SUMITOMO RUBBER INDUSTRIES ANNUAL REPORT 2007

SUMITOMO RUBBER GROUP

Go for Value

ANNUAL REPORT **2007**

SUMITOMO RUBBER INDUSTRIES, LTD.

Contents

CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements made in this annual report with respect to Sumitomo Rubber Industries, Ltd.'s current plans, estimates, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Sumitomo Rubber. These statements are based on the Company's and the Group's assumptions and beliefs in light of the information currently available to them. Sumitomo Rubber cautions that a number of potential risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements and advises readers not to place undue reliance on them.

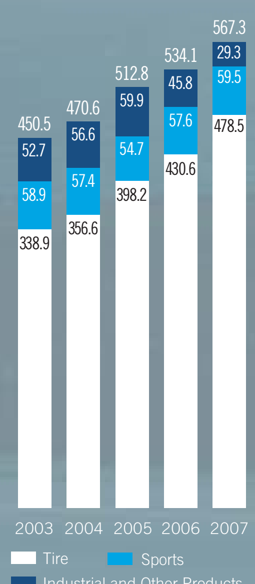
Consolidated Financial Highlights

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

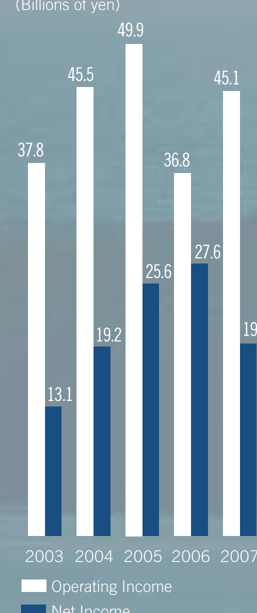
					Millions of yen	Thousands of U.S. dollars (Note 1)
Years ended December 31	**2007**	2006	2005	2004	2003	**2007**
For the year:						
Net sales	**¥567,307**	¥534,086	¥512,838	¥470,562	¥450,491	**$4,976,377**
Operating income	**45,126**	36,790	49,926	45,526	37,766	**395,842**
Net income	**19,499**	27,586	25,640	19,169	13,095	**171,044**
Capital expenditures	**53,205**	45,308	40,415	36,881	29,171	**466,711**
At year-end:						
Total assets	**671,117**	606,938	563,442	520,157	481,553	**5,886,991**
Net assets	**250,799**	223,852	—	—	—	**2,199,991**
Shareholders' equity	**—**	—	174,267	145,492	110,395	**—**
					Yen	U.S. dollars (Note 1)
Per share amounts:						
Net income	**¥ 74.31**	¥ 105.13	¥ 97.10	¥ 78.64	¥ 55.07	**$ 0.652**
Cash dividends paid	**20.00**	20.00	20.00	14.00	12.00	**0.175**
					Percent	
Key ratios:						
Operating income ratio	**8.0%**	6.9%	9.7%	9.7%	8.4%	
ROE	**9.1**	14.7	16.0	15.0	12.4	
Equity ratio	**33.9**	33.3	30.9	28.0	22.9	

1. U.S. dollar amounts are converted solely for convenience at the rate of ¥114 per US$1, the approximate exchange rate prevailing at December 31, 2007.
2. From 2006, Sumitomo Rubber has applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, December 9, 2005) by the Accounting Standards Board of Japan (ASBJ) and the "Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" (ASBJ Guidance No. 8, December 9, 2005).
3. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

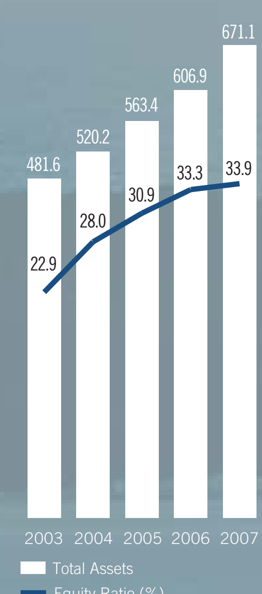
NET SALES
(Billions of yen)



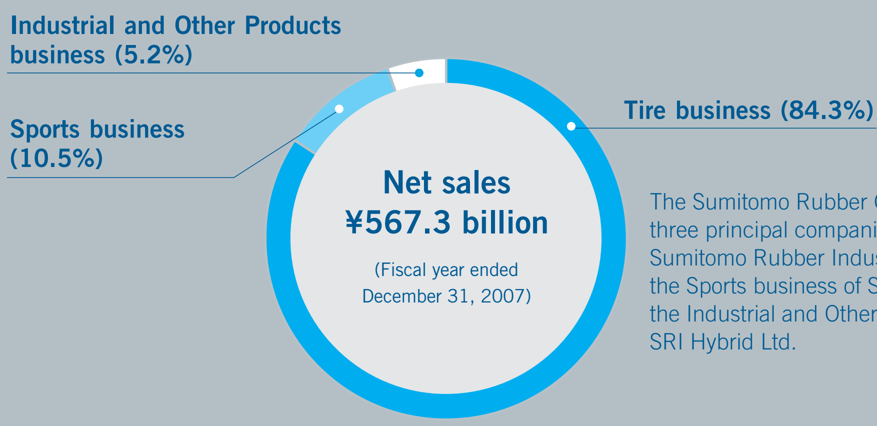
OPERATING INCOME AND NET INCOME
(Billions of yen)



TOTAL ASSETS AND EQUITY RATIO
(Billions of yen)



Sumitomo Rubber Group at a Glance



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 and Other Products business of SRI Hybrid Ltd.

Three Business Domains

Go for

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.

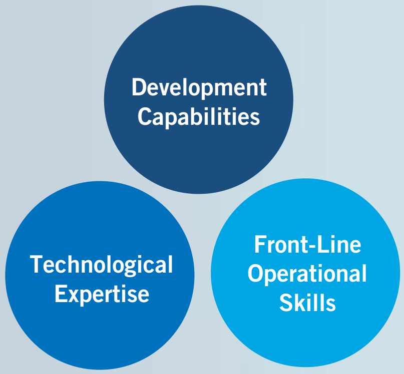
The Free and Vigorous Exchange of Ideas
Free and vigorous discussions play an important role within the Sumitomo Rubber Group. Our corporate culture is also defined by a keen sense of teamwork as we work toward our established goals.

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, the Sumitomo Rubber Group strives to consistently generate superior corporate value for all stakeholders.



Development Capabilities: With its unique capabilities to envisage innovative ideas, the Group develops products and services that meet customer needs.

Technological Expertise: The Group constantly offers high-quality products and services with its sophisticated production technologies.

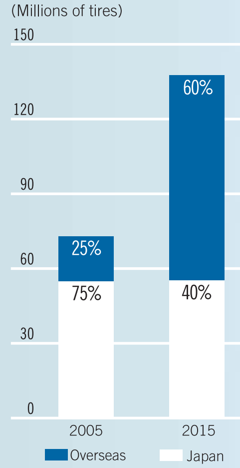
Front-Line Operational Skills: The Group enhances the front-line operational skills of all divisions, from manufacturing and sales to development and administration to address the challenges through teamwork.

Sumitomo Rubber's Driving Force to Create Value

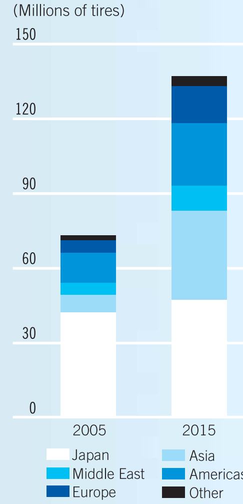
Global Pursuits

In its flagship Tire business, the 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. With the accomplishment of these goals, the Group is confident of securing a position in its own right in the global market.

SUMITOMO RUBBER GROUP'S TIRE PRODUCTION BY REGION
(Millions of tires)



SUMITOMO RUBBER GROUP'S TIRE SALES BY REGION
(Millions of tires)



Against the backdrop of a harsh economic environment with intensified global competition and soaring raw material prices, Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries ("Sumitomo Rubber Group" or "the Group") will make across-the-board efforts to follow a sustainable growth path to realize its long-term vision.

INCREASE IN REVENUE AND EARNINGS

Consolidated net sales for the fiscal year ended December 31, 2007, rose 6.2% year on year to ¥567,307 million mainly due to increased revenue from the overseas tire business. Consolidated operating income increased 22.7% to ¥45,126 million. This was the result of increased tire sales, the Group's tire price revisions and a weaker yen, which offset increased costs due to sharp rises in raw material prices. Consolidated net income, on the other hand, declined 29.3% compared with the previous fiscal year to ¥19,499 million. This was attributable to the absence of gain on sales of investments in subsidiaries relating to the listing of SRI Sports Limited and other special profit recorded in the previous fiscal year.

From a financial standing perspective, the Group's interest-bearing debt at the end of fiscal 2007 amounted to ¥239,573 million, up ¥20,201 million year on year, reflecting the impact of the acquisition of a U.S. golf goods company. However, the debt-to-equity ratio remained unchanged from the previous fiscal year-end at 1.1 times. The ratio of equity to total assets grew 0.6 percentage point to 33.9%, showing a steady increase.

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. Furthermore, with the aim of enhancing the future earnings base, the Company will make effective use of retained earnings for capital investments and R&D activities. Based on this policy, annual cash dividends for the fiscal year under review were set at ¥20 per share, remaining unchanged from the previous fiscal year.

NUMERICAL TARGETS OF LONG-TERM VISION

(Millions of yen)

	2005 Result	2006 Result	2007 Result	2015 Target
Net Sales	¥512,838	¥534,086	¥567,307	¥800,000
Tire Business	¥398,170	¥430,620	¥478,483	¥630,000
Sports Business	¥54,748	¥57,649	¥59,518	¥100,000
Industrial and Other Products Business	¥59,920	¥45,817	¥29,306	¥70,000
Operating Income Ratio	9.7%	6.9%	8.0%	10% or greater
Net Income Ratio	5.0%	5.2%	3.4%	5% or greater
ROA (operating income base)	9.2%	6.3%	7.1%	10% or greater
ROE	16.0%	14.7%	9.1%	15% or greater
Interest-Bearing Debt	¥205,751	¥219,372	¥239,573	¥200,000
Equity Ratio	30.9%	33.3%	33.9%	40.0%
Debt-to-Equity Ratio	1.2 times	1.1 times	1.1 times	0.7 times

EARNINGS IMPROVEMENT EFFORTS

Business enterprises have entered an era in which they must plan their business with a view toward constantly soaring raw material prices. Against this backdrop, the Sumitomo Rubber Group will make comprehensive efforts to improve and reinforce its profit structure in order to increase earnings. These initiatives will be taken due to the impact of historic price hikes in natural rubber, the chief material of tires, and in crude oil.

On the production front, the Group will enhance its cost competitiveness by reviewing optimal production location from the production and marketing perspective and reducing overall costs, including distribution costs and currency exchange. In the development phase, the Group will launch products most appropriate to the diversifying market in order to steadily enhance its earnings capability. In sales, to increase profits, the Group will accurately grasp changes in the market environment and boost its marketing capabilities through efficient and effective sales methods and through pricing strategies that reflect soaring raw material prices.

Having each division play its appropriate role and carry out its responsibilities, the Sumitomo Rubber Group will strengthen its competitiveness in order to succeed in today's severe economic environment.

PROMOTING GROWTH STRATEGIES

Tire Business

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 approximately 3% annually. In order to meet such a robust demand trend, the Sumitomo Rubber Group is carrying out aggressive capital expenditures to increase production, mainly overseas. During the fiscal year under review, a second factory in Thailand commenced operations in November 2007, following the first factory start-up in Thailand that came on stream in November 2006. In addition, the factory in Changshu, China, was expanded. In sales, the Group established a sales company in Russia, where automobile market expansion is anticipated, while implementing proactive sales promotion activities in Asia, North America, Europe and the Middle East.

The Group set targets for the year 2015 of reaching an overseas tire production ratio of 60% and doubling overseas sales in the replacement markets, compared with figures in 2005. The Sumitomo Rubber Group will continue investment activities in a proactive manner to consolidate a unique and firm position in the global tire industry.

Sports Business

Amid sluggish domestic demand, the Group positions the expansion of overseas sales as a key issue in its growth strategy in the Sports business. In December 2007, SRI Sports Limited, which has taken on a major role in the Group's Sports business, acquired the U.S. golf club maker Roger Cleveland Golf Company, Inc. and its five group companies ("Cleveland"). SRI Sports Limited currently enjoys the top share in the Japanese golf club market. The acquisition of Cleveland, which boasts the fifth largest share in the U.S. golf club market, enables SRI Sports

Limited to reinforce and strengthen its business foundation in the United States, the world's largest golf market.

In addition, SRI Sports Limited established a hard tennis ball manufacturing company jointly with Vega Balls Manufacturing Co., Ltd., a sport ball production and sales company in Thailand in August 2007. This was for the purpose of reinforcing its cost competitiveness and production capacity. Listed on the First Section of the Tokyo Stock Exchange in October 2006, SRI Sports Limited has steadily consolidated its business foundation to become a company that can succeed in the global market.

Industrial and Other Products Business

In the Industrial and Other Products business segment, the precision rubber parts business has shown steady growth, having commenced production at and shipments from our factory in Vietnam, launching the GRAST brand (for vibration-control technology that uses high damping rubber) and expanding sales of such devices loaded with high damping rubber in the bridge, housing and building sectors.

ACTIVITY TO ENHANCE SOCIAL VALUE

CSR Fundamental Philosophy

Through activities to invigorate the global environment and society, the Sumitomo Rubber Group aims to become a corporate group that is trusted by society and contributes to the realization of a sustainable society

GENKI

Green	Ecology	Next	Kindness	Integrity
Greening Activities	Reducing Environmental Burden from Business Activities	Development of Next-Generation Technology and Products	Employee-Friendly Measures	Showing Integrity to Stakeholders

The Sumitomo Rubber Group Long-Term Vision, announced in 2006, envisions a corporation that "continuously offers the world's top value in diverse business fields by pursuing value for all stakeholders in light of the Group's long-term sustainable growth." In addition to "economic value," the Long-Term Vision aims to develop businesses of high social value in each field. As a part of activities to realize this vision, the Group established the Sumitomo Rubber Group CSR Activities' Fundamental Philosophy. This was in view of the need to clarify its code of conduct for the Group's overall CSR activities and to further accelerate business operations in pursuit of social value amid growing concerns about CSR.

The Sumitomo Rubber Group CSR Activities' Fundamental Philosophy consists of the "CSR Philosophy" and "CSR Guidelines." The former outlines the Group's enthusiasm to become a corporate group that is relied on and whose operations are appreciated by society through its CSR activities. The latter proposes five behavioral guidelines, starting with the initials "G-E-N-K-I," representing "*GENKI* (vigor)" activities. These in-house activities started as part of a commemoration of the Group's 80th anniversary with themes of "fostering friendliness between employees," "communications with local communities" and "social contribution."

"G" for Green: Greening Activities

With the two themes of "contribution to prevent global warming by nurturing forests" and "communications with local communities through forest nurturing," the Sumitomo Rubber Group carries out proactive greening activities at its business sites across Japan.

"E" for Ecology: Reducing Environmental Burden from Business Activities

To reduce CO_2 emissions, the Group has promoted comprehensive energy conservation activities, including operation of the *Taiyo* production system, a new tire production system that can cut approximately 35% of energy consumption compared with the conventional production method, and the completion of the installation of cogeneration systems at all of the tire factories in Japan. The Group aims to reduce its total CO_2 emissions in 2010 to 80% or below compared with the 1990 level.

For the promotion of global environmental management, the Group achieved complete zero emissions for the second consecutive year at each of its six factories in Japan, while achieving zero emissions at its four overseas factories. Furthermore, the Group plans to complete acquisition of globally integrated ISO 14001 certification, covering 32 business facilities both in Japan and overseas by 2010 based on ISO 14001 certifications that have already been acquired individually for 11 sites, including Group factories and affiliated companies in Japan and overseas.

"N" for Next: Development of Next-Generation Technology and Products

In the development of environmentally friendly products, the Group leverages its unique technological capabilities to aggressively promote projects that make environmental contributions. For example, following on the success of the ENASAVE ES801 eco-tire for passenger cars, which was made from 70% non-petroleum-based materials and released in March 2006, the Group completed the development of the ENASAVE 97 eco-tire that raises the ratio of non-petroleum-based materials to 97%. The new ENASAVE 97 will be commercialized in 2008. Furthermore, the Group engages in the development of tires that halve rolling resistance compared with conventional tires.

In the pursuance of safety, comfort, economic efficiency and quality, the Group also promotes the development of runflat tires as an important technological challenge. Realizing weight and ride comfort almost equivalent to the existing normal tires, the Group's proprietary CTT runflat tires are adopted as tires for original equipment markets.

“K” for Kindness: Employee-Friendly Measures

The Group set up several targets, including “human resource development and increase of job satisfaction,” “development of safe and comfortable workplaces,” and “work-life balance promotion” to let each employee harmonize his or her personal life and work. In meeting these challenges, the Group strives to build a better working environment.

“I” for Integrity: Showing Integrity to Stakeholders

Establishing the objectives of “enhancement of corporate governance,” “ensuring thorough compliance,” “fostering communication with stakeholders” and “promotion of social contribution activities,” the Group will further enhance the soundness and transparency of its business operations. Simultaneously, the Group is proactively implementing social contribution activities through employees’ volunteer activities at local communities in which the Group’s business sites are located.

The Sumitomo Rubber Group will commemorate its 100th anniversary in October 2009. On this occasion, the Group will review its overall CSR activities to make further advancements.

Go for Value: FASTER AND MORE AGGRESSIVELY

In the fiscal year ending December 31, 2008, the Group will make across-the-board efforts to consolidate its footing with the aim of moving onto a path of higher sustained growth to attain the goals outlined in the Long-Term Vision. Amid rapidly changing modern society, the Group will strive to gain opportunities by promptly dealing with such ongoing changes. In this light, the Group will accelerate its business operations by exercising each employee’s skills in aiming for further prosperity for the entire Group in an aggressive manner.

We gratefully ask for your continued support.

April 2008

Tetsuji Mino

Tetsuji Mino
President

TIRE Business

BUSINESS OPERATION COMPANY
Sumitomo Rubber Industries, Ltd.

BUSINESS LINE

- Tires (for passenger cars, construction vehicles, agricultural vehicles, industrial vehicles, race and rally, motorcycles and new transportation systems)
- Aluminum wheels

SPORTS Business

BUSINESS OPERATION COMPANY
SRI Sports Limited

BUSINESS LINE

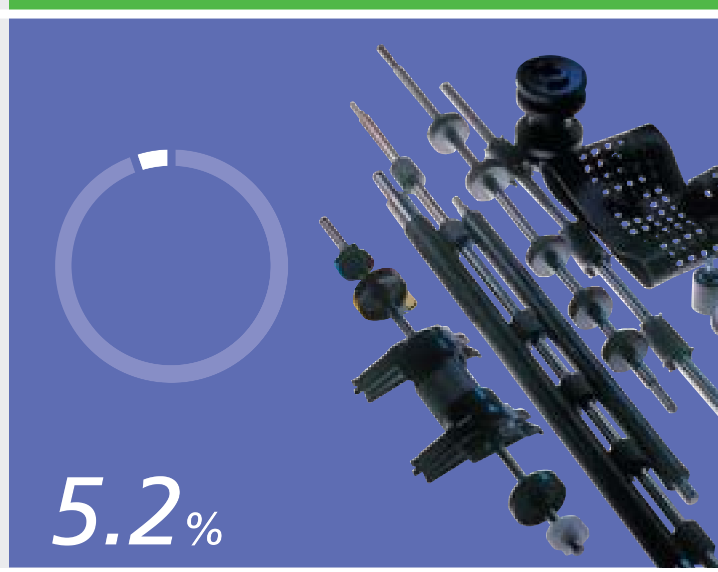
- Golf goods (clubs, balls, bags, shoes and gloves)
- Tennis goods (balls, rackets, clothes and shoes)

INDUSTRIAL and Other Products Business

BUSINESS OPERATION COMPANY
SRI Hybrid Limited

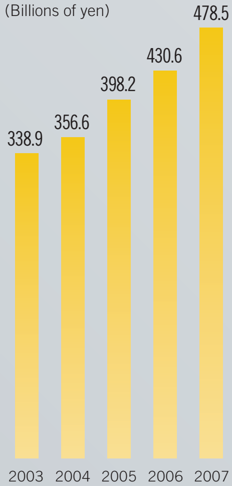
BUSINESS LINE

- Precision rubber products (rubber parts for printers and photocopiers, medical rubber stoppers, blankets for offset printing presses, rubber hoses)
- Construction products (vibration-control rubber dampers for bridge cables, buildings and single-unit housing, marine fenders, waterproof gaskets for immersed tunnels, flexible rubber joints, floating breakwaters, flooring materials for R&D, production and food facilities, long-pile artificial turf for sports and multipurpose uses, sand-filled artificial turf for tennis)
- Household and nursing care products (rubber gloves, nursing care goods)

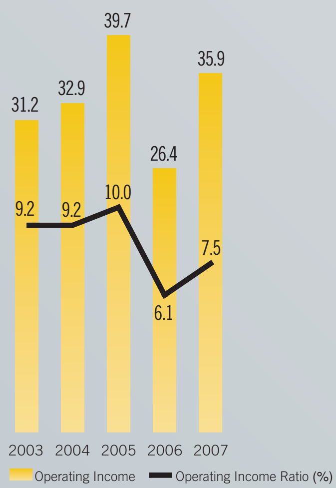


TIRE Business

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



FISCAL 2007 RESULTS

Sales in the Tire business rose 11.1% year on year to ¥478,483 million for the fiscal year under review, while operating income surged 36.1% to ¥35,893 million.

The increase in net sales was attributable to strong performance in overseas markets as well as a weak yen. Despite significant impact from soaring raw material prices, operating income showed growth due to various factors that included a weak yen, a shift to high-value-added products and promotion of cost reductions.

YEAR-ON-YEAR INCREASE/DECREASE IN TIRE SALES VOLUME

	2007
Domestic original equipment	+3%
Overseas original equipment	+46%
Domestic replacement	-5%
Overseas replacement	+17%
Total	+8%

DOMESTIC REPLACEMENT MARKET

In fiscal 2007, the Group released the VEURO VE302 premium comfort tires for passenger cars under the Dunlop brand. This new tire effectively orchestrates the Group's proprietary technologies, including special noise-absorbing sponge, and has received high evaluation in the domestic tire replacement market. In addition, the Group carried out sales promotion, mainly for high-value-added products such as the LE MANS LM703 tire for passenger cars, which realizes quietness and a comfortable ride by mounting special noise-absorbing sponge in a tire for the first time; the ENASAVE ES801 eco-tire for passenger cars, which boasts a ratio of non-petroleum-based materials of 70%; and the ECORUT tire series for trucks and buses, which provides fuel efficiency.

However, demand for tires was sluggish due to the unprecedented price hikes in fuel, and sales in the overall domestic replacement market fell below the previous fiscal year.

EAGLE LS2000 Hybrid II ZIEX ZE912 VEURO VE302

ORIGINAL EQUIPMENT MARKET

During the fiscal year under review, automobile production in Japan was robust due to increased exports. Amid such circumstances, the Group efficiently supplied products under the Dunlop, Falken and Goodyear brands to meet each automaker's needs for performance, cost efficiency and quality by leveraging its advanced development skills, manufacturing techniques and various proprietary technologies. As a result, sales topped the previous fiscal year.

OVERSEAS REPLACEMENT MARKET

On the back of global market expansion, the Group implemented sales promotion activities tailored to individual market characteristics. As a result, significant sales growth was seen, mainly in Asia, including China, and also in North America, Europe, Russia and the Middle East. A weak yen during the fiscal year under review also helped, with sales in the overseas replacement market surpassing the previous fiscal year.

FISCAL 2008 OUTLOOK

In fiscal 2008, 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 that natural rubber and petroleum-related raw material prices will hover at a high level. However, the Group will aim to secure and expand profits by further promoting its overall cost reduction campaign, while reinforcing sales of high-value-added products and adjusting product prices to suit current cost conditions.

SPECIAL NOISE-ABSORBING SPONGE

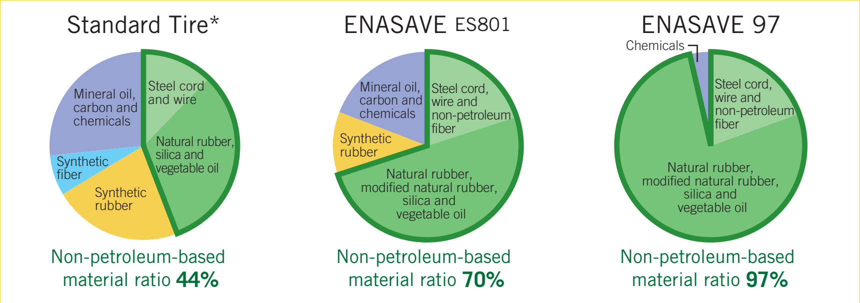
The special noise-absorbing sponge unique to the Dunlop brand can absorb air vibrations inside tires, reducing noise inside the car. With special noise-absorbing sponge mounted in the tire, the VEURO VE302 premium comfort radial tire realizes excellent quietness and a comfortable ride. As a result, the Dunlop VEURO VE302 tire enjoyed high ratings and received several prizes, including the 2007 Good Design Award and the Nikkei Sangyo Shimbun Award of the 2007 Nikkei Superior Products and Services Awards.

ENASAVE 97: Tire Made from 97% Non-Petroleum-Based Materials

The Sumitomo Rubber Group succeeded in the development of the ENASAVE 97 eco-tire, which increases the ratio of non-petroleum-based materials to 97% by minimizing dependency on fossil-fuel resources, including petroleum and coal. The new ENASAVE 97 will be launched in 2008.

The ENASAVE 97 is an upgraded version of the ENASAVE ES801 introduced in 2006 that featured a non-petroleum-based materials ratio of 70% and received high valuations from various sectors. Using an advanced approach, the Group leveraged its proprietary technology to employ natural rubber, even in the sidewalls and inner liners of the tire, in addition to the tread. Owing to these efforts, the Group was able to enhance the ratio of non-petroleum-based materials to 97%. The new ENASAVE 97 also reduces rolling resistance by 35% compared with DIGI-TYRE ECO EC201, contributing to improved fuel efficiency. Furthermore, the enhanced ratio of non-petroleum-based materials realizes a new-generation of eco-tire that can reduce CO_2 emissions at each stage, from production and use to disposal.

AVERAGE MATERIAL WEIGHT COMPOSITION OF PASSENGER CAR TIRES

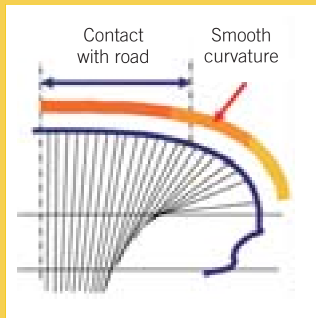


* Composition of the average weight of materials for a passenger car tire manufactured by Sumitomo Rubber Industries [195/65R15 91S]

ENASAVE

SP SPORT 600 DSST CTT RUNFLAT TIRE

The SP SPORT 600 DSST CTT runflat tire enhances ride comfort through Dunlop's unique tire shape while ensuring its runflat performance since it is able to run for some distance even when flat. The NISSAN GT-R multi-performance super car of Nissan Motor Co., Ltd. comes equipped with the SP SPORT 600 DSST CTT runflat tires.



CTT PROFILE

CONSTRUCTION

RUNFLAT *TIRE*

TAIYO

PRODUCTION SYSTEM

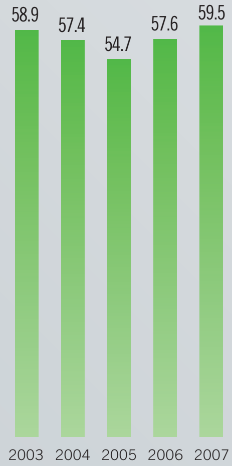
THE NEW *TAIYO* TIRE PRODUCTION SYSTEM

Taiyo is the Sumitomo Rubber Group's proprietary tire production system that compactly integrates the automated processes from component manufacture to final product inspection. This system has enhanced high-speed production uniformity by 50% compared with the conventional method, contributing greatly to improvements in product quality and performance. While using only about 30% of existing production facility space, this system can reduce energy consumption by approximately 35%.

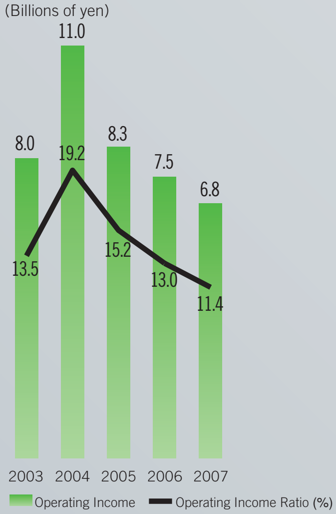
97

SPORTS Business

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



FISCAL 2007 RESULTS

Sales in the Sports business climbed 3.2% year on year to ¥59,518 million, while operating income decreased 9.2% to ¥6,780 million, due to the increase in purchase costs impacted by raw material price hikes and a weak yen during the first half of fiscal 2007.

In the mainstay domestic golf business, sales of golf goods remained on par with the previous fiscal year, though the number of visitors to golf courses edged up year on year.

Under these circumstances, the Group launched the XXIO XD golf balls that realize a straighter trajectory and more dynamic flight for greater distance. For experienced golfers, the Group effected all-out redesign of the SRIXON Z-UR series golf balls by improving their control and flight distance performance, aiming to meet extensive customer needs. For competition-use golf clubs, the Group introduced the SRIXON ZR-700 series with dramatically minimized directional instability, and these clubs are held in high repute. Furthermore, in the XXIO series, which enjoys great popularity from diverse customers, the Group released The XXIO, the fifth-generation golf club in the brand in December 2007, getting off a good start. This product was developed and sales were started in advance against the backdrop of the application of new regulations for high-repulsion golf clubs*.

Overseas, sales of the SRIXON strategic international brand's golf clubs and balls were strong, owing to successful results of contracted professional golfers and aggressive advertising promotion activities.

During fiscal 2007, the Group introduced new tennis rackets under the Dunlop Diacluster and AERO GEL series, while launching new products under the Babolat brand, and enjoyed high valuations for these products. Domestic sales remained strong in tennis balls, a market in which the Group holds a stable and large market share. This was attributable to proactive sales promotion activities, including the release of official tennis balls accredited by the International

THE XXIO
Since the launch of the first-generation XXIO in 2000, XXIO brand golf goods have enjoyed popularity from a great number of golfers in Japan, South Korea and Taiwan.

Tennis Federation (ITF) under the SRIXON brand, which is also well-known for golf products.

FISCAL 2008 OUTLOOK

The Group anticipates increased sales and profit based on the assumption of contributions from the sales activities of Cleveland, which was acquired in December 2007, along with sales expansion of products under the SRIXON and XXIO brands both in Japan and overseas.

* Regulation for high-repulsion golf clubs: Effective on January 1, 2008, The Royal and Ancient Golf Club of St. Andrews (R&A) and the Japan Golf Association (JGA) changed the rules in connection with the spring-like effect (SLE) of golf clubs. Accordingly, high-repulsion golf clubs that exceed a certain SLE level will be adjudged as noncompliant to golf rules and banned from use under the new regulations.

Cleveland GOLF

ACQUISITION OF CLEVELAND
In December 2007, SRI Sports Limited acquired the U.S. leading golf club maker Roger Cleveland Golf Company, Inc. and its five group companies ("Cleveland"). SRI Sports Limited currently enjoys the top share in the Japanese golf club market. The acquisition of Cleveland, which boasts the fifth largest share in the U.S. golf club market, enables SRI Sports Limited to reinforce its business foundation in the U.S. golf market. Propelled by this acquisition, SRI Sports Limited will accelerate its global business development.

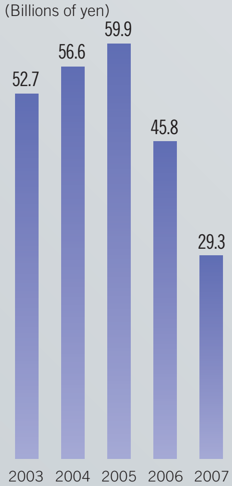
SRIXON
Designed for professional and experienced golfers, SRIXON brand golf products are currently sold in 41 countries and regions around the world. Used by top golfers in Japan and overseas, the SRIXON brand is further enhancing the brand profile.

Dunlop tennis balls enjoy Japan's top share

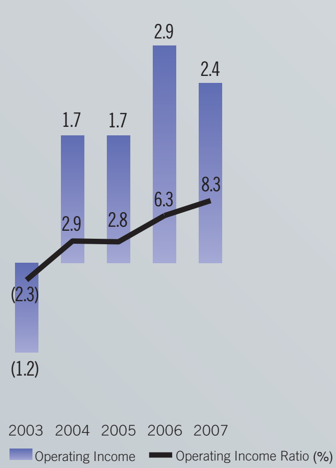
PRECISION RUBBER PARTS FOR PRINTERS AND PHOTOCOPIERS

INDUSTRIAL AND OTHER PRODUCTS Business

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



FISCAL 2007 RESULTS

Sales in the Industrial and Other Products business fell 36.0% year on year to ¥29,306 million, and operating income declined 16.0% to ¥2,441 million. Sales of precision rubber parts for printers and photocopiers were strong, backed by robust demand in the ever-expanding market. Sales of rubber gloves and medical rubber stoppers were brisk during the fiscal year under review. However, the Group recorded an approximate ¥16,000 million sales decline due to the withdrawal from the European bed and LCD backlight unit businesses in fiscal 2006. As a result, overall sales in the Industrial and Other Products business decreased year on year.

FISCAL 2008 OUTLOOK

In fiscal 2008, the Group will ensure sales and profit by expanding sales mainly in the businesses of the precision rubber parts for printers and photocopiers, medical precision rubber products, artificial turf and vibration-control devices loaded with high damping rubber.

Highly functional and high-value-added medical precision rubber products produced under strict quality control

GRAST VIBRATION-CONTROL TECHNOLOGY

SRI Hybrid's GRAST vibration-control technology using high damping rubber with great energy absorption capacity is adopted in a wide range of fields including dampers for large bridge cables and bridge beams, and vibration-control devices for single-unit houses and high-rise buildings.

Dampers for large bridge cables

Vibration-control devices for single-unit houses

LONG-PILE HIBRID-TURF

Long-pile, sand- and rubber chip-filled Hibrid-Turf is used at sport facilities nation-wide, including training pitches for J. League professional soccer teams and Top League professional rugby teams, as well as base-ball stadiums.

The extensive lineup of Dunlop gloves encompassing natural rubber gloves for household and other uses

Environmental Preservation and Contributions to Local Communities

The Sumitomo Rubber Group positions environmental preservation as one of 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 voluntarily and actively contributes to local communities, mainly in the area of its business operations.

Environmental Policy

Going for new values in our business concepts, we are realizing a sustainable society.

Sumitomo Rubber Group has created materials and processes of new and unique value, and thus has contributed to making our society sustainable.
As a global enterprise taking responsibility for the earth's environment, we flexibly adapt to the needs of the times in carrying out our social mission as a major corporation.

1. We promote environmental preservation activities and strive to prevent pollution of the environment and to create a prosperous and safe society.
   1) Through all our business activities, we pursue policies which prevent global warming, and also strive to reduce the burden placed on the environment by chemical substances and waste products, etc.
      - We are engaged in the reduction of the energy and harmful chemical substances used in our business activities.
      - We are engaged in the creation of environmentally friendly products and in expanding the use of such products, and execute life cycle assessments of our products.
      - We carry out a wide range of activities to improve the environment, including Green Purchasing and Green Logistics.
   2) We strive to thoroughly disclose information to and conduct active communication with all our company's stakeholders, and use the feedback we get from them to improve our environmental activities.
2. We strictly observe all laws, rules, and government directives regarding the environment.
   We of course strictly follow all laws, rules, and government directives, and in addition we faithfully observe high in-company standards which our Group has instituted.
3. We strive to construct and strengthen the operation of an environment management system.
   Adhering to the fundamental policy of 「GENCHI-GENBUTSU」(on-site,actual product management), since our Group is continuing to improve its environment management system, we are striving to maintain and improve this system.

All the employees of our Group are striving to carry out this environmental policy, always taking care for the environment and acting with positive initiative upon their originally conceived ideas.

July 2,2007

President and CEO Tetsuji Mino
Sumitomo Rubber Industries Co., Ltd.

T. Mino

COMMENCEMENT OF ACTIVITIES TO ACQUIRE GLOBALLY INTEGRATED ISO 14001 CERTIFICATION

With the aim of making contributions to sustainable development in society, the Sumitomo Rubber Group commenced activities to acquire globally integrated ISO 14001 certification. The Group has already gained certifications individually at its 11 factories and affiliated companies in Japan and overseas. Based on these achievements, the Group will proceed to apply for the globally integrated certification in 2008 and beyond, in pursuit of completing the acquisition of the integrated certification for 32 sites in Japan and overseas by 2010.

The acquisition of the globally integrated ISO 14001 certification will enable the Group to consolidate its environmental management system. Simultaneously, the Group will proactively carry out activities to contribute to sustainable development by implementing the Groupwide PDCA cycle.

ICHIJIMA FACTORY RECEIVES AWARDS FROM THE MINISTRY OF THE ENVIRONMENT FOR VOLATILE ORGANIC COMPOUNDS REDUCTION ACTIVITIES

The Ichijima factory of SRI Sports Limited received the Special Award for Taking Measures against Volatile Organic Compounds (VOC) and the Best Contributor Award for Aerial Environment Preservation Activities from the Ministry of the Environment. As measures to reduce VOCs emitted from the golf ball production process at its facilities, the Ichijima factory strived to reformulate coating materials, make technological upgrades in the processing method before coating, and improve on-site operational skills at production sites. Thanks to these efforts, the Ichijima factory cut the amount of VOC use by 60% since 2004 compared with the 2000 level.

INDONESIAN SUBSIDIARY'S PUBLICATION OF ENVIRONMENTAL REPORT 2007

The Group's Indonesian subsidiary P.T. Sumi Rubber Indonesia ("SURINDO") issued its first "Environmental Report," following the issuance of environmental reports by Sumitomo Rubber (Changshu) Co., Ltd. and Sumitomo Rubber (Suzhou) Co., Ltd., China.

Since its inauguration in 1997, SURINDO has promoted environmental preservation activities. In 2003, the company acquired the ISO 14001 certification and achieved zero emissions—indicating that waste disposed of in landfills is less than 1% of the total waste amount—in December of the following year. Thanks to its ongoing efforts in greening, beautification activities, environmental reform and environmental education, various data concerning SURINDO's environmental preservation actions have improved dramatically.

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

In April 2007, SRI Hybrid Limited donated 200 m^2 of long-pile Hibrid-Turf PG to kindergartens in Shirakawa City, Fukushima Prefecture, where one of Sumitomo Rubber's factories is located. Comprising long-pile turf filled with sand and featuring elastic cushioning properties, the Hibrid-Turf PG boasts enhanced shock absorption and is used as a cushioning material under children's play equipment. SRI Hybrid Limited has donated Hibrid-Turf PG to kindergartens and nursery schools neighboring the Sumitomo Rubber Group factories. On top of its contributions to playground safety, Hibrid-Turf PG 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

SRI Sports Limited has cooperated with the NPO GOLFPARK-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.

In addition, SRI Sports Limited opened Dunlop Junior School in October 2007 at a golf school operated by its group company. While providing lessons to improve golf techniques, this school simultaneously offers instruction to instill etiquette and golf rules.

SELECTED FOR THE FTSE4GOOD GLOBAL INDEX

Sumitomo Rubber Industries was again selected for inclusion in the "FTSE4Good Global Index," a global social responsibility investment (SRI) index following on from 2006. Created 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.

R&D Activities and Intellectual Property Strategies

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

With a core of Sumitomo Rubber Industries' R&D organization and facilities, the Group promotes R&D activities in its wide-ranging fields—which include tire, sports and industrial and other product businesses in close cooperation with its subsidiaries and affiliates around the world. 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 plans to complete the establishment of a new R&D center equipped with a state-of-the-art work environment in full-fledged facilities near its Head Office in Kobe City, Hyogo Prefecture, by August 2008. With this achievement, the Group will reinforce its technological R&D capabilities.

Total R&D expenses in the fiscal year under review amounted to ¥18,223 million, which accounted for 3.2% of consolidated net sales.

TIRE BUSINESS

Leveraging its proprietary technologies, the Group develops innovative products including the ENASAVE 97 eco-tire that increased the ratio of non-petroleum-based materials to 97%. In fiscal 2007, R&D expenses in the Tire business totaled ¥15,105 million.

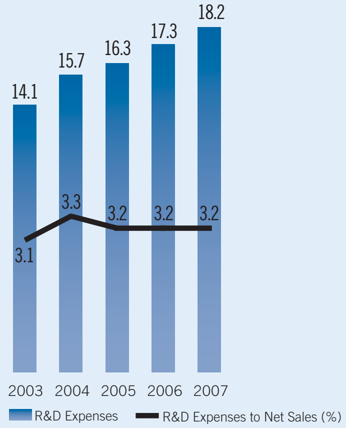
SPORTS BUSINESS

With cutting-edge "Digital Impact Technology" simulation capability, the Group develops, evaluates and tests new technologies and products. R&D expenses in the Sports business amounted to ¥1,255 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 printers and photocopiers, blankets for offset printing presses, artificial turf, rubber gloves, engineering and marine products, high damping rubber and medical rubber stoppers. 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 ¥1,862 million in the fiscal year under review.

R&D EXPENSES
(Billions of yen)



INTELLECTUAL PROPERTY STRATEGIES

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.

EXPANDING INTELLECTUAL PROPERTY BUSINESS TO BRICs AND ASEAN COUNTRIES

With the aim of realizing its long-term vision of expanding overseas businesses, the Sumitomo Rubber Group has expanded its intellectual property rights-related business to the BRICs and ASEAN economic groupings.

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.

Furthermore, the Group started to apply for patents and designs in Russia, India, Brazil and Vietnam.

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 they 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. The Group had selected 18 legal and patent offices in 14 countries by the end of 2007 and commenced business with them. In 2008, the Group will further strengthen relationships with these offices.

Furthermore, the Group will send members of the Intellectual Property Division to overseas offices to work in collaboration with local patent lawyers and attorneys with the aim of improving business efficiencies, communications and the employees' capabilities.

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. The Group will aim further to offer patent information that can be of assistance directly in product development operations.

Corporate Governance

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 Groupwide business efficiency.

CORPORATE GOVERNANCE STRUCTURE

OVERVIEW OF 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 28, 2008, the Board of Directors was comprised of 12 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.

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 six 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 the 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.

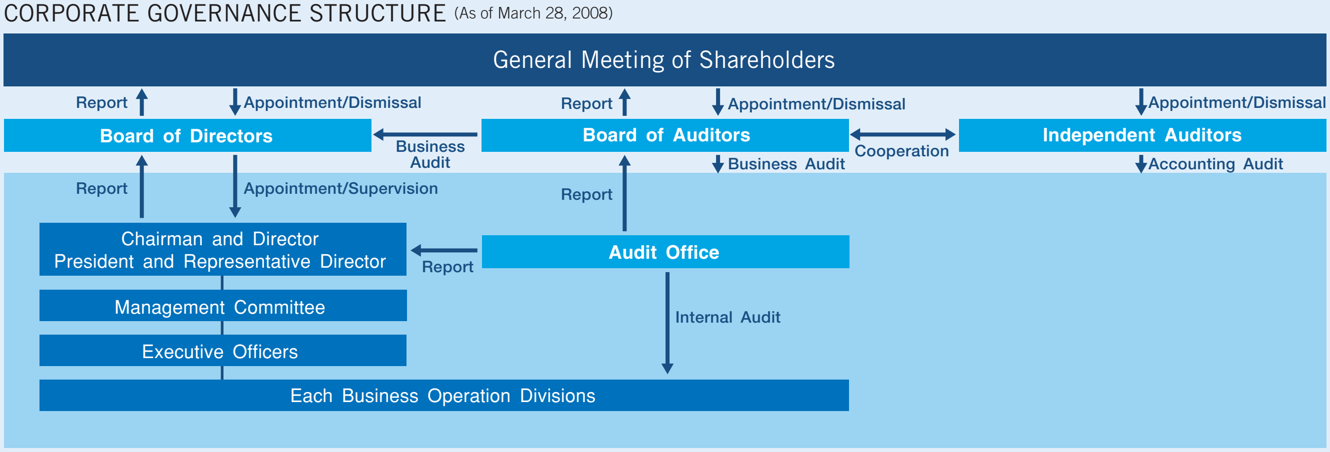
ACCOUNTING AUDIT

The Company entered into an audit agreement with KPMG AZSA & Co. for the implementation of accounting audits under the Corporation and the Financial Instruments and Exchange Laws. For the fiscal year ended December 31, 2007, 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.

MAJOR ACTIVITIES OF EXTERNAL DIRECTORS AND AUDITORS (As of December 31, 2007)

Name	Status	Attendance and Activities at the Board of Directors Meetings and the Board of Auditors Meetings
Norio Okayama	Director	Attendance at the Board of Directors meetings: 13 times out of 14 meetings
		Offering advice and comments based on a wealth of knowledge as an experienced business manager
Kimio Toma	Corporate auditor	Attendance at the Board of Directors meetings: 13 times out of 14 meetings
		Attendance at the Board of Auditors meetings: 12 times out of 12 meetings
		Offering advice and comments based on a wealth of knowledge, mainly regarding corporate auditing
Hiroshi Izumitani	Corporate auditor	Attendance at the Board of Directors meetings: 14 times out of 14 meetings
		Attendance at the Board of Auditors meetings: 12 times out of 12 meetings
		Offering advice and comments based on a wealth of knowledge, primarily regarding business management, finance and accounting
Tadao Kagono	Corporate auditor	Attendance at the Board of Directors meetings: 12 times out of 14 meetings
		Attendance at the Board of Auditors meetings: 11 times out of 12 meetings
		Offering advice and comments based on a wealth of knowledge, mainly as an academic expert

CORPORATE GOVERNANCE STRUCTURE (As of March 28, 2008)



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. 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 THE INTERNAL CONTROL SYSTEM

COMPLIANCE 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 of complying 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.

RISK MANAGEMENT SYSTEM

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, Corporate Auditors and Executive Officers

(As of March 28, 2008)

BOARD OF DIRECTORS

CHAIRMAN AND DIRECTOR	Mitsuaki Asai
PRESIDENT AND REPRESENTATIVE DIRECTOR	Tetsuji Mino
EXECUTIVE VICE PRESIDENT AND REPRESENTATIVE DIRECTOR	Hisao Takahashi
REPRESENTATIVE DIRECTOR AND MANAGING EXECUTIVE OFFICER	Toshiyuki Noguchi
DIRECTOR AND MANAGING EXECUTIVE OFFICER	Yasuyuki Sasaki
DIRECTOR AND SENIOR EXECUTIVE OFFICER	Koji Soeda
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 AND SENIOR EXECUTIVE OFFICER	Yasushi Nojiri
DIRECTOR	Norio Okayama

CORPORATE AUDITORS

CORPORATE AUDITOR (Full-time)	Masashi Mine
CORPORATE AUDITOR (Full-time)	Katsuhiko Nakagawa
CORPORATE AUDITOR	Kimio Toma
CORPORATE AUDITOR	Hiroshi Izumitani
CORPORATE AUDITOR	Tadao Kagono

EXECUTIVE OFFICERS

EXECUTIVE OFFICER	Hironobu Nakamura
EXECUTIVE OFFICER	Kaoru Taniguchi
EXECUTIVE OFFICER	Kenji Onga
EXECUTIVE OFFICER	Takahiro Fukumoto
EXECUTIVE OFFICER	Kozaburo 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	**2007**	2006	2005	2004
For the year:				
Net sales	**¥567,307**	¥534,086	¥512,838	¥470,562
Cost of sales	**368,783**	342,856	307,538	288,684
Selling, general and administrative expenses	**153,398**	154,440	155,374	136,352
Operating income	**45,126**	36,790	49,926	45,526
Net income (loss)	**19,499**	27,586	25,640	19,169
Depreciation and amortization	**30,165**	27,052	25,755	25,098
Capital expenditures	**53,205**	45,308	40,415	36,881
Cash flows from operating activities	**56,594**	23,872	38,984	32,056
Cash flows from investing activities	**(65,167)**	(33,923)	(42,878)	(37,622)
Cash flows from financing activities	**8,692**	14,687	(3,376)	7,609
At year-end:				
Total assets	**¥671,117**	¥606,938	¥563,442	¥520,157
Net assets	**250,799**	223,852	—	—
Shareholders' equity	**—**	—	174,267	145,492
Interest-bearing debt	**239,573**	219,372	205,751	201,929

Yen

Per share amounts:				
Net income (loss)	**¥ 74.31**	¥ 105.13	¥ 97.10	¥ 78.64
Net income—diluted	**—**	—	—	—
Cash dividends paid	**20.00**	20.00	20.00	14.00

Percent

Key ratios:				
Operating income ratio	**8.0%**	6.9%	9.7%	9.7%
ROE	**9.1**	14.7	16.0	15.0
ROA (operating income base)	**7.1**	6.3	9.2	9.1
Equity ratio	**33.9**	33.3	30.9	28.0

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥114 per US$1.00, the approximate exchange rate prevailing at December 31, 2007.

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.

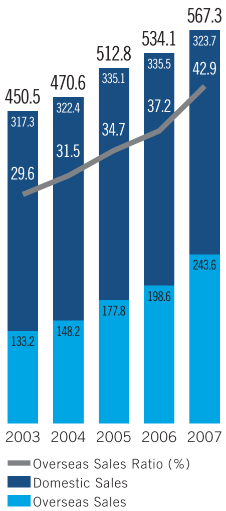
3. In 2000, the Company changed the accounting policy for technical aid income and expense. As a result of these changes, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million, however, there were no effects on net income.

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

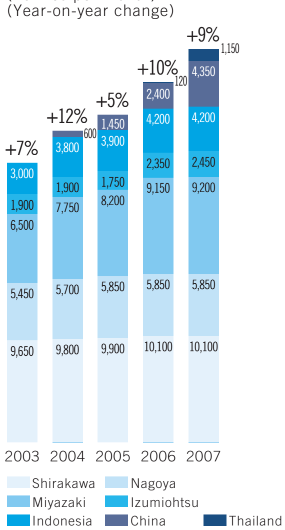
5. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

						Millions of yen	Thousands of U.S. dollars (Note 1)
2003	2002	2001	2000	1999	1998	1997	**2007**
¥450,491	¥447,893	¥434,463	¥423,247	¥509,215	¥653,525	¥613,753	**$4,976,377**
281,392	286,755	279,074	273,451	351,492	456,705	433,573	**3,234,938**
131,333	129,394	132,813	124,355	133,971	169,032	160,973	**1,345,597**
37,766	31,744	22,576	25,441	23,752	27,770	19,207	**395,842**
13,095	8,239	(7,207)	5,335	4,929	5,034	5,850	**171,044**
24,313	25,163	24,645	25,275	32,911	40,218	38,366	**264,605**
29,171	30,557	25,372	19,944	41,634	46,754	46,527	**466,711**
44,225	50,700	42,359	36,086	20,327	58,814	47,024	**496,439**
(28,545)	(31,269)	(25,284)	(21,685)	43,403	(43,213)	(40,310)	**(571,640)**
(20,821)	(19,628)	(15,172)	(25,690)	(64,559)	(4,871)	(9,385)	**76,246**
¥481,553	¥477,293	¥514,415	¥523,560	¥441,707	¥614,197	¥644,631	**$5,886,991**
—	—	—	—	—	—	—	**2,199,991**
110,395	101,633	107,391	109,995	97,475	96,091	93,855	**—**
210,681	220,085	241,600	252,143	223,727	311,574	324,327	**210,152**
						Yen	U.S. dollars (Note 1)
¥ 55.07	¥ 33.97	¥ (29.71)	¥ 23.24	¥ 22.57	¥ 23.06	¥ 26.79	**$ 0.652**
—	—	—	—	20.63	—	—	**—**
12.00	10.00	10.00	10.00	9.00	9.00	9.00	**0.175**
						Percent	
8.4%	7.1%	5.2%	6.0%	4.7%	4.2%	3.1%	
12.4	7.9	—	5.1	5.1	5.3	6.4	
7.9	6.4	4.4	5.3	4.5	4.4	3.0	
22.9	21.3	20.9	21.0	22.1	15.6	14.6	

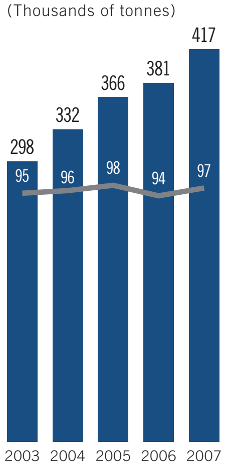
DOMESTIC AND OVERSEAS SALES
(Billions of yen)



TIRE PRODUCTION CAPACITY
(Tonnes per month)
(Year-on-year change)



TIRE PRODUCTION VOLUME
(Thousands of tonnes)



SCOPE OF CONSOLIDATION

In fiscal 2007, ended December 31, 2007, eight subsidiary companies were newly included in Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries' scope of consolidation, while four subsidiary companies were excluded. In addition, three equity-method affiliates were excluded from application of the equity method. Six of the eight newly consolidated subsidiary companies are due to the acquisition of the U.S. golf goods company Roger Cleveland Golf Company, Inc. and its five group companies ("Cleveland"). The remaining two are a golf goods sales subsidiary in Japan, which was included in the scope of consolidation reflecting its increased importance in the Group business, and a tennis ball production subsidiary in Thailand, which was newly established in fiscal 2007. For the period under review, Cleveland's balance sheet is exclusively included in the Company's scope of consolidation.

The exclusion of the four subsidiaries was due to the restructuring of sales companies in the Tire, Sport and Industrial and Other Product businesses.

BUSINESS ENVIRONMENT

During fiscal 2007, the overall Japanese economy was on a recovery trend despite the weakness in some sectors. Overseas, the U.S. economy was decelerating due to the decrease in housing investment, while the European economy remained robust and the Asian economy showed strong growth particularly in China.

In the environment surrounding the Group's core Tire business, stagnant sales in the domestic replacement market were recorded due primarily to the historic high prices of gasoline. In contrast, demand in the overseas replacement market grew, mainly in Asia, North America, Russia and Europe. The original equipment market in Japan saw favorable sales, reflecting the growth in domestic automobile production on the back of brisk exports. In the Sports business segment, sales of golf goods remained on par with the previous fiscal year though the number of visitors to golf courses edged up year on year. The earnings environment was harsh because raw material prices for natural rubber and petroleum-based materials hovered at high levels.

NET SALES

In fiscal 2007, consolidated net sales rose 6.2% compared with the previous fiscal year to ¥567,307 million.

In the Group's mainstay Tire business, sales topped the previous fiscal year. This was attributable to substantial sales growth in the overseas replacement market and effective product releases under several brands in the domestic original equipment market to meet automakers' needs. These were achieved despite decreased sales in the domestic replacement market. As a result, sales in this segment grew 11.1% year on year to ¥478,483 million.

Sales in the Sports business were strong on the back of new product releases designed to meet various customer needs. For example, in December 2007, the Group introduced The XXIO, an all-new design for the fifth generation of its flagship XXIO golf club series. Accordingly, The XXIO got off to a flying start in its sales activities. Overseas, the lineup of the strategic international brand SRIXON enjoyed robust sales. As a result, sales in this segment rose 3.2% to ¥59,518 million.

In the Industrial and Other Products business, sales of precision rubber parts for printers and photocopiers remained strong, while results for rubber gloves and medical rubber stoppers was also favorable. However, the overall sales in this segment declined 36.0% year on year to ¥29,306 million. This was due to the withdrawal from the European bed and LCD backlight unit businesses in fiscal 2006, which caused a sales decline of approximately ¥16,000 million.

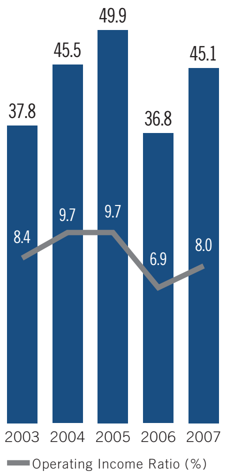
Overseas sales increased 22.7% to ¥243,640 million, and the overseas sales ratio was up 5.7 percentage points to 42.9%.

EARNINGS

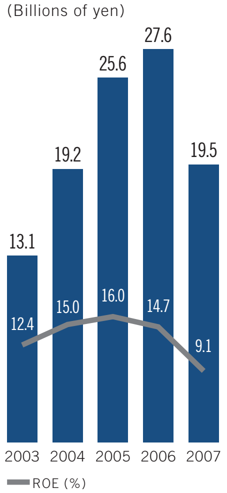
During the fiscal year under review, consolidated operating income increased 22.7% to ¥45,126 million, and the operating income ratio was up 1.1 percentage points year on year to 8.0%.

Historic price hikes for natural rubber and petroleum-based materials contributed to the approximately ¥8,000 million earnings decrease in the Sumitomo Rubber Group's core Tire business. 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.

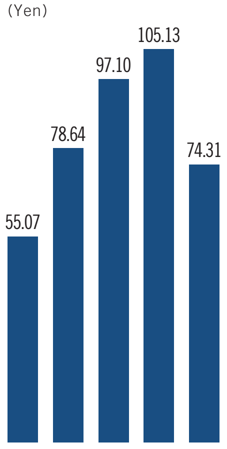
OPERATING INCOME
(Billions of yen)



NET INCOME
(Billions of yen)



NET INCOME PER SHARE
(Yen)



Furthermore, the Group implemented sales promotion activities in an aggressive manner, while reinforcing its earnings capabilities by shifting to high-value-added products. As a result, operating income in the Tire business expanded 36.1% year on year to ¥35,893 million.

The Sports business marked a 9.2% operating income decline to ¥6,780 million. This was due to the Group's core ALL NEW XXIO golf club's weaker sales compared to the previous period, when they were launched, along with the impact of soaring prices for titanium, carbon fibers and other raw materials.

In the Industrial and Other Products business, sales of precision rubber parts for printers and photocopiers as well as medical rubber stoppers were brisk. Operating income in this segment declined 16.0% to ¥2,441 million, owing to the withdrawal from the European bed and LCD backlight unit businesses in the previous fiscal year. The operating income ratio improved 2.0 percentage points year on year to ¥8.3%.

Net other income (expenses) went from an income of ¥5,093 million in fiscal 2006 to an expense of ¥4,700 million in the period under review. Major expenses included ¥3,287 million in interest expenses, a ¥1,550 million loss on sales or disposal of property, plant and equipment, and ¥1,195 million in exchange losses. In the previous fiscal year, the Group recorded a large increase in equity in earnings of unconsolidated subsidiaries and affiliates due to a reversal of the reserve for income taxes that resulted in a substantial growth in profit 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, SRI Sports Limited in fiscal 2006.

Reflecting these factors, income before income taxes and minority interests declined 3.5% year on year to ¥40,426 million. Income taxes leaped 38.5% to ¥18,730 million, representing an effective tax rate of 46.3%, an increase of 14.0 percentage points. After deducting minority interests in consolidated subsidiaries, net income was ¥19,499 million, down 29.3% year on year.

Net income per share was ¥74.31, and ROE (net income base) fell 5.6 percentage points to 9.1%.

R&D EXPENSES

Research and development expenses climbed 5.4% year on year to ¥18,223 million, representing 3.2% of consolidated net sales. The Tire business accounted for ¥15,105 million of these expenses, up 6.3% from the previous fiscal year, the Sports business ¥1,255 million, down 9.8%, and the Industrial and Other Products business ¥1,862 million, up 10.6%.

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, 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 year-end dividend payment is resolved at the General Shareholders' meetings, while the interim dividend payment is determined by the Board of Directors.

The full-year dividend for fiscal 2007 is ¥20.00 per share, an amount equal to that of the previous fiscal year. The dividend payout ratio on a consolidated basis was 26.9%.

FINANCIAL POSITION

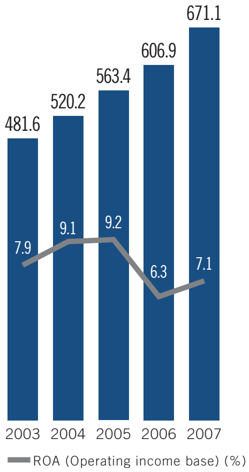
Total assets as of December 31, 2007, were up 10.6% year on year to ¥671,117 million.

Total current assets climbed 9.0% to ¥267,025 million, reflecting the increase in notes and accounts receivable as well as inventories caused by growing sales.

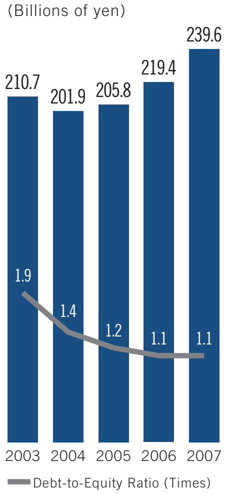
Total investments and other assets grew 12.2% to ¥162,782 million. This was largely due to an increase in goodwill and other intangible assets, reflecting the acquisition of Cleveland, an increase in investments in and advances to unconsolidated subsidiaries, and an increase in prepaid pension costs.

Total property, plant and equipment increased 11.3% year on year to ¥241,310 million due to an increase in capital expenditures aimed at enhancing production.

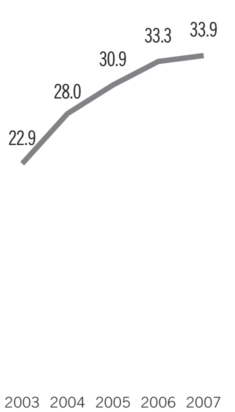
TOTAL ASSETS
(Billions of yen)



INTEREST-BEARING DEBT
(Billions of yen)



EQUITY RATIO
(%)



As of the end of the fiscal year under review, total liabilities were up 9.7% to ¥420,318 million. Interest-bearing debt as of fiscal 2007 year-end increased ¥20,201 million year on year to ¥239,573 million.

Total net assets at the fiscal year-end grew 12.0% to ¥250,799 million, and net assets per share were ¥868.21.

The equity ratio (net assets minus minority interests in consolidated subsidiaries to total assets) at the end of fiscal 2007 edged up 0.6 percentage point to 33.9%. ROA (operating income base) inched up 0.8 percentage point to 7.1%, and the debt-to-equity ratio remained on par with the previous fiscal year-end of 1.1 times.

CAPITAL EXPENDITURES

During the fiscal year under review, Sumitomo Rubber Industries made capital expenditures of ¥53,205 million, focusing mainly on the Tire business. This represented a 17.4% increase from the previous fiscal year. The Tire business accounted for ¥49,796 million, which was used for facility renovation aimed at boosting and streamlining production and the improvement of labor efficiency. The Sports business spent ¥2,423 million for the improvement of golf ball production efficiency at SRI Sports Limited, and the Industrial and Other Products business employed ¥984 million to improve the production facilities of precision rubber parts for printers and photocopiers 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, 2008, the Group plans to make ¥53,700 million in capital expenditures, primarily for the upgrading of overseas tire factories.

CASH FLOWS

Net cash provided by operating activities jumped 137.1% from the previous fiscal year to ¥56,594 million, with inflows mainly comprising an increase in interest and dividends received and a decrease in income taxes paid.

Net cash used in investing activities surged 92.1% to ¥65,167 million. Overall outflows increased, owing to the Group's aggressive attitude toward capital expenditures and SRI Sports Limited's acquisition of Cleveland.

Net cash provided by financing activities dropped 40.8% year on year to ¥8,692 million. A primary source of cash was a ¥14,365 million net increase in fund procurement, including short-term borrowings, long-term debt and bonds. In addition, the Group recorded dividends paid.

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, resulted in cash and cash equivalents at the end of the fiscal year rising 1.2% to ¥18,361 million.

Free cash flow (net cash provided by operating activities less net cash used in investing activities) was a negative ¥8,573 million. This was mainly attributable to the increase in capital expenditures to boost production and an increase in working capital.

The Sumitomo Rubber Group will continue to adhere to a high standard of capital investment for the purpose of accomplishing its long-term vision. In addition, the Group will make every effort to ensure both business growth and secured cash liquidity as well as to enhance its financial standing. This will be carried out through efforts to expand the inflow of cash from operating activities by increasing sales volumes and improving profitability.

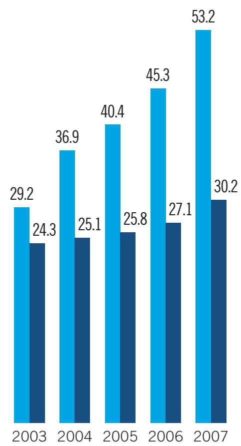
OUTLOOK

In the fiscal year ending December 31, 2008, the domestic and overseas economies are difficult to forecast, given a number of uncertain factors including soaring crude oil prices, a decelerating U.S. economy and foreign exchange rate fluctuations.

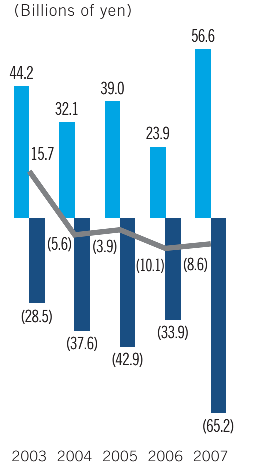
The Sumitomo Rubber Group is anticipating an even more severe business environment, given ongoing raw material price hikes and a further appreciation of the yen.

Under such circumstances, the Group will develop and sell products to meet diverse needs in the market as well as take effective sales expansion measures. In addition, the Group will continuously accelerate its total cost reduction campaign in every business division. By doing so, the Group will make further efforts to enhance its cost competitiveness to establish a more robust earnings structure.

CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION
(Billions of yen)



CASH FLOWS
(Billions of yen)



RISK INFORMATION

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

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

Exchange Rate Fluctuations

Exchange rate fluctuations impact the value of the Group's exports, raw materials procurement, foreign currency-denominated assets, liabilities and financial statements. The appreciation of the yen against foreign currencies such as the U.S. dollar may have an adverse effect on the Group's business performance and financial position. Since the Group has raised its consolidated overseas sales ratio from 25.2% in fiscal 2001 to 42.9% in fiscal 2007, the possibility exists that its results may be further affected by exchange rate fluctuations. The Sumitomo Rubber Group utilizes forward-exchange contracts and maintains a balance in its export and import activities on an individual currency basis with the aim of minimizing its exposure to exchange rate fluctuations. Such precautions, however, may not be sufficient to avoid all possible exchange rate fluctuation risks.

Changes in Raw Material Prices

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

Changes in Interest Rates

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

Product Quality

In accordance with prescribed quality standards, the Sumitomo Rubber Group undertakes full-scale measures to assure product quality. Yet it is difficult to reduce the number of defective products and customer complaints to zero. To offset the possibility of any claims for damages resulting from defective products, the Group retains appropriate indemnity insurance. Despite this initiative, there is the possibility that a claim may occur that cannot be compensated by insurance. Furthermore, costs 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 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-shareholding 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

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

Consolidated Balance Sheets

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

December 31	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Assets			
Current assets:			
Cash and time deposits (Note 3)	**¥ 19,147**	¥ 18,172	**$ 167,956**
Notes and accounts receivable (Note 14)—			
Trade	**131,454**	121,036	**1,153,105**
Other	**16,593**	18,257	**145,553**
Allowance for doubtful accounts	**(1,650)**	(1,750)	**(14,474)**
Inventories (Note 4)	**80,068**	68,040	**702,351**
Short-term loans (Note 14)	**7,011**	6,695	**61,500**
Deferred tax assets (Note 10)	**10,587**	9,114	**92,868**
Other	**3,815**	5,455	**33,466**
Total current assets	**267,025**	245,019	**2,342,325**
Investments and other assets:			
Investments in securities (Note 5)	**24,398**	26,385	**214,018**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14)	**74,405**	70,707	**652,675**
Long-term loans	**541**	575	**4,746**
Deferred tax assets (Note 10)	**4,676**	2,524	**41,018**
Long-term prepaid expenses	**4,502**	4,378	**39,491**
Trademarks (Note 8)	**1,856**	2,043	**16,281**
Goodwill and other intangible assets	**16,343**	7,167	**143,360**
Prepaid pension cost (Note 11)	**26,608**	23,377	**233,404**
Other	**10,853**	9,540	**95,200**
Allowance for doubtful accounts	**(1,400)**	(1,600)	**(12,281)**
Total investments and other assets	**162,782**	145,096	**1,427,912**
Property, plant and equipment (Notes 7 and 9)**:**			
Land	**38,643**	39,188	**338,974**
Buildings and structures	**136,909**	128,205	**1,200,956**
Machinery and equipment	**413,300**	383,892	**3,625,438**
Construction in progress	**13,623**	11,008	**119,500**
Accumulated depreciation	**(361,165)**	(345,470)	**(3,168,114)**
Total property, plant and equipment	**241,310**	216,823	**2,116,754**
Total assets	**¥ 671,117**	¥ 606,938	**$ 5,886,991**

The accompanying notes are an integral part of these statements.

	2007	2006	2007
	Millions of yen		Thousands of U.S. dollars (Note 1)
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 60,122**	¥ 51,910	**$ 527,386**
Current portion of long-term debt (Note 9)	**25,504**	16,797	**223,719**
Notes and accounts payable (Note 14)—			
Trade	**77,053**	79,214	**675,904**
Construction	**10,367**	8,575	**90,939**
Other	**27,001**	26,140	**236,851**
Accrued expenses	**12,240**	13,613	**107,368**
Allowance for sales returns	**1,952**	1,207	**17,123**
Accrued income taxes (Note 10)	**12,221**	1,900	**107,202**
Other	**6,684**	3,662	**58,631**
Total current liabilities	**233,144**	203,018	**2,045,123**
Long-term liabilities:			
Long-term debt (Note 9)	**153,947**	150,665	**1,350,412**
Deferred tax liabilities (Note 10)	**15,450**	11,483	**135,526**
Accrued retirement benefits (Note 11)	**10,404**	10,661	**91,263**
Other	**7,373**	7,259	**64,676**
Total long-term liabilities	**187,174**	180,068	**1,641,877**
Contingent liabilities (Note 15)			
Net Assets			
Shareholders' equity (Note 19)**:**			
Common stock—			
Authorized: 800,000,000			
Issued: 263,043,057 shares in 2007 and 2006	**42,658**	42,658	**374,193**
Capital surplus	**38,661**	38,660	**339,132**
Retained earnings	**109,673**	90,896	**962,044**
Less treasury stock, at cost— 2007—688,541 shares 2006—658,071 shares	**(524)**	(483)	**(4,597)**
Total shareholders' equity	**190,468**	171,731	**1,670,772**
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities	**8,585**	9,641	**75,307**
Deferred losses on hedges	**(314)**	(64)	**(2,754)**
Translation adjustments	**29,041**	20,695	**254,745**
Total valuation and translation adjustments	**37,312**	30,272	**327,298**
Minority interests in consolidated subsidiaries	**23,019**	21,849	**201,921**
Total net assets	**250,799**	223,852	**2,199,991**
Total liabilities and net assets	**¥671,117**	¥606,938	**$5,886,991**

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	**2007**	2006	**2007**
Net sales (Note 14)	**¥567,307**	¥534,086	**$4,976,377**
Cost of sales (Note 14)	**368,783**	342,856	**3,234,938**
Gross profit	**198,524**	191,230	**1,741,439**
Selling, general and administrative expenses	**153,398**	154,440	**1,345,597**
Operating income	**45,126**	36,790	**395,842**
Other income (expenses):			
Interest and dividend income	**1,198**	708	**10,509**
Interest expense	**(3,287)**	(2,970)	**(28,833)**
Loss on sales or disposal of property, plant, and equipment, net	**(1,550)**	(1,162)	**(13,596)**
Exchange loss, net	**(1,195)**	(211)	**(10,482)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**3,646**	7,118	**31,982**
Loss on asset impairment (Note 17)	**(725)**	(3,557)	**(6,360)**
Gain on sales of investments in subsidiaries	**—**	6,069	**—**
Gain on change in equity ownership of consolidated subsidiary	**—**	2,033	**—**
Loss on voluntary recall of products (Note 18)	**(500)**	—	**(4,386)**
Loss on transition to defined contribution plans from defined benefit plans (Note 11)	**(25)**	(445)	**(219)**
Other, net	**(2,262)**	(2,490)	**(19,843)**
	(4,700)	5,093	**(41,228)**
Income before income taxes and minority interests in consolidated subsidiaries	**40,426**	41,883	**354,614**
Income taxes (Note 10)**:**			
Current	**16,787**	11,778	**147,254**
Deferred	**1,943**	1,744	**17,044**
	18,730	13,522	**164,298**
Income before minority interests in consolidated subsidiaries	**21,696**	28,361	**190,316**
Minority interests in consolidated subsidiaries	**(2,197)**	(775)	**(19,272)**
Net income	**¥ 19,499**	¥ 27,586	**$ 171,044**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥74.31**	¥105.13	**$0.652**
Cash dividends paid	**20.00**	20.00	**0.175**

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			(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

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, 2006	¥42,658	¥38,660	¥ 90,896	¥(483)	¥ 9,641	¥ (64)	¥20,695	¥202,003	¥21,849	¥223,852
Disposal of treasury stock		**1**						**1**		**1**
Cash dividends			**(5,248)**					**(5,248)**		**(5,248)**
Net income			**19,499**					**19,499**		**19,499**
Repurchase of treasury stock				**(41)**				**(41)**		**(41)**
Other			**4,526**		**(1,056)**	**(250)**	**8,346**	**11,566**	**1,170**	**12,736**
Balance at December 31, 2007	**¥42,658**	**¥38,661**	**¥109,673**	**¥(524)**	**¥ 8,585**	**¥(314)**	**¥29,041**	**¥227,780**	**¥23,019**	**¥250,799**

Thousands of U.S. dollars (Note 1)

Balance at December 31, 2006	$374,193	$339,123	$797,333	$(4,237)	$84,570	$ (561)	$181,535	$1,771,956	$191,658	$1,963,614
Disposal of treasury stock		**9**						**9**		**9**
Cash dividends			**(46,035)**					**(46,035)**		**(46,035)**
Net income			**171,044**					**171,044**		**171,044**
Repurchase of treasury stock				**(360)**				**(360)**		**(360)**
Other			**39,702**		**(9,263)**	**(2,193)**	**73,210**	**101,456**	**10,263**	**111,719**
Balance at December 31, 2007	**$374,193**	**$339,132**	**$962,044**	**$(4,597)**	**$75,307**	**$(2,754)**	**$254,745**	**$1,998,070**	**$201,921**	**$2,199,991**

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	**2007**	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests in consolidated subsidiaries	**¥ 40,426**	¥ 41,883	**$ 354,614**
Adjustments to reconcile income before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities—			
Depreciation and amortization	**30,165**	27,052	**264,605**
Loss on asset impairment	**725**	3,557	**6,360**
Loss on sales or disposal of property, plant and equipment, net	**1,550**	1,162	**13,596**
Loss on transition to defined contribution plans from defined benefit plans	**25**	445	**219**
Gain on sales of investments in subsidiaries	**—**	(6,069)	**—**
Gain on change in equity ownership of consolidated subsidiary	**—**	(2,033)	**—**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(3,646)**	(7,118)	**(31,982)**
Reversal of allowance for doubtful accounts	**(356)**	(525)	**(3,123)**
Decrease in accrued retirement benefits, net of payment	**(204)**	(540)	**(1,789)**
Increase in prepaid pension costs, net of payment	**(3,230)**	(4,744)	**(28,333)**
Decrease in pension premiums payable for transition to defined contribution plan	**(2,182)**	(2,447)	**(19,140)**
Interest and dividend income	**(1,198)**	(708)	**(10,509)**
Interest expenses	**3,287**	2,970	**28,833**
Increase in notes and accounts receivable	**(7,089)**	(2,288)	**(62,184)**
Increase in inventories	**(8,700)**	(12,887)	**(76,316)**
(Decrease) Increase in notes and accounts payable	**(2,154)**	1,738	**(18,895)**
Other	**6,173**	2,192	**54,149**
Subtotal	**53,592**	41,640	**470,105**
Interest and dividends received	**11,738**	6,948	**102,965**
Interest paid	**(3,246)**	(2,938)	**(28,474)**
Income taxes paid	**(5,490)**	(21,778)	**(48,157)**
Net cash provided by operating activities	**56,594**	23,872	**496,439**
Cash flows from investing activities:			
Capital expenditures	**(52,421)**	(48,323)	**(459,833)**
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	**913**	1,692	**8,009**
Additional acquisition of shares in consolidated subsidiaries and affiliates from minority shareholders	**(677)**	—	**(5,938)**
Acquisition of shares of newly consolidated subsidiaries	**(9,032)**	—	**(79,228)**
Acquisition of investments in securities	**(100)**	(529)	**(877)**
Proceeds from sales of investments in securities	**156**	—	**1,368**
Acquisition of shares of unconsolidated subsidiaries and affiliates	**(966)**	(39)	**(8,474)**
Proceeds from sales of investment in consolidated subsidiaries and affiliates	**44**	15,251	**386**
Net increase in short-term loans receivable	**(281)**	(2,018)	**(2,465)**
Payments for long-term loans receivable	**(75)**	(94)	**(658)**
Proceeds from collections of long-term loans receivable	**96**	294	**842**
Payments for purchase of time deposits	**(1,766)**	—	**(15,491)**
Other	**(1,058)**	(157)	**(9,281)**
Net cash used in investing activities	**(65,167)**	(33,923)	**(571,640)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**2,204**	2,712	**19,333**
Proceeds from long-term debt and newly issued bonds	**29,000**	31,503	**254,386**
Repayments of long-term debt and redemption of bonds	**(16,839)**	(18,445)	**(147,711)**
Dividends paid	**(5,248)**	(6,035)	**(46,035)**
Dividends paid to minority shareholders	**(842)**	(697)	**(7,386)**
Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries	**459**	272	**4,026**
Proceeds from public offering by consolidated subsidiary	**—**	5,415	**—**
Payments for purchases of treasury stock, net	**(41)**	(36)	**(360)**
Other	**(1)**	(2)	**(7)**
Net cash provided by financing activities	**8,692**	14,687	**76,246**
Effect of exchange rate changes on cash and cash equivalents	**(13)**	435	**(115)**
Net increase in cash and cash equivalents	**106**	5,071	**930**
Cash and cash equivalents at beginning of year	**18,152**	12,829	**159,228**
Increase in cash and cash equivalents due to change in reporting entities	**103**	252	**903**
Cash and cash equivalents at end of year (Note 3)	**¥ 18,361**	¥ 18,152	**$ 161,061**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries
December 31, 2007 and 2006

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 statement 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 ¥114=U.S.$1.00, the approximate rate prevailing at December 31, 2007, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

2. Significant Accounting Policies

(1) Consolidation and accounting for investments in affiliates

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

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.

Dunlop Golf Shop Co., Ltd., whose operations became significant in 2007, is included in the 2007 consolidation. Srixon Sports Manufacturing (Thailand) Co., Ltd., which was established during fiscal 2007, is included in consolidation. SRI Sports Ltd., a subsidiary of the Company, acquired all stocks issued by Roger Cleveland Golf Company, Inc., Cleveland Golf Canada Corp., Riviera S.A.S., Cleveland Golf Deutschland GmbH, Belfry Golf, Ltd. and Cleveland Golf Asia Ltd. (Cleveland Golf Group) in 2007, and their Balance Sheets are included in consolidation. SRI TECH MIYAZAKI, Ltd. was liquidated in 2007. Dunlop Sports NS Co., Ltd. was merged with Dunlop Sports Co., Ltd. SRI Medical, Ltd. was merged with SRI Hybrid Limited. Falken Tire Holdings, Inc. was merged with Falken Tire Corporation.

The balance sheet date of the Cleveland Golf Group is October 31, and the Group's accounts were consolidated based on their financial statements by preliminary settlement as of December 31, 2007. Consolidated subsidiaries except for Cleveland Golf Group are consolidated using the same fiscal period as that of the Company.

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

The differences between the cost 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. Generally, such differences are amortized using the straight-line method over a 5-year period. However, there are some exceptions to this policy. The difference related to Goodyear Dunlop Tires Europe B.V. is being amortized over a 10-year period. The difference related to Falken Tire Corporation, in compliance with SFAS No. 142 of the United States of America, is not being amortized (see note 2(10)). Minor differences are charged or credited to income as incurred, and the differences related to Cleveland Golf Group are scheduled to be amortized from 2008.

(2) Consolidated statements of cash flows

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

(3) Translation of foreign currencies

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

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

(4) Marketable securities and investments in securities

Securities classified as available-for-sale securities are stated at fair market value with unrealized gains or losses, net of applicable taxes, recorded as a component of net assets. 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. 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.

All derivatives are stated at fair value. However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated using the contract 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 forecasted transactions.
Interest rate swap contracts	Short-term borrowings and long-term debt, bonds

b. Hedging policy

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

c. 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 an 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, the Nagoya factory and 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.

In accordance with the provisions of the revised Corporation Tax Law, the depreciation method for tangible fixed assets has been changed. Starting from April 1, 2007, tangible fixed assets acquired on and after April 1, 2007 are depreciated fully to their memorandum values (¥1). This change will have only minor impact on the consolidated statements of income.

(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 sold 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.

(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.

(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.

(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, which were included in long-term liabilities—other, are recorded at an amount equivalent to 100% of such benefits that the subsidiaries would be required to pay at the balance sheet date based on their internal rules. Payments of benefits are subject to resolution at the shareholders’ meeting.

(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, 2007 or December 31, 2006.

(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
	2007	2006	**2007**
Cash and time deposits	**¥19,147**	¥18,172	**$167,956**
Time deposits with a maturity of over three months	**(786)**	(20)	**(6,895)**
Cash and cash equivalents	**¥18,361**	¥18,152	**$161,061**

4. Inventories

Inventories as of December 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished goods	**¥50,470**	¥44,354	**$442,719**
Work in process	**19,149**	14,114	**167,974**
Raw materials	**5,083**	4,349	**44,588**
Supplies	**5,366**	5,223	**47,070**
	¥80,068	¥68,040	**$702,351**

5. Investments in Securities

As of December 31, 2007 and 2006, 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
	2007	2006	**2007**
Available-for-sale securities:			
Cost	**¥ 8,563**	¥ 8,487	**$ 75,114**
Book value	**22,947**	24,724	**201,289**
Unrealized gains	**14,680**	16,261	**128,771**
Unrealized losses	**(296)**	(24)	**(2,596)**

6. Derivative Financial Instruments

Fair value information regarding derivative financial instruments as of December 31, 2007 and 2006 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Currency related contracts:									
Forward foreign exchange contracts									
To buy foreign currencies	**¥302**	**¥296**	**¥(5)**	¥500	¥494	¥(6)	**$2,649**	**$2,596**	**$(44)**

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	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	**¥20,000**	**¥(545)**	**¥(545)**	¥ —	¥ —	¥ —	**$175,439**	**$(4,781)**	**$(4,781)**
Give variable rate, receive fixed rate	**59,600**	**321**	**850**	40,000	(13)	(13)	**522,807**	**2,816**	**7,456**
	¥79,600	**¥(224)**	**¥ 305**	¥40,000	¥(13)	¥(13)	**$698,246**	**$(1,965)**	**$ 2,675**

7. Property, Plant and Equipment

Depreciation charges for the years ended December 31, 2007 and 2006 were ¥26,182 million ($229,667 thousand) and ¥23,224 million, respectively.

8. Trademarks

For the years ended December 31, 2007 and 2006, amortization charges for capitalized trademarks were ¥299 million ($2,623 thousand) and ¥386 million, respectively.

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings, other than commercial paper, of ¥45,622 million ($400,193 thousand) and ¥27,910 million as of December 31, 2007 and 2006 bore interest ranging from 0.82% to 7.48% and from 0.04% to 6.73% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥14,500 million ($127,193 thousand) as of December 31, 2007 and ¥24,000 million as of December 31, 2006 bore interest ranging from 0.79% to 0.95% and from 0.41% to 0.48% per annum, respectively.

Long-term debt as of December 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
0.91% unsecured bonds due 2007 payable in Japanese yen	**¥ —**	¥ 10,000	**$ —**
0.84% unsecured bonds due 2008 payable in Japanese yen	**10,000**	10,000	**87,719**
1.15% unsecured bonds due 2009 payable in Japanese yen	**20,000**	20,000	**175,439**
0.67% unsecured bonds due 2008 payable in Japanese yen	**5,000**	5,000	**43,860**
1.08% unsecured bonds due 2010 payable in Japanese yen	**10,000**	10,000	**87,719**
0.74% unsecured bonds due 2011 payable in Japanese yen	**20,000**	20,000	**175,439**
1.83% unsecured bonds due 2013 payable in Japanese yen	**10,000**	—	**87,719**
2.19% unsecured bonds due 2017 payable in Japanese yen	**5,000**	—	**43,860**
Loans payable to banks and other financial institutions due from 2008 to 2019, with interest of 0.53% to 4.97% for 2007 and 2006:			
Secured	**21,272**	21,512	**186,596**
Unsecured	**78,178**	70,950	**685,779**
	179,450	167,462	**1,574,130**
Less portion due within one year	**25,504**	16,797	**223,719**
	¥153,947	¥150,665	**$1,350,412**

The aggregate annual maturities of long-term debt as of December 31, 2007 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 25,504	$ 223,719
2009	41,861	367,202
2010	21,797	191,205
2011	34,112	299,230
2012	19,512	171,158
2013 and thereafter	36,664	321,616
	¥179,450	$1,574,130

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

As of December 31, 2007, property, plant and equipment amounting to ¥29,123 million ($255,465 thousand), net of accumulated depreciation, was pledged as collateral for long-term debt and short-term borrowings amounting to ¥21,272 million ($186,596 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, 2007 and 2006.

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, 2007 and 2006 were as follows.

	2007	2006
Normal cumulative statutory tax rate	**40.4%**	40.4%
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	**11.3**	6.4
Adjustment of book value of investment on sales of consolidated subsidiaries	**—**	4.8
Valuation allowance	**1.3**	5.5
Loss on impairment of investments in subsidiaries	**—**	(14.3)
Expenses not deductible for tax purposes	**0.9**	—
Equity in earnings of unconsolidated subsidiaries and affiliates	**(3.6)**	(6.9)
Proceeds from initial public offering of SRI Sports Limited	**—**	(2.0)
Foreign tax credits	**(2.9)**	—
Tax credits for research and development costs	**(2.6)**	—
Other	**1.5**	(1.6)
Effective tax rate per consolidated statements of income	**46.3%**	32.3%

Significant components of deferred tax assets and liabilities as of December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Provision for doubtful accounts	**¥ 155**	¥ 180	**$ 1,360**
Unrealized profits	**6,556**	6,849	**57,509**
Tax loss carryforwards	**2,497**	3,196	**21,904**
Provision for accrued retirement benefits	**1,627**	1,748	**14,272**
Loss on impairment of fixed assets	**1,324**	1,070	**11,614**
Accrued business enterprise tax	**1,143**	—	**10,026**
Accrued bonuses	**893**	854	**7,833**
Allowance for sales returns	**788**	402	**6,912**
Unrealized intercompany profits on inventories	**678**	310	**5,947**
Loss on impairment of investments in subsidiaries	**668**	1,191	**5,860**
Advertising	**600**	—	**5,263**
Directors' accrued retirement benefits	**218**	241	**1,912**
Loss on voluntary recall of products	**202**	—	**1,772**
Depreciation	**—**	730	**—**
Foreign tax credit	**—**	602	**—**
Other	**3,901**	4,384	**34,220**
Total	**¥ 21,250**	¥ 21,757	**$ 186,404**
Less valuation allowance	**(3,603)**	(4,116)	**(31,605)**
Total	**¥ 17,647**	¥ 17,641	**$ 154,798**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**¥ (2,626)**	¥ (3,397)	**$ (23,035)**
Unrealized gains on available-for-sale securities	**(5,788)**	(6,560)	**(50,772)**
Provision for accrued retirement benefits	**(7,011)**	(4,826)	**(61,500)**
Unrealized gain on land of a consolidated subsidiary	**(1,384)**	(1,586)	**(12,140)**
Other	**(1,104)**	(1,117)	**(9,685)**
Total	**¥(17,913)**	¥(17,486)	**$(157,132)**

Deferred income taxes, net, as of December 31, 2007 are included in the following accounts:

	Millions of yen	Thousands of U.S. dollars
	2007	**2007**
Current assets—deferred tax assets	**¥ 10,587**	**$ 92,868**
Investments and other assets—deferred tax assets	**4,676**	**41,018**
Current liabilities—deferred tax liabilities	**(79)**	**(694)**
(Current liabilities—other)		
Long-term liabilities—deferred tax liabilities	**(15,450)**	**(135,526)**

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 conditions under which the employee retires. In calculating the payment amount for an employee who retires involuntarily, including an employee who retires due to reaching the mandatory retirement age, the Company or the domestic consolidated subsidiaries may grant additional benefits.

On July 1, 2006 and June 1, 2007, 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Benefit obligation	**¥(49,059)**	¥(49,582)	**$(430,342)**
Fair value of plan assets	**71,076**	75,938	**623,474**
Funded status:			
Benefit obligation in excess of plan assets	**22,017**	26,356	**193,132**
Unrecognized actuarial differences	**(2,752)**	(10,287)	**(24,140)**
Unrecognized prior service cost	**(3,061)**	(3,353)	**(26,851)**
Subtotal	**16,204**	12,716	**142,141**
Prepaid pension cost	**26,608**	23,377	**233,404**
Accrued retirement benefits	**¥(10,404)**	¥(10,661)	**$ (91,263)**

The Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors and provided a reserve of ¥413 million ($3,623 thousand) and ¥454 million as of December 31, 2007 and 2006 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, amounting to ¥164 million ($1,439 thousand) and ¥203 million as of December 31, 2007 and 2006 respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥ 2,116**	¥ 1,382	**$ 18,561**
Interest cost	**858**	856	**7,526**
Expected return on plan assets	**(1,646)**	(1,321)	**(14,439)**
Amortization of actuarial differences	**(1,200)**	(73)	**(10,526)**
Amortization of prior service cost	**(292)**	(289)	**(2,561)**
Severance and retirement benefit expenses	**¥ (164)**	¥ 555	**$ (1,439)**
Transition loss into the defined contribution pension plan	**25**	445	**220**
Contributions to the defined contribution pension plan	**601**	541	**5,272**
Net periodic benefit costs	**¥ 462**	¥ 1,541	**$ 4,053**

The discount rates used by the Company and the domestic consolidated subsidiaries were mainly 2.0% in 2007 and 2006, and the expected return on plan assets was mainly 2.5% in 2007 and 2006. 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, 2007 and 2006 were ¥18,223 million ($159,851 thousand) and ¥17,291 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 sale 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 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	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥478,483**	¥430,620	**$4,197,219**
Intersegment sales and transfers	**281**	267	**2,465**
	478,764	430,887	**4,199,684**
Sports—			
Sales to unaffiliated customers	**59,518**	57,649	**522,088**
Intersegment sales and transfers	**376**	395	**3,298**
	59,894	58,044	**525,386**
Industrial and Other Products—			
Sales to unaffiliated customers	**29,306**	45,817	**257,070**
Intersegment sales and transfers	**2,623**	2,858	**23,009**
	31,929	48,675	**280,079**
Adjustments and eliminations	**(3,280)**	(3,520)	**(28,772)**
	¥567,307	¥534,086	**$4,976,377**
Operating income:			
Tires	**¥ 35,893**	¥ 26,381	**$ 314,851**
Sports	**6,780**	7,469	**59,474**
Industrial and Other Products	**2,441**	2,907	**21,412**
	45,114	36,757	**395,737**
Adjustments and eliminations	**12**	33	**105**
	¥ 45,126	¥ 36,790	**$ 395,842**
Identifiable assets:			
Tires	**¥554,241**	¥519,091	**$4,861,763**
Sports	**62,034**	40,663	**544,158**
Industrial and Other Products	**23,591**	28,272	**206,939**
	639,866	588,026	**5,612,860**
Corporate assets and eliminations	**31,251**	18,912	**274,131**
	¥671,117	¥606,938	**$5,886,991**
Capital expenditures:			
Tires	**¥ 51,578**	¥ 44,938	**$ 452,439**
Sports	**3,178**	1,203	**27,877**
Industrial and Other Products	**1,025**	1,944	**8,991**
	55,781	48,085	**489,307**
Corporate assets and eliminations	**11**	10	**97**
	¥ 55,792	¥ 48,095	**$ 489,404**
Depreciation and amortization:			
Tires	**¥ 27,466**	¥ 24,007	**$ 240,930**
Sports	**1,483**	1,486	**13,009**
Industrial and Other Products	**1,200**	1,545	**10,526**
	30,149	27,038	**264,465**
Corporate assets and eliminations	**16**	14	**140**
	¥ 30,165	¥ 27,052	**$ 264,605**
Loss on asset impairment:			
Tires	**¥ 486**	¥ 2,932	**$ 4,263**
Sports	**39**	476	**342**
Industrial and Other Products	**200**	149	**1,755**
	725	3,557	**6,360**
Corporate assets and eliminations	**—**	—	**—**
	¥ 725	¥ 3,557	**$ 6,360**

(2) Information by geographic area

Years ended December 31	Millions of yen 2007	2006	Thousands of U.S. dollars 2007
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥ 488,163**	¥466,794	**$4,282,132**
Sales between geographic areas	**33,249**	26,933	**291,658**
	521,412	493,727	**4,573,790**
Asia—			
Sales to unaffiliated customers	**42,542**	25,750	**373,175**
Sales between geographic areas	**42,671**	29,941	**374,307**
	85,213	55,691	**747,482**
Other—			
Sales to unaffiliated customers	**36,601**	41,542	**321,061**
Sales between geographic areas	**167**	125	**1,465**
	36,768	41,667	**322,526**
	643,393	591,085	**5,643,798**
Adjustments and eliminations	**(76,086)**	(56,999)	**(667,421)**
	¥ 567,307	¥534,086	**$4,976,377**
Operating income:			
Japan	**¥ 37,757**	¥ 32,768	**$ 331,202**
Asia	**3,515**	2,762	**30,833**
Other	**3,218**	1,323	**28,228**
	44,490	36,853	**390,263**
Adjustments and eliminations	**636**	(63)	**5,579**
	¥ 45,126	¥ 36,790	**$ 395,842**
Identifiable assets:			
Japan	**¥ 621,291**	¥587,749	**$5,449,921**
Asia	**116,963**	80,906	**1,025,991**
Other	**45,926**	35,964	**402,860**
	784,180	704,619	**6,878,772**
Corporate assets and eliminations	**(113,063)**	(97,681)	**(991,781)**
	¥ 671,117	¥606,938	**$5,886,991**

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

Years ended December 31	Millions of yen 2007	2006	Thousands of U.S. dollars 2007
Net sales:			
North America	**¥ 76,282**	¥ 64,430	**$ 669,140**
Europe	**26,790**	31,494	**235,000**
Asia	**58,503**	36,265	**513,184**
Other areas	**82,065**	66,433	**719,869**
Total	**¥243,640**	¥198,622	**$2,137,193**

	Percentage	
Percentage of such sales in consolidated net sales	**42.9%**	37.2%

14. Related Party Transactions

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2007 and 2006 and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Notes and accounts receivable:			
Trade	**¥ 5,224**	¥ 5,075	**$ 45,825**
Other	**622**	313	**5,456**
	5,846	5,388	**51,281**
Short-term loans	**5,350**	4,328	**46,930**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**2,871**	2,903	**25,184**
Notes and accounts payable:			
Trade	**5,316**	5,825	**46,631**
Other	**988**	464	**8,667**
	6,304	6,289	**55,298**
Sales	**19,442**	15,079	**170,544**
Purchases	**¥26,614**	¥15,446	**$233,456**

15. Contingent Liabilities

As of December 31, 2007 and 2006, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Trade notes discounted	**¥3,775**	¥2,316	**$33,114**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**203**	6	**1,781**

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, 2007 and 2006 were as follows:

As of December 31, 2007		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	**¥8,743**	**¥3,394**	**¥5,349**	**$76,693**	**$29,772**	**$46,921**
Other	**796**	**228**	**568**	**6,983**	**2,000**	**4,983**
Total	**¥9,539**	**¥3,622**	**¥5,917**	**$83,676**	**$31,772**	**$51,904**

As of December 31, 2006		Millions of yen	
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥7,337	¥2,877	¥4,460
Other	358	152	206
Total	¥7,695	¥3,029	¥4,666

Lease payments under non-capitalized finance leases for the years ended December 31, 2007 and 2006 amounted to ¥1,534 million ($13,456 thousand) and ¥1,397 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥1,483**	¥1,273	**$13,009**
Due later	**4,434**	3,393	**38,895**
	¥5,917	¥4,666	**$51,904**

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥ 546**	¥ 424	**$ 4,789**
Due later	**2,622**	2,864	**23,000**
	¥3,168	¥3,288	**$27,789**

17. Impairment Loss

The Company and its domestic subsidiaries recognized impairment loss for the following property groups for the year ended December 31, 2007.

Group	Location	Assets	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Industrial business	Kakogawa City, Hyogo	Machinery and other	**¥200**	**$1,754**
Sports business	Minoh City, Osaka	Buildings and machinery and other	**39**	**342**
Rental property	Miyakonojo City, Miyazaki and other	Land and buildings	**265**	**2,324**
Idle assets	Kohoku-ku, Yokohama City	Land, buildings, structures and other	**221**	**1,939**

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 the individual asset. The Company recognized impairment losses in the aggregate of ¥725 million ($6,360 thousand) of buildings and machinery and other in 2007, described above. Impairment losses were recognized related to the anticipated loss from disposal that would arise due to the decision to transfer the tennis ball manufacturing function at the Kakogawa Factory to an overseas factory, business that was determined to be sold or for which the market value was falling considerably below the book value due to the decrease in the price of land, or the business that became idle with a falling market value.

Impairment losses were recognized for the asset group in which market prices significantly decreased. When determining the market price, the assets of groups of high importance are assessed by the valuation amount based on real estate appraisal standards.

Group	Location	Assets	Millions of yen Impairment loss
Backlight business	Izumi-ohtsu City, Osaka and other	Buildings and machinery and other	¥ 149
Golf course	Ako county, Hyogo	Buildings and machinery and other	311
Rental property	Nishi-ku, Hiroshima and other	Buildings and machinery and other	2,680
Idle assets	Tamba City, Hyogo and other	Buildings and machinery and other	417

18. Loss on Voluntary Recall of Products

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

19. 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 28, 2008:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2007	¥84,031	$737,114
Appropriations—		
Cash dividends (¥10 per share outstanding at December 31, 2007)	(2,624)	(23,018)
Balance after appropriations	¥81,407	$714,096

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Rubber Industries, Ltd. (the "Company") and its consolidated subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 2(14) to the consolidated financial statements, the Company and its domestic consolidated subsidiaries 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.
(2) As discussed in Note 2(15) to the consolidated financial statements, the Company and its domestic consolidated subsidiaries 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.

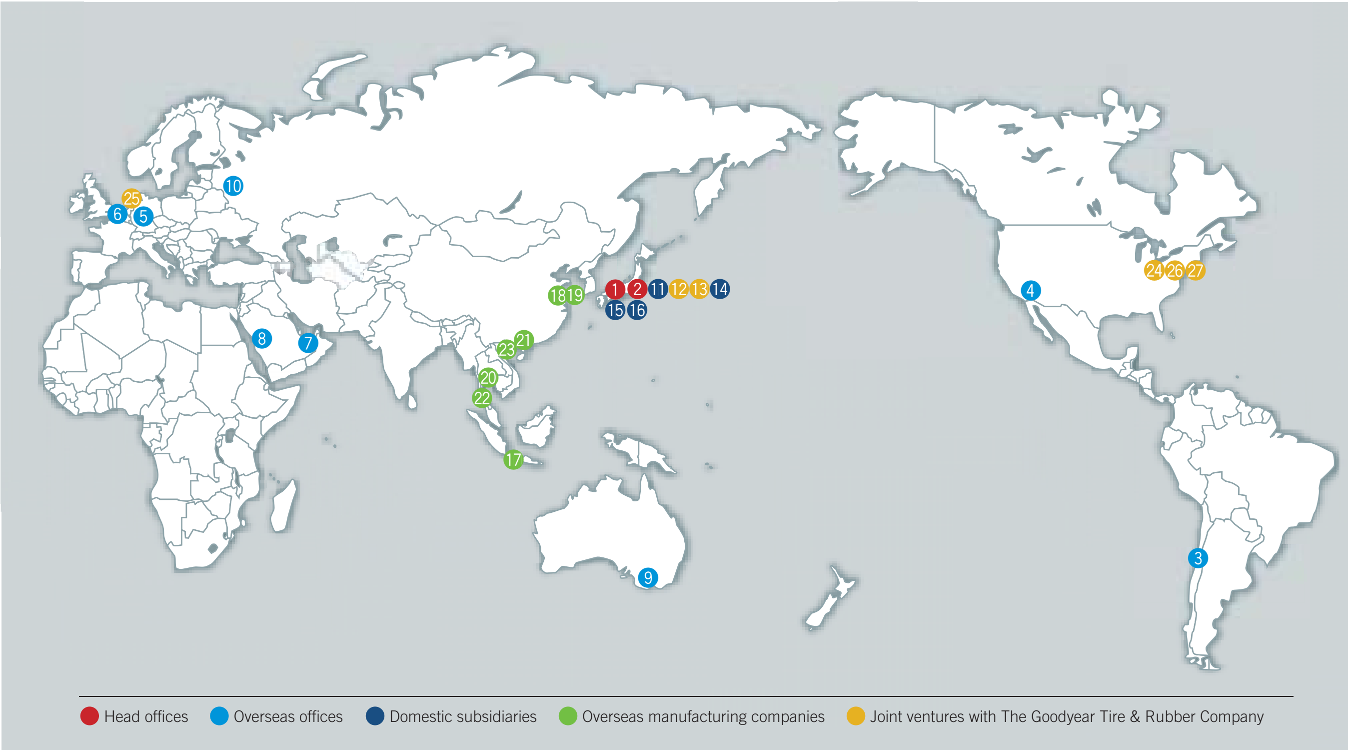
The U.S. dollars amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
March 28, 2008

Global Network

(As of December 31, 2007)



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Tokyo 135-6005, Japan
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Fax: (03) 5546-0140

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

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Jeddah, Saudi Arabia

9 Melbourne Office
Victoria, Australia

10 Moscow Office
Moscow, Russia

MAJOR SUBSIDIARIES

11 Dunlop Falken Tyres Ltd.
Koto-ku, Tokyo, Japan

12 Goodyear Japan Ltd.
Minato-ku, Tokyo, Japan

13 Dunlop Goodyear Tires Ltd.
Koto-ku, Tokyo, Japan

14 SRI Tire Trading Ltd.
Koto-ku, Tokyo, Japan

15 SRI Sports Ltd.
Chuo-ku, Kobe, Japan

16 SRI Hybrid Ltd.
Chuo-ku, Kobe, Japan

17 P.T. Sumi Rubber Indonesia
Jakarta, Indonesia

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

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

20 Sumitomo Rubber (Thailand) Co., Ltd.
Rayong, Thailand

21 Zhongshan Sumirubber Precision Rubber Ltd.
Guangdong Province, China

22 Sumirubber Malaysia Sdn. Bhd.
Sungai Petani, Kedah, Malaysia

23 Sumirubber Vietnam, Ltd.
Haiphong, Vietnam

MAJOR AFFILIATES

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

25 Goodyear Dunlop Tires Europe B.V.
Amsterdam, Netherlands

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

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

Investor Information
(As of December 31, 2007)

Paid-in Capital
¥42,658,014 thousand

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

Number of Shareholders
21,087

Major Shareholders

Sumitomo Electric Industries, Ltd.	26.74%
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.92%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.89%
Sumitomo Corporation	3.65%
Sumitomo Mitsui Banking Corporation	1.98%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1.66%
Nomura Securities Co., Ltd.	1.44%
The Goodyear Tire & Rubber Company	1.30%
The Nomura Trust and Banking Co., Ltd. (Trust Account)	1.23%
HSBC Fund Services SPARX Asset Management Co., Ltd.	1.05%

Stock Exchange Listings
Tokyo, Osaka

Ticker Symbol
5110

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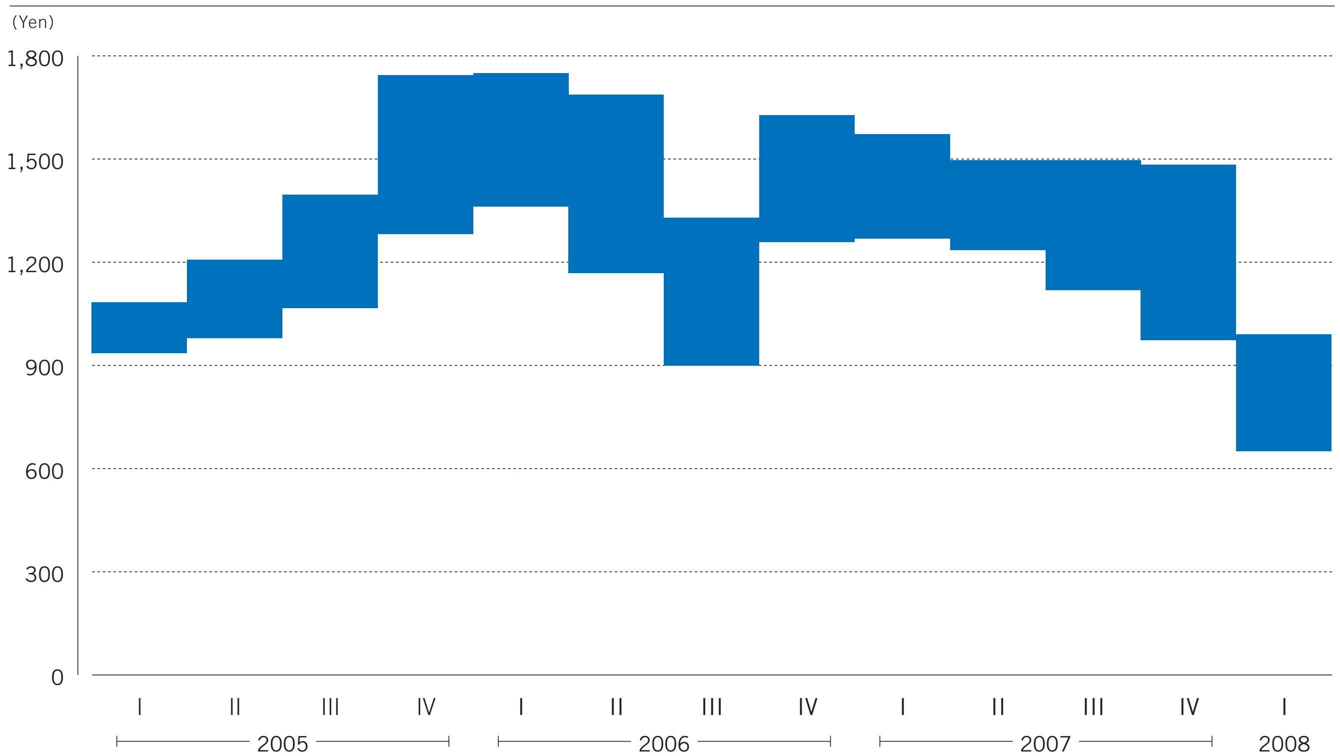
STOCK PRICE



SUMITOMO RUBBER INDUSTRIES ANNUAL REPORT 2007

SUMITOMO RUBBER GROUP

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