital expenditures totaling ¥45,308 million, focusing mainly on the Tire business. This represented a 12.1% increase from the previous fiscal year. The Tire business accounted for ¥42,253 million in expenditures used for facility renovation aimed at boosting production through streamlining and the improvement of labor efficiency. The Sports business used ¥1,199 million for the improvement of golf ball production efficiency at SRI Sports Limited and the Industrial and Other Products business employed ¥1,854 million to improve production facilities for precision rubber parts for office automation equipment at SRI Hybrid Limited. The necessary funds were furnished by a combination of cash on hand and borrowings. In the fiscal year ending December 31, 2007, the Company plans to make ¥49,500 million in capital expenditures, primarily for the upgrading of tire factories in Thailand and China.

## CASH FLOWS

Net cash provided by operating activities declined 38.8% from the previous fiscal year to ¥23,872 million, with outflows mainly comprising an increase in inventories, equity in earnings of unconsolidated subsidiaries and affiliates, a gain on sales of investments in subsidiaries and an increase in prepaid pension costs, net of payment.

Net cash used in investing activities fell 20.9% to ¥33,923 million. Although capital expenditures increased, reflecting efforts to increase production, overall outflows declined, owing to proceeds from sales of investment in a consolidated subsidiary associated with the listing of SRI Sports Limited.

Free cash flow (net cash provided by operating activities less net cash used in investing activities) was a negative ¥10,051 million. This was attributable to the aforementioned increase in capital expenditures aimed at increasing production and a rise in working capital.

Net cash provided by financing activities grew from being a payout of ¥3,376 million in the previous fiscal year to a revenue source of ¥14,687 million in fiscal 2006. Primary sources of revenue were proceeds from long-term debt and newly issued bonds of ¥31,503 million. Major outflows included the net repayment of ¥15,733 million of interest-bearing debt and dividends paid totaling ¥6,035 million.

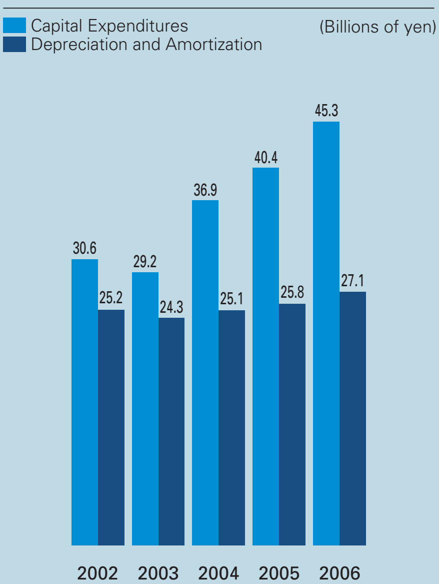
Due to these activities and the effect of exchange rate changes in cash and cash equivalents as well as changes in the scope of consolidation and reporting entities, cash and cash equivalents at the end of the fiscal year surged 41.5% to ¥18,152 million.

The Sumitomo Rubber Group will continue to adhere to a high standard of capital investment for the purpose of accomplishing the Medium-Term Management Plan for Fiscal 2006–2008. In addition, the Group will make every effort to both ensure business growth and secure cash fluidity as well as to enhance its financial standing. This will be carried out through measures aimed at expanding the inflow of cash from operating activities by increasing sales volumes and improving profitability.

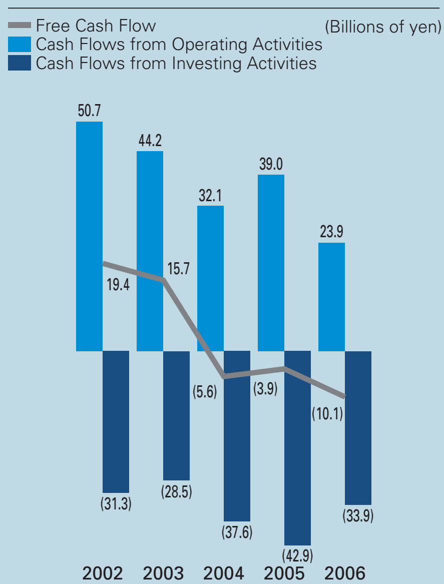
## OUTLOOK

In the fiscal year ending December 31, 2007, the domestic economy is expected to grow steadily. Forecasts for North America and Europe, however, are for sluggish conditions and growth in Asian economies will possibly decelerate, thus, the business prospects can hardly be called rosy. The Sumitomo Rubber Group is anticipating a harsh business environment in the wake of price hikes in its main raw materials, including natural and synthetic rubbers. Against this backdrop, the Group is accelerating its overall cost reduction measures while implementing sales price adjustments in response to spiraling raw materials costs. In the course of doing so, the Group is implementing a variety of measures aimed at improving profitability and reversing profit declines. In addition, the Group will make across-the-board efforts to tackle medium- and long-term issues as it works to increase enterprise value for all the stakeholders, including customers and shareholders.

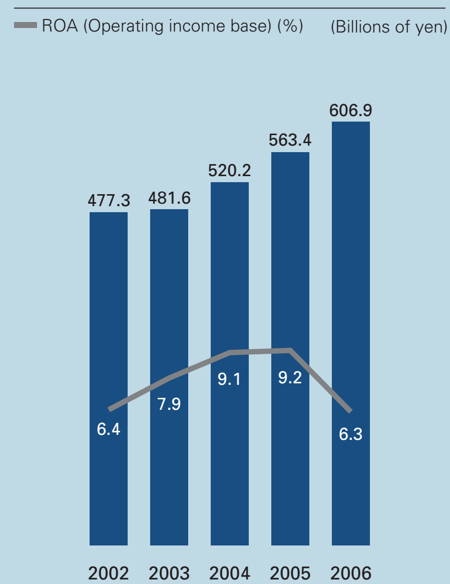
CAPITAL EXPENDITURES/DEPRECIATION AND AMORTIZATION




CASH FLOWS




TOTAL ASSETS



## RISK INFORMATION

The Sumitomo Rubber Group has identified the following key risk factors that it considers may impact business performance and financial position.

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

### Exchange Rate Fluctuations

Exchange rate fluctuations impact the value of the Group's exports, raw materials, foreign currency-denominated assets, liabilities and financial statements. The appreciation of the yen against foreign currencies such as the U.S. dollar may have an adverse effect on the Group's business performance and financial position. Since the Group has raised its consolidated overseas sales ratio from 25.2% in fiscal 2001 to 37.2% in fiscal 2006, the possibility exists that its results may be further affected by exchange rate fluctuation. The Sumitomo Rubber Group utilizes forward-exchange contracts and maintains a balance in its export and import activities on an individual currency basis with the aim of minimizing its exposure to exchange rate fluctuation. Such precautions, however, may not be sufficient to avoid all possible exchange rate fluctuation risks.

### Changes in Raw Material Prices

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

### Changes in Interest Rates

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

### Product Quality

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

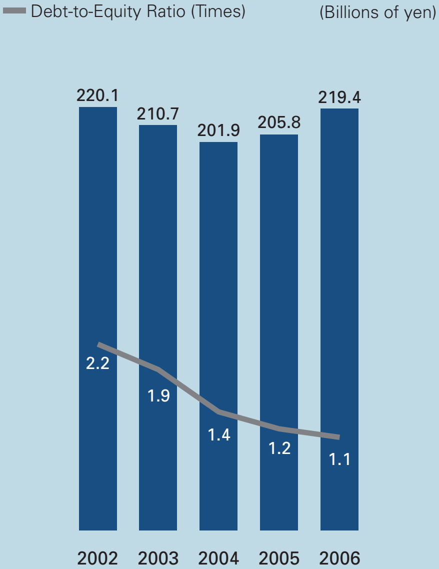
### Alliance with Goodyear

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

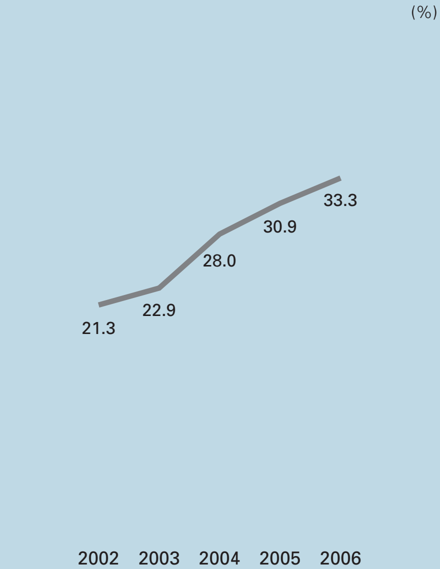
### Disasters

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

### INTEREST-BEARING DEBT




### EQUITY RATIO



# CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| December 31 | 2006 | 2005 | 2006 |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and time deposits (Note 3) | ¥ 18,172 | ¥ 13,119 | $ 152,706 |
| Notes and accounts receivable (Note 14)— | | | |
| Trade | 121,036 | 121,444 | 1,017,109 |
| Other | 18,257 | 14,335 | 153,420 |
| Allowance for doubtful accounts | (1,750) | (2,650) | (14,706) |
| Inventories (Note 4) | 68,040 | 57,205 | 571,765 |
| Short-term loans (Note 14) | 6,695 | 4,623 | 56,261 |
| Deferred tax assets (Note 10) | 9,114 | 9,469 | 76,588 |
| Other | 5,455 | 7,640 | 45,840 |
| Total current assets | 245,019 | 225,185 | 2,058,983 |
| **Investments and other assets:** | | | |
| Investments in securities (Note 5) | 26,385 | 23,904 | 221,723 |
| Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14) | 70,707 | 68,291 | 594,176 |
| Long-term loans | 575 | 1,050 | 4,832 |
| Deferred tax assets (Note 10) | 2,524 | 2,086 | 21,210 |
| Long-term prepaid expenses | 4,378 | 3,466 | 36,790 |
| Trademarks (Note 8) | 2,043 | 2,859 | 17,168 |
| Goodwill and other intangible assets | 7,167 | 7,581 | 60,227 |
| Prepaid pension cost (Note 11) | 23,377 | 18,633 | 196,445 |
| Other | 9,540 | 9,458 | 80,168 |
| Allowance for doubtful accounts | (1,600) | (1,700) | (13,445) |
| Total investments and other assets | 145,096 | 135,628 | 1,219,294 |
| **Property, plant and equipment** (Notes 7 and 9): | | | |
| Land | 39,188 | 42,241 | 329,311 |
| Buildings and structures | 128,205 | 125,819 | 1,077,353 |
| Machinery and equipment | 383,892 | 368,181 | 3,225,983 |
| Construction in progress | 11,008 | 9,705 | 92,504 |
| Accumulated depreciation | (345,470) | (343,317) | (2,903,109) |
| Total property, plant and equipment | 216,823 | 202,629 | 1,822,042 |
| Total assets | ¥ 606,938 | ¥ 563,442 | $ 5,100,319 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings (Note 9) | **¥ 51,910** | ¥ 51,402 | **$ 436,218** |
| Current portion of long-term debt (Note 9) | **16,797** | 18,375 | **141,151** |
| Notes and accounts payable— | | | |
| Trade (Note 14) | **79,214** | 78,584 | **665,664** |
| Construction | **8,575** | 8,790 | **72,059** |
| Other | **26,140** | 25,850 | **219,664** |
| Accrued expenses | **13,613** | 16,766 | **114,395** |
| Allowance for sales returns | **1,207** | 2,226 | **10,143** |
| Accrued income taxes (Note 10) | **1,900** | 10,727 | **15,966** |
| Other | **3,662** | 1,728 | **30,773** |
| **Total current liabilities** | **203,018** | 214,448 | **1,706,033** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 9) | **150,665** | 135,974 | **1,266,092** |
| Deferred tax liabilities (Note 10) | **11,483** | 8,767 | **96,496** |
| Accrued retirement benefits (Note 11) | **10,661** | 11,723 | **89,588** |
| Other | **7,259** | 9,507 | **61,000** |
| **Total long-term liabilities** | **180,068** | 165,971 | **1,513,176** |
| **Contingent liabilities** (Note 15) | | | |
| **Minority interests in consolidated subsidiaries** | **—** | 8,756 | **—** |
| **Shareholders' equity:** | | | |
| Common stock | **—** | 42,658 | **—** |
| Capital surplus | **—** | 38,657 | **—** |
| Retained earnings | **—** | 74,626 | **—** |
| Net unrealized gains on available-for-sale securities | **—** | 8,519 | **—** |
| Translation adjustments | **—** | 10,251 | **—** |
| | **—** | 174,711 | **—** |
| Less treasury stock, at cost— | | | |
| 2005—634,805 shares | **—** | (444) | **—** |
| **Total shareholders' equity** | **—** | 174,267 | **—** |
| **Total liabilities and shareholders' equity** | **¥ —** | ¥563,442 | **$ —** |
| **Net assets** | | | |
| **Shareholders' equity** (Note 18): | | | |
| Common stock— | | | |
| Authorized: 800,000,000 | | | |
| Issued: 263,043,057 shares | **¥ 42,658** | ¥ — | **$ 358,471** |
| Capital surplus | **38,660** | — | **324,874** |
| Retained earnings | **90,896** | — | **763,832** |
| Less treasury stock, at cost— | | | |
| 2006—658,071 shares | **(483)** | — | **(4,059)** |
| **Total shareholders' equity** | **171,731** | — | **1,443,118** |
| **Valuation and translation adjustments** | | | |
| Net unrealized gains on available-for-sale securities | **9,641** | — | **81,017** |
| Deferred losses on hedges | **(64)** | — | **(538)** |
| Translation adjustments | **20,695** | — | **173,908** |
| **Total valuation and translation adjustment** | **30,272** | — | **254,387** |
| **Minority interests in consolidated subsidiaries** | **21,849** | — | **183,605** |
| **Total net assets** | **223,852** | — | **1,881,110** |
| **Total liabilities and net assets** | **¥606,938** | ¥ — | **$5,100,319** |

# 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 | **2006** | 2005 | **2006** |
| **Net sales** (Note 14) | **¥534,086** | ¥512,838 | **$4,488,118** |
| **Cost of sales** (Note 14) | **342,856** | 307,538 | **2,881,143** |
| Gross profit | **191,230** | 205,300 | **1,606,975** |
| **Selling, general and administrative expenses** | **154,440** | 155,374 | **1,297,815** |
| Operating income | **36,790** | 49,926 | **309,160** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **708** | 502 | **5,950** |
| Interest expense | **(2,970)** | (2,371) | **(24,958)** |
| Loss on sales or disposal of property, plant, and equipment, net | **(1,162)** | (603) | **(9,765)** |
| Exchange loss, net | **(211)** | (1,563) | **(1,773)** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | **7,118** | 4,825 | **59,815** |
| Loss on asset impairment | **(3,557)** | — | **(29,891)** |
| Gain on sales of investments in subsidiaries | **6,069** | — | **51,000** |
| Gain on change in equity ownership of consolidated subsidiary | **2,033** | — | **17,084** |
| Amortization of initial transition cost of pension and severance plans (Note 11) | **(445)** | (578) | **(3,739)** |
| Expenses relating to product liabilities | — | (1,029) | — |
| Write-down of investments in securities | — | (482) | — |
| Write-down of trademarks (Note 8) | — | (1,659) | — |
| Other, net | **(2,490)** | (2,705) | **(20,925)** |
| | **5,093** | (5,663) | **42,798** |
| Income before income taxes and minority interests in consolidated subsidiaries | **41,883** | 44,263 | **351,958** |
| **Income taxes** (Note 10): | | | |
| Current | **11,778** | 17,847 | **98,975** |
| Deferred | **1,744** | (292) | **14,655** |
| | **13,522** | 17,555 | **113,630** |
| Income before minority interests in consolidated subsidiaries | **28,361** | 26,708 | **238,328** |
| **Minority interests in consolidated subsidiaries** | **(775)** | (1,068) | **(6,513)** |
| Net income | **¥ 27,586** | ¥ 25,640 | **$ 231,815** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Per share amounts:** | | | |
| Net income | **¥105.13** | ¥97.10 | **$0.883** |
| Cash dividends paid | **20.00** | 20.00 | **0.168** |

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 |
|---|---|
| Year ended December 31 | 2005 |
| **Common stock:** | |
| Balance at beginning of year | ¥ 42,658 |
| Balance at end of year | ¥ 42,658 |
| **Capital surplus:** | |
| Balance at beginning of year | ¥ 38,656 |
| Gain on sales of treasury stock | 1 |
| Balance at end of year | ¥ 38,657 |
| **Retained earnings:** | |
| Balance at beginning of year | ¥ 53,046 |
| Net income | 25,640 |
| Cash dividends | (4,201) |
| Bonuses to directors and statutory auditors | (140) |
| Other comprehensive income of foreign subsidiaries and affiliates | 281 |
| Balance at end of year | ¥ 74,626 |
| **Net unrealized gains on available-for-sale securities at end of year** | ¥ 8,519 |
| **Translation adjustments at end of year** | 10,251 |
| **Less treasury stock, at cost, at end of year:** | |
| Balance at beginning of year | (244) |
| Acquisition | (202) |
| Sale | 2 |
| Balance at end of year | (444) |
| Total shareholders' equity at end of year | ¥ 174,267 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Millions of yen

| | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Deferred losses on hedges | Translation adjustments | Total | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2005** | ¥42,658 | ¥38,657 | ¥74,626 | ¥(444) | ¥8,519 | ¥ — | ¥10,251 | ¥174,267 | ¥ 8,756 | ¥183,023 |
| Disposal of treasury stock | | 3 | | 3 | | | | 6 | | 6 |
| Bonuses to directors | | | (150) | | | | | (150) | | (150) |
| Cash dividends | | | (6,035) | | | | | (6,035) | | (6,035) |
| Net income | | | 27,586 | | | | | 27,586 | | 27,586 |
| Repurchase of treasury stock | | | | (42) | | | | (42) | | (42) |
| Effect of change in reporting entities | | | (126) | | | | | (126) | | (126) |
| Increase due to merger of non-consolidated subsidiaries, net | | | 13 | | | | | 13 | | 13 |
| Other comprehensive income of foreign subsidiaries and affiliates | | | (5,018) | | 1,122 | (64) | 10,444 | 6,484 | 13,093 | 19,577 |
| **Balance at December 31, 2006** | **¥42,658** | **¥38,660** | **¥90,896** | **¥(483)** | **¥9,641** | **¥(64)** | **¥20,695** | **¥202,003** | **¥21,849** | **¥223,852** |

Thousands of U.S. dollars (Note 1)

| | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Deferred losses on hedges | Translation adjustments | Total | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2005** | $358,471 | $324,849 | $627,109 | $(3,731) | $71,588 | $ — | $ 86,143 | $1,464,429 | $ 73,580 | $1,538,009 |
| Disposal of treasury stock | | 25 | | 25 | | | | 50 | | 50 |
| Bonuses to directors | | | (1,261) | | | | | (1,261) | | (1,261) |
| Cash dividends | | | (50,714) | | | | | (50,714) | | (50,714) |
| Net income | | | 231,815 | | | | | 231,815 | | 231,815 |
| Repurchase of treasury stock | | | | (353) | | | | (353) | | (353) |
| Effect of change in reporting entities | | | (1,059) | | | | | (1,059) | | (1,059) |
| Increase due to merger of non-consolidated subsidiaries, net | | | 109 | | | | | 109 | | 109 |
| Other comprehensive income of foreign subsidiaries and affiliates | | | (42,167) | | 9,429 | (538) | 87,765 | 54,489 | 110,025 | 164,514 |
| **Balance at December 31, 2006** | **$358,471** | **$324,874** | **$763,832** | **$(4,059)** | **$81,017** | **$(538)** | **$173,908** | **$1,697,505** | **$183,605** | **$1,881,110** |

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 | 2006 | 2005 | 2006 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests in consolidated subsidiaries | ¥ 41,883 | ¥ 44,263 | $ 351,958 |
| Adjustments to reconcile income before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities— | | | |
| Depreciation and amortization | 27,052 | 25,755 | 227,328 |
| Loss on asset impairment | 3,557 | — | 29,891 |
| Loss on sales or disposal of property, plant and equipment, net | 1,162 | 603 | 9,765 |
| Amortization of initial transition cost of pension and severance plans | 445 | 578 | 3,739 |
| Write-down of trademarks | — | 1,659 | — |
| Gain on sales of investments in subsidiaries | (6,069) | — | (51,000) |
| Gain on change in equity ownership of consolidated subsidiary | (2,033) | — | (17,084) |
| Increase in prepaid pension costs, net of payment | (4,744) | (1,590) | (39,866) |
| Decrease in pension premiums payable for transition to defined contribution plan | (2,447) | (2,624) | (20,563) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (7,118) | (4,825) | (59,815) |
| Provision for (Reversal of) allowance for doubtful accounts | (525) | 275 | (4,412) |
| Reversal of accrued retirement benefits, net of payment | (540) | (705) | (4,538) |
| Interest and dividend income | (708) | (502) | (5,950) |
| Interest expense | 2,970 | 2,371 | 24,958 |
| Increase in notes and accounts receivable | (2,288) | (10,877) | (19,227) |
| Increase in inventories | (12,887) | (7,000) | (108,294) |
| Increase in notes and accounts payable | 1,738 | 9,117 | 14,605 |
| Other | 2,192 | (168) | 18,421 |
| Subtotal | 41,640 | 56,330 | 349,916 |
| Interest and dividends received | 6,948 | 3,673 | 58,387 |
| Interest paid | (2,938) | (2,367) | (24,689) |
| Income taxes paid | (21,778) | (18,652) | (183,009) |
| **Net cash provided by operating activities** | 23,872 | 38,984 | 200,605 |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | (48,323) | (42,951) | (406,076) |
| Proceeds from sales of property, plant and equipment, net of related outstanding receivables | 1,692 | 1,963 | 14,218 |
| Acquisition of investments in securities | (529) | (662) | (4,445) |
| Proceeds from sales of investments in securities | — | 37 | — |
| Additional acquisition of shares in unconsolidated subsidiaries and affiliates | (39) | (1,152) | (328) |
| Proceeds from sales of investment in consolidated subsidiary | 15,251 | — | 128,160 |
| Net increase in short-term loans receivable | (2,018) | (694) | (16,958) |
| Increase in long-term loans receivable | (94) | (113) | (790) |
| Decrease in long-term loans receivable | 294 | 465 | 2,471 |
| Other | (157) | 229 | (1,319) |
| **Net cash used in investing activities** | (33,923) | (42,878) | (285,067) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term borrowings | 2,712 | (6,208) | 22,790 |
| Proceeds from long-term debt and newly issued bonds | 31,503 | 33,714 | 264,731 |
| Repayments of long-term debt and redemption of bonds | (18,445) | (25,810) | (155,000) |
| Dividends paid | (6,035) | (4,201) | (50,714) |
| Dividends paid to minority shareholders | (697) | (675) | (5,857) |
| Proceeds from public offering by consolidated subsidiary | 5,415 | — | 45,504 |
| Payments for purchases of treasury stock, net | (36) | (199) | (303) |
| Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries | 272 | 6 | 2,286 |
| Other | (2) | (3) | (17) |
| **Net cash provided by (used in) financing activities** | 14,687 | (3,376) | 123,420 |
| **Effect of exchange rate changes on cash and cash equivalents** | 435 | 637 | 3,655 |
| **Net increase (decrease) in cash and cash equivalents** | 5,071 | (6,633) | 42,613 |
| **Cash and cash equivalents at beginning of year** | 12,829 | 19,246 | 107,807 |
| **Increase in cash and cash equivalents due to change in reporting entities** | 252 | 216 | 2,118 |
| **Cash and cash equivalents at end of year** (Note 3) | ¥ 18,152 | ¥ 12,829 | $ 152,538 |

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 appearing in the consolidated financial statements are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent U.S. dollars or have been or could be converted into U.S. dollars. The rate of ¥119=U.S.$1.00, the approximate rate prevailing at December 31, 2006, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (1) Consolidation and accounting for investments in affiliates

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

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 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.

Due to a change in the board members of Dunlop Sports Hokkaido Co., Ltd., the Company and a subsidiary gained effective control of that company in 2006, and it is included in consolidation in 2006. Dunlop Tire (Thailand) Co., Ltd. and Sumirubber Vietnam, Ltd., which were established during fiscal 2006, are also included in consolidation.

Changshu SRI Tech, Ltd. and Sumirubber Industries (Malaysia) Sdn.Bhd. were liquidated in 2006. Dunlop Sports Chugoku Co., Ltd. and Dunlop Sports Shikoku Co., Ltd. were merged with Dunlop Sports Co., Ltd. The Oniris S.A.S. Group was divested.

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

The differences between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis are recognized when those companies are initially included in consolidation or accounted for 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 from fiscal 2003 is no longer amortized 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 the 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 currencies are translated into Japanese yen at current rates at the balance sheet date, and the resulting translation gains or losses are charged to income to the extent that they are not hedged by forward exchange contracts.

In preparing the accompanying consolidated financial statements, the asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates, and shareholders' equity is translated at historical exchange rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at the average rates of exchange prevailing during the year. The resulting translation adjustments are shown as a component of net assets in 2006, and shareholders' equity in 2005.

### (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, recorded as a component of net assets in 2006 and shareholders' equity in 2005, respectively. Securities with no fair market value are stated at cost. Losses on significant declines in the fair value of securities that are not temporary are 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 associated with fluctuations in currency exchange rates and interest rates with respect to financial assets and liabilities in accordance with internal policies and procedures.

a. Derivatives

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

b. Hedge accounting

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

However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated 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 item.

Hedging instruments and hedged items are summarized as follows:

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

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 with those of the related hedged items from the commencement of the hedges.

### (6) Inventories

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

### (7) Allowance for doubtful accounts

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

### (8) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method, except for assets held at the Company's head office and Nagoya factory and at some domestic consolidated companies. These latter assets are depreciated using the declining-balance method based on the estimated useful life of the asset.

The estimated useful lives of the major classes of depreciable assets range from 2 years to 60 years for buildings and structures and from 2 years to 20 years for machinery and equipment, respectively.

### (9) Accounting for leases

Finance leases which do not transfer ownership of the leased property to the lessee 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 life of the asset.

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. The 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 the improvement of existing products and the 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 the return of snow tires purchased during the fiscal year but returned subsequent to the balance sheet date, the estimation of which is based on the average rate of such returns in prior years.

**(13) Bonus to directors**

The Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, November 29, 2005), effective from May 1, 2006. As a result of this change, "Operating income" and "Income before income taxes and minority interests in consolidated subsidiaries" were ¥137 million ($1,151 thousand) less than the corresponding amounts would have been if the previous standard had been applied.

**(14) Impairment of fixed assets**

The Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (ASBJ, August 9, 2002)) and the "Accounting Standard for Impairment of Fixed Assets and its Implementation Guidance" (ASBJ Guidance No. 6, October 31, 2003), effective from January 1, 2006. As a result, "Income before income taxes and minority interest in consolidated subsidiaries" decreased by ¥3,557 million ($29,891 thousand).

**(15) Presentation of net assets in balance sheet**

The Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, December 9, 2005) and the "Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" (ASBJ Guidance No. 8, December 9, 2005), effective from May 1, 2006. The amount that corresponds to total shareholders' equity as calculated using the previous standard is ¥202,066 million ($1,698,034 thousand).

**(16) Accrued retirement benefits**

Liabilities and expenses for retirement and severance benefits are accounted for based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. Accrued retirement benefits for directors and statutory auditors of certain consolidated subsidiaries are recorded at an amount equivalent to 100% of such benefits that the subsidiaries would be required to pay at the balance sheet date based on their internal rules. Payments of benefits are subject to resolution at the shareholders' meeting. Before March 2005, the Company and certain consolidated subsidiaries provided for accrued retirement benefits for directors and statutory auditors based on their internal retirement benefit plans. In March 2005, however, the Company and those subsidiaries abolished the retirement benefit plans and decided to pay to the directors and statutory auditors upon their retirement, the amount which was payable when the plans were abolished.

**(17) 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 have adopted interperiod income tax allocation using the asset and liability method of accounting with respect to all such temporary differences, including tax loss carryforwards.

**(18) 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, 2006 or December 31, 2005.

**(19) Use of estimates**

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

**(20) 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 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Cash and time deposits | **¥18,172** | ¥13,119 | **$152,706** |
| Time deposits with a maturity of over three months | **(20)** | (39) | **(168)** |
| Bank overdraft | **—** | (251) | **—** |
| Cash and cash equivalents | **¥18,152** | ¥12,829 | **$152,538** |

## 4. INVENTORIES

Inventories as of December 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Finished goods | ¥44,354 | ¥38,167 | $372,723 |
| Work in process | 14,114 | 3,818 | 118,605 |
| Raw materials | 4,349 | 10,668 | 36,546 |
| Supplies | 5,223 | 4,552 | 43,891 |
| | ¥68,040 | ¥57,205 | $571,765 |

## 5. INVESTMENTS IN SECURITIES

As of December 31, 2006 and 2005, the cost, book value and 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 |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Available-for-sale securities: | | | |
| Cost | ¥ 8,487 | ¥ 7,886 | $ 71,319 |
| Book value | 24,724 | 22,203 | 207,765 |
| Unrealized gains | 16,261 | 14,332 | 136,648 |
| Unrealized losses | (24) | (15) | (202) |

Available-for-sale securities sold during the years ended December 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Proceeds | ¥— | ¥37 | $— |
| Realized gains | — | 20 | — |
| Realized losses | — | — | — |

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value information regarding derivative financial instruments as of December 31, 2006 and 2005 was as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | | 2006 | | |
| | 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 | ¥500 | ¥494 | ¥(6) | ¥384 | ¥381 | ¥(3) | $4,202 | $4,151 | $(51) |

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | | 2006 | | |
| | 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 | ¥40,000 | ¥(13) | ¥(13) | ¥1,000 | ¥(16) | ¥(16) | $336,134 | $(109) | $(109) |

## 7. PROPERTY, PLANT AND EQUIPMENT

Depreciation charges for the years ended December 31, 2006 and 2005 were ¥23,224 million ($195,160 thousand) and ¥21,651 million, respectively.

## 8. TRADEMARKS

For the years ended December 31, 2006 and 2005, amortization charges for capitalized trademarks were ¥386 million ($3,244 thousand) and ¥975 million, respectively.

A write-down of trademarks in the amount of ¥1,659 million 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 change for amortization.

## 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings, other than commercial paper, of ¥27,910 million ($234,538 thousand) and ¥36,402 million as of December 31, 2006 and 2005 bore interest ranging from 0.040% to 6.730% and from 0.029% to 6.050% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥24,000 million ($201,681 thousand) as of December 31, 2006 and ¥15,000 million as of December 31, 2005 bore interest ranging from 0.413% to 0.480% and from 0.014% to 0.028% per annum, respectively.

Long-term debt as of December 31, 2006 and 2005 comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| 1.900% unsecured bonds due 2006 payable in Japanese yen | **¥ —** | ¥ 10,000 | **$ —** |
| 0.910% unsecured bonds due 2007 payable in Japanese yen | **10,000** | 10,000 | **84,034** |
| 0.840% unsecured bonds due 2008 payable in Japanese yen | **10,000** | 10,000 | **84,034** |
| 1.150% unsecured bonds due 2009 payable in Japanese yen | **20,000** | 20,000 | **168,067** |
| 0.670% unsecured bonds due 2008 payable in Japanese yen | **5,000** | 5,000 | **42,017** |
| 1.080% unsecured bonds due 2010 payable in Japanese yen | **10,000** | 10,000 | **84,034** |
| 0.740% unsecured bonds due 2011 payable in Japanese yen | **20,000** | 20,000 | **168,067** |
| Loans payable to banks and other financial institutions due from 2007 to 2019, with interest of 0.057% to 4.950% for 2006 and 2005: | | | |
| Secured | **21,512** | 22,754 | **180,773** |
| Unsecured | **70,950** | 46,595 | **596,217** |
| | **167,462** | 154,349 | **1,407,243** |
| Less portion due within one year | **16,797** | 18,375 | **141,151** |
| | **¥150,665** | ¥135,974 | **$1,266,092** |

The aggregate annual maturities of long-term debt as of December 31, 2006 were as follows:

| Years ending December 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2007 | ¥ 16,797 | $ 141,151 |
| 2008 | 25,614 | 215,244 |
| 2009 | 41,932 | 352,370 |
| 2010 | 21,828 | 183,429 |
| 2011 | 32,113 | 269,857 |
| 2012 and thereafter | 29,178 | 245,192 |
| | ¥167,462 | $1,407,243 |

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

As of December 31, 2006, property, plant and equipment amounting to ¥29,109 million ($244,613 thousand), net of accumulated depreciation, was pledged as collateral for long-term debt and short-term borrowings amounting to ¥21,632 million ($181,782 thousand).

## 10. INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of different income taxes in Japan which, in the aggregate, indicate a normal cumulative statutory tax rate of approximately 40.4% for the years ended December 31, 2006 and 2005.

Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statements of income for the year ended December 31, 2006 are set forth below. Information for 2005 was omitted because the difference between the normal cumulative statutory tax rate and effective tax rate was immaterial.

| | 2006 |
|---|---|
| Normal cumulative statutory tax rate | 40.4% |
| Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates | 6.4 |
| Adjustment of book value of investments on sales of consolidated subsidiaries | 4.8 |
| Valuation allowance | 5.5 |
| Loss on impairment of investments in subsidiaries | (14.3) |
| Equity in (earnings) losses of unconsolidated subsidiaries and affiliates | (6.9) |
| Proceeds from initial public offering of SRI Sports Limited | (2.0) |
| Other | (1.6) |
| Effective tax rate per consolidated statements of income | 32.3% |

Significant components of the deferred tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Deferred tax assets: | | | |
| Provision for doubtful accounts | ¥ 180 | ¥ 676 | $ 1,513 |
| Tax loss carryforwards | 3,196 | — | 26,857 |
| Loss on impairment of investments in subsidiaries | 1,191 | — | 10,008 |
| Loss on impairment of fixed assets | 1,070 | — | 8,992 |
| Accrued bonuses | 854 | — | 7,176 |
| Depreciation | 730 | — | 6,134 |
| Deductible from foreign income taxes | 602 | — | 5,059 |
| Allowance for sales returns | 402 | 899 | 3,378 |
| Provision for accrued retirement benefits | 1,748 | 1,376 | 14,689 |
| Directors' accrued retirement benefits | 241 | — | 2,025 |
| Unrealized profits | 6,849 | — | 57,555 |
| Unrealized intercompany profits on inventories | 310 | 2,915 | 2,605 |
| Unrealized intercompany profits on fixed assets | — | 714 | — |
| Accrued business enterprise tax | — | 1,270 | — |
| Other | 4,384 | 3,705 | 36,841 |
| Total | ¥ 21,757 | ¥11,555 | $ 182,832 |
| Less valuation allowance | (4,116) | — | (34,588) |
| Total | ¥ 17,641 | ¥ — | $ 148,244 |
| Deferred tax liabilities: | | | |
| Deferred gain on sales of property, plant and equipment | ¥ (3,397) | ¥ (2,338) | $ (28,546) |
| Unrealized gain on land of a consolidated subsidiary | (1,586) | (1,586) | (13,328) |
| Provision for accrued retirement benefits | (4,826) | (2,032) | (40,555) |
| Unrealized gains on available-for-sale securities | (6,560) | (5,576) | (55,126) |
| Other | (1,117) | 2,765 | (9,386) |
| Total | ¥(17,486) | ¥ (8,767) | $(146,941) |

Deferred income taxes, net, as of December 31, 2006 are included in the following accounts:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2006 | 2006 |
| Current assets—deferred tax assets | ¥ 9,114 | $ 76,588 |
| Investments and other assets—deferred tax assets | 2,524 | 21,210 |
| Current liabilities—deferred tax liabilities | (0) | (0) |
| (Current liabilities—other) | | |
| Long-term liabilities—deferred tax liabilities | (11,483) | (96,496) |

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

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

On July 1, 2006, some of its domestic consolidated subsidiaries transferred a portion of their lump-sum benefit plans to defined contribution pension plans.

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans that substantially cover all of their employees and under which the cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on current rates 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, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Benefit obligation | ¥(49,582) | ¥(51,045) | $(416,657) |
| Fair value of plan assets | 75,938 | 65,521 | 638,135 |
| Funded status: | | | |
| Benefit obligation in excess of plan assets | 26,356 | 14,476 | 221,478 |
| Unrecognized actuarial losses | (10,287) | (3,921) | (86,446) |
| Unrecognized prior service cost | (3,353) | (3,645) | (28,175) |
| Subtotal | 12,716 | 6,910 | 106,857 |
| Prepaid pension cost | 23,377 | 18,633 | 196,445 |
| Accrued retirement benefits | ¥(10,661) | ¥(11,723) | $ (89,588) |

As discussed in Note 2(16), the Company and certain consolidated subsidiaries abolished retirement benefit plans for directors and statutory auditors in 2005 and provided a reserve at ¥454 million ($3,815 thousand) and ¥580 million as of December 31, 2006 and 2005, respectively, which were included in long-term liabilities—other. Certain consolidated subsidiaries still keep their own retirement benefits plans for directors and statutory auditors, and the accrued retirement benefits for directors and statutory auditors as of December 31, 2006 and 2005, amounting to ¥203 million ($1,706 thousand) and ¥200 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, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Service cost | ¥ 1,382 | ¥ 2,459 | $ 11,613 |
| Interest cost | 856 | 978 | 7,193 |
| Expected return on plan assets | (1,321) | (1,394) | (11,101) |
| Amortization of transition obligation at date of adoption | — | 466 | — |
| Amortization of actuarial loss | (73) | 478 | (613) |
| Amortization of prior service cost | (289) | (292) | (2,428) |
| Severance and retirement benefit expenses | ¥ 555 | ¥ 2,695 | $ 4,664 |
| Transition loss into the defined contribution pension plan | 445 | — | 3,740 |
| Contributions to the defined contribution pension plan | 541 | 472 | 4,546 |
| Net periodic benefit costs | ¥ 1,541 | ¥ 3,167 | $ 12,950 |

The discount rates used by the Company and the domestic consolidated subsidiaries were mainly 2.0% in 2006 and 2005, and the expected return on plan assets was mainly 2.5% in 2006 and ranged from 0.84% to 2.5% in 2005. 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, 2006 and 2005 were ¥17,291 million ($145,303 thousand) and ¥16,259 million, respectively.

## 13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate principally in three industries: Tires, Sports and Industrial and Other Products.

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

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

SRI Sports Ltd., which controls the Sumitomo Rubber Group's sports business, went public on October 13, 2006, listing on the First Section of the Tokyo Stock Exchange.

(1) Information by industry segment

| Years ended December 31 | 2006 (Millions of yen) | 2005 (Millions of yen) | 2006 (Thousands of U.S. dollars) |
|---|---|---|---|
| **Net sales:** | | | |
| Tires— | | | |
| Sales to unaffiliated customers | ¥430,620 | ¥398,170 | $3,618,655 |
| Intersegment sales and transfers | 267 | 196 | 2,244 |
| | 430,887 | 398,366 | 3,620,899 |
| Sports— | | | |
| Sales to unaffiliated customers | 57,649 | 54,748 | 484,446 |
| Intersegment sales and transfers | 395 | 320 | 3,319 |
| | 58,044 | 55,068 | 487,765 |
| Industrial and Other Products— | | | |
| Sales to unaffiliated customers | 45,817 | 59,920 | 385,017 |
| Intersegment sales and transfers | 2,858 | 2,819 | 24,017 |
| | 48,675 | 62,739 | 409,034 |
| Adjustments and eliminations | (3,520) | (3,335) | (29,580) |
| | ¥534,086 | ¥512,838 | $4,488,118 |
| **Operating income:** | | | |
| Tires | ¥ 26,381 | ¥ 39,723 | $ 221,689 |
| Sports | 7,469 | 8,305 | 62,765 |
| Industrial and Other Products | 2,907 | 1,667 | 24,429 |
| | 36,757 | 49,695 | 308,883 |
| Adjustments and eliminations | 33 | 231 | 277 |
| | ¥ 36,790 | ¥ 49,926 | $ 309,160 |
| **Identifiable assets:** | | | |
| Tires | ¥519,091 | ¥473,507 | $4,362,109 |
| Sports | 40,663 | 37,871 | 341,706 |
| Industrial and Other Products | 28,272 | 37,524 | 237,580 |
| | 588,026 | 548,902 | 4,941,395 |
| Corporate assets and eliminations | 18,912 | 14,540 | 158,924 |
| | ¥606,938 | ¥563,442 | $5,100,319 |
| **Capital expenditures:** | | | |
| Tires | ¥ 44,938 | ¥ 39,158 | $ 377,631 |
| Sports | 1,203 | 1,529 | 10,109 |
| Industrial and Other Products | 1,944 | 2,399 | 16,336 |
| | 48,085 | 43,086 | 404,076 |
| Corporate assets and eliminations | 10 | 17 | 84 |
| | ¥ 48,095 | ¥ 43,103 | $ 404,160 |
| **Depreciation and amortization:** | | | |
| Tires | ¥ 24,007 | ¥ 21,780 | $ 201,740 |
| Sports | 1,486 | 1,533 | 12,487 |
| Industrial and Other Products | 1,545 | 2,430 | 12,983 |
| | 27,038 | 25,743 | 227,210 |
| Corporate assets and eliminations | 14 | 12 | 118 |
| | ¥ 27,052 | ¥ 25,755 | $ 227,328 |
| **Loss on asset impairment:** | | | |
| Tires | ¥ 2,932 | ¥ — | $ 24,639 |
| Sports | 476 | — | 4,000 |
| Industrial and Other Products | 149 | — | 1,252 |
| | 3,557 | — | 29,891 |
| Corporate assets and eliminations | — | — | — |
| | ¥ 3,557 | ¥ — | $ 29,891 |

(2) Information by geographic area

| Years ended December 31 | Millions of yen 2006 | Millions of yen 2005 | Thousands of U.S. dollars 2006 |
|---|---|---|---|
| **Net sales:** | | | |
| Japan— | | | |
| Sales to unaffiliated customers | ¥466,794 | ¥440,362 | $3,922,638 |
| Sales between geographic areas | 26,933 | 19,759 | 226,328 |
| | 493,727 | 460,121 | 4,148,966 |
| Asia— | | | |
| Sales to unaffiliated customers | 25,750 | — | 216,387 |
| Sales between geographic areas | 29,941 | — | 251,605 |
| | 55,691 | — | 467,992 |
| Other— | | | |
| Sales to unaffiliated customers | 41,542 | 72,476 | 349,093 |
| Sales between geographic areas | 125 | 15,562 | 1,050 |
| | 41,667 | 88,038 | 350,143 |
| | 591,085 | 548,159 | 4,967,101 |
| Adjustments and eliminations | (56,999) | (35,321) | (478,983) |
| | ¥534,086 | ¥512,838 | $4,488,118 |
| **Operating income:** | | | |
| Japan | ¥ 32,768 | ¥ 48,011 | $ 275,361 |
| Asia | 2,762 | — | 23,210 |
| Other | 1,323 | 2,021 | 11,118 |
| | 36,853 | 50,032 | 309,689 |
| Adjustments and eliminations | (63) | (106) | (529) |
| | ¥ 36,790 | ¥ 49,926 | $ 309,160 |
| **Identifiable assets:** | | | |
| Japan | ¥587,749 | ¥464,234 | $4,939,067 |
| Asia | 80,906 | — | 679,882 |
| Other | 35,964 | 92,804 | 302,219 |
| | 704,619 | 557,038 | 5,921,168 |
| Corporate assets and eliminations | (97,681) | 6,404 | (820,849) |
| | ¥606,938 | ¥563,442 | $5,100,319 |

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

| Years ended December 31 | Millions of yen 2006 | Millions of yen 2005 | Thousands of U.S. dollars 2006 |
|---|---|---|---|
| **Net sales:** | | | |
| North America | ¥ 64,430 | ¥ 57,928 | $ 541,429 |
| Europe | 31,494 | 43,296 | 264,655 |
| Asia | 36,265 | 28,994 | 304,748 |
| Other areas | 66,433 | 47,552 | 558,260 |
| Total | ¥198,622 | ¥177,770 | $1,669,092 |

| | Percentage 2006 | Percentage 2005 |
|---|---|---|
| Percentage of such sales in consolidated net sales | 37.2% | 34.7% |

## 14. RELATED PARTY TRANSACTIONS

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2006 and 2005 and for the years then ended were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Notes and accounts receivable: | | | |
| Trade | ¥ 5,075 | ¥ 4,364 | $ 42,647 |
| Other | 313 | 344 | 2,630 |
| | 5,388 | 4,708 | 45,277 |
| Short-term loans | 4,328 | 3,247 | 36,370 |
| Long-term loans (including investments in and advances to unconsolidated subsidiaries and affiliates) | 2,903 | 2,967 | 24,395 |
| Notes and accounts payable, trade | 6,289 | 5,617 | 52,849 |
| Sales | 15,079 | 14,588 | 126,714 |
| Purchases | ¥15,446 | ¥14,632 | $129,798 |

## 15. CONTINGENT LIABILITIES

As of December 31, 2006, the Company and its consolidated subsidiaries were contingently liable for the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Trade notes discounted | ¥2,316 | ¥3,694 | $19,462 |
| Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates | 6 | 61 | 50 |

## 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, 2006 and 2005 were as follows:

As of December 31, 2006

| | 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 | ¥7,337 | ¥2,877 | ¥4,460 | $61,655 | $24,176 | $37,479 |
| Other | 358 | 152 | 206 | 3,008 | 1,277 | 1,731 |
| Total | ¥7,695 | ¥3,029 | ¥4,666 | $64,663 | $25,453 | $39,210 |

As of December 31, 2005

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net leased property |
| Machinery and equipment | ¥6,319 | ¥2,953 | ¥3,366 |
| Other | 298 | 146 | 152 |
| Total | ¥6,617 | ¥3,099 | ¥3,518 |

Lease payments under non-capitalized finance leases for the years ended December 31, 2006 and 2005 amounted to ¥1,397 million ($11,739 thousand) and ¥1,281 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2006 and 2005, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Due within one year | ¥1,273 | ¥1,160 | $10,697 |
| Due later | 3,393 | 2,358 | 28,513 |
| | ¥4,666 | ¥3,518 | $39,210 |

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Due within one year | ¥ 424 | ¥ 273 | $ 3,563 |
| Due later | 2,864 | 1,529 | 24,067 |
| | ¥3,288 | ¥1,802 | $27,630 |

## 17. IMPAIRMENT LOSSES

The Company and its domestic subsidiaries recognized impairment loss for the following property groups for the year ended in 2006.

| | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Group | Location | Assets | Impairment loss | |
| Backlight business | Izumiohtsu, Osaka and other | Buildings, machinery and other | ¥ 149 | $ 1,252 |
| Golf course | Ako County, Hyogo | Buildings, machinery and other | 311 | 2,613 |
| Rental property | Nishi-ku, Hiroshima and other | Buildings, machinery and other | 2,680 | 22,521 |
| Idle assets | Tamba, Hyogo, and other | Buildings, machinery and other | 417 | 3,504 |

The Company and the consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties and unused assets are tested for recoverability by an individual asset. The Company recognized impairment losses in the aggregate of ¥3,557 million ($29,891 thousand) of buildings and machinery and other in 2006, described above. Impairment losses are recognized related to the business, which the Company decided to discontinue, or which continuous deficits had been recognized, and the Company estimated the carrying amounts would not be recovered by the future cash flows. The recoverable amounts for these assets were determined based on the discounted estimated future cash flows expected to result from the use of the assets and their eventual disposition, using the discount rate of 5.2%.

Impairment losses were also recognized for the assets group, of which market price were significantly decreased. The recoverable amounts for these assets were determined by specific appraisal, if they were significant, and by estimating the market value.

## 18. 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 29, 2007:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Balance at December 31, 2006 | ¥72,868 | $612,336 |
| Appropriations— | | |
| Cash dividends (¥10 per share outstanding at December 31, 2006) | (2,624) | (22,050) |
| Balance after appropriations | ¥70,244 | $590,286 |

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the year 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 audit. The accompanying consolidated financial statements of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2005 and for the year then ended, were audited by other auditors whose report dated March 30, 2006 expressed an unqualified opinion on those statements, before the reclassifications described in Note 2(20) to the consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(14) to the consolidated financial statements, the Company adopted the "Accounting Standard for Impairment of Fixed Assets" and the "Accounting Standard for Impairment of Fixed Assets and its Implementation Guidance", effective from January 1, 2006.

As discussed in Note 2(15) to the consolidated financial statements, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and the "Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance", effective from May 1, 2006.

We also audited the reclassifications described in Note 2(20) to the consolidated financial statements that were applied to reclassify the 2005 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied.

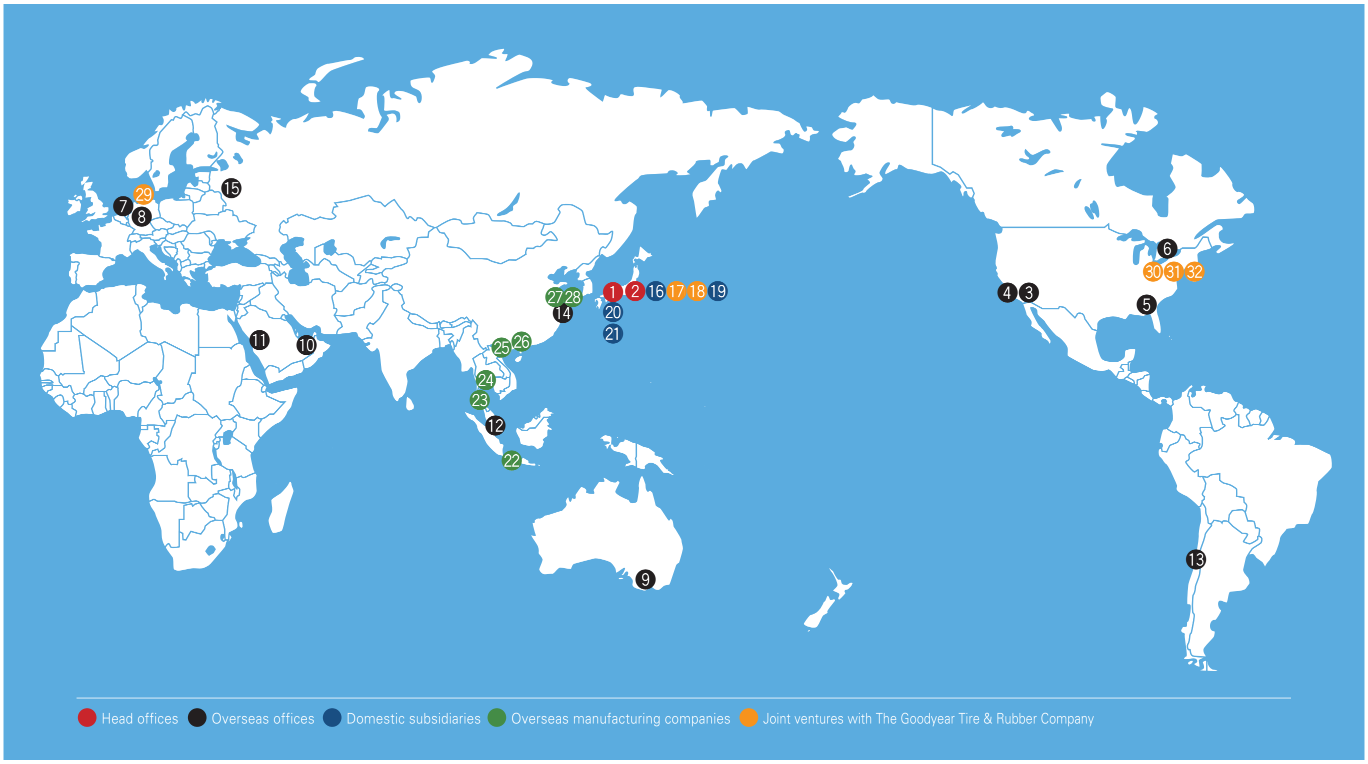
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 is presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
March 29, 2007

# GLOBAL NETWORK

(As of March 29, 2007)

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**2 Tokyo Head Office**
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Tokyo 135-6005, Japan
Tel: (03) 5546-0111
Fax: (03) 5546-0140

**Facilities**
Nagoya Factory
Shirakawa Factory
Izumiohtsu Factory
Miyazaki Factory
Ichijima Factory
Kakogawa Factory
Okayama Tire Proving Ground
Nayoro Tire Proving Ground
Asahikawa Tire Proving Ground
Golf Science Center

## OVERSEAS OFFICES

**3 Los Angeles Office**
California, U.S.A.

**4 Rancho Office**
California, U.S.A.

**5 Atlanta Office**
Georgia, U.S.A.

**6 Toronto Office**
Toronto, Ontario, Canada

**7 Brussels Office**
Diegem, Belgium

**8 Offenbach Office**
Offenbach, Germany

**9 Melbourne Office**
Somerton, Victoria, Australia

**10 Dubai Office**
Dubai, UAE

**11 Jeddah Office**
Jeddah, Saudi Arabia

**12 Singapore Office**
Singapore, Singapore

**13 Santiago Office**
Santiago, Chile

**14 Shanghai Office**
Shanghai, China

**15 Moscow Office**
Moscow, Russia

## MAJOR SUBSIDIARIES

**16 Dunlop Falken Tyres Ltd.**
Koto-ku, Tokyo, Japan

**17 Goodyear Japan Ltd.**
Minato-ku, Tokyo, Japan

**18 Dunlop Goodyear Tires Ltd.**
Koto-ku, Tokyo, Japan

**19 SRI Tire Trading Ltd.**
Koto-ku, Tokyo, Japan

**20 SRI Sports Ltd.**
Chuo-ku, Kobe, Japan

**21 SRI Hybrid Ltd.**
Chuo-ku, Kobe, Japan

**22 P.T. Sumi Rubber Indonesia**
Jakarta, Indonesia

**23 Sumirubber Malaysia Sdn. Bhd.**
Sungai Petani, Kedah, Malaysia

**24 Sumitomo Rubber (Thailand) Co., Ltd.**
Rayong, Thailand

**25 Sumirubber Vietnam, Ltd.**
Haiphong, Vietnam

**26 Zhongshan Sumirubber Precision Rubber Ltd.**
Guangdong Province, China

**27 Sumitomo Rubber (Changshu) Co., Ltd.**
Jiangsu Province, China

**28 Sumitomo Rubber (Suzhou) Co., Ltd.**
Jiangsu Province, China

## MAJOR AFFILIATES

**29 Goodyear Dunlop Tires Europe B.V.**
Amsterdam, Netherlands

**30 Goodyear Dunlop Tires North America, Ltd.**
Ohio, U.S.A.

**31 Goodyear-SRI Global Technology LLC**
Ohio, U.S.A.

**32 Goodyear-SRI Global Purchasing Company**
Ohio, U.S.A.

# INVESTOR INFORMATION
(As of December 31, 2006)

**Paid-in Capital**
¥42,658,014 thousand

**Number of Shares of Common Stock**
Authorized: 800,000,000
Issued: 263,043,057

**Number of Shareholders**
14,923

**Major Shareholders**

| | |
|---|---|
| Sumitomo Electric Industries, Ltd. | 26.74% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 8.95% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 5.66% |
| Sumitomo Corporation | 3.65% |
| Citigroup Global Markets Inc. | 2.04% |
| Mitsui Sumitomo Banking Corporation | 1.98% |
| Nomura Securities Co., Ltd. | 1.86% |
| The Goodyear Tire & Rubber Company | 1.30% |
| Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) | 1.29% |
| HSBC Fund Services SPARX Asset Management Co., Ltd. | 1.28% |

**Stock Exchange Listings**
Tokyo, Osaka

**Ticker Symbol**
5110

**Transfer Agent**
The Sumitomo Trust & Banking Co., Ltd.
5-33, 4-chome, Kitahama, Chuo-ku, Osaka 541-0041, Japan

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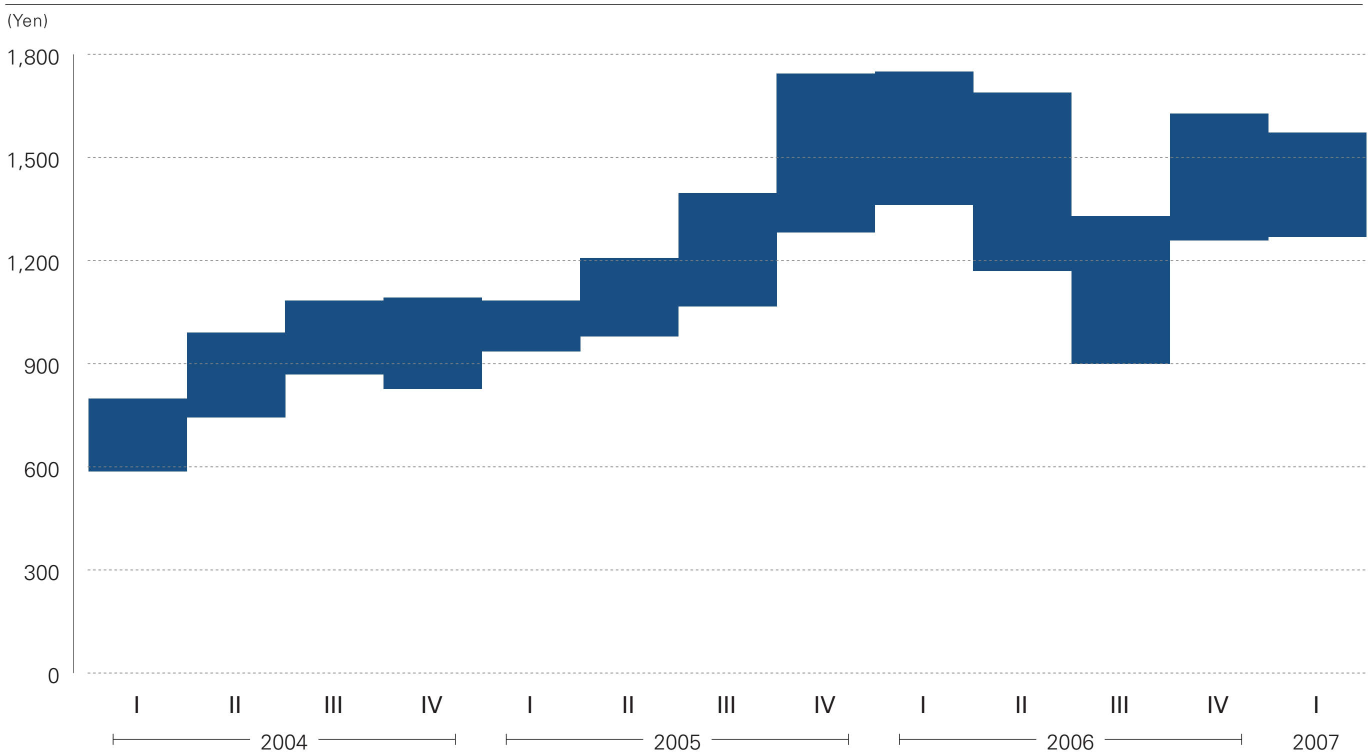
e-mail: sri-sports.ir@sri-sports.co.jp
http://www.sri-sports.co.jp/

## STOCK PRICE



**SUMITOMO RUBBER INDUSTRIES, LTD.**

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**SUMITOMO RUBBER GROUP**

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