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)
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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2006	2005	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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2006	2005	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	
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.

Group	Location	Assets	Millions of yen Impairment loss	Thousands of U.S. dollars 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