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

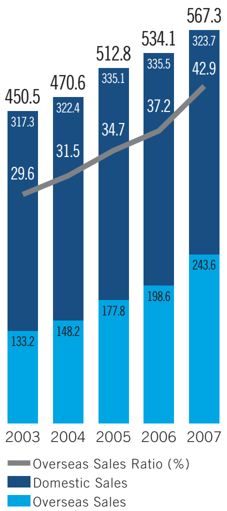
				Yen
Per share amounts:				
Net income (loss)	**¥ 74.31**	¥ 105.13	¥ 97.10	¥ 78.64
Net income—diluted	**—**	—	—	—
Cash dividends paid	**20.00**	20.00	20.00	14.00

				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

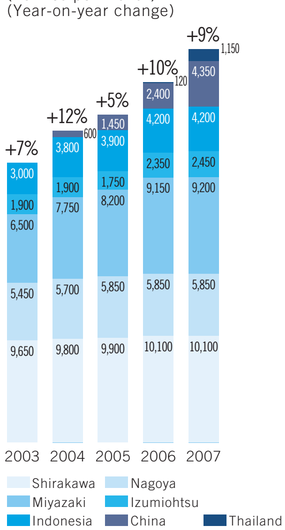
Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥114 per US$1.00, the approximate exchange rate prevailing at December 31, 2007.
2. In 1999, the Company changed its reporting entity due to the global alliance in the Tire business with Goodyear. The change reduced its 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	

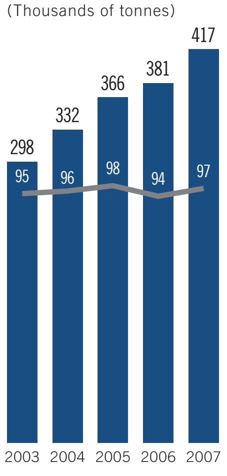
DOMESTIC AND OVERSEAS SALES
(Billions of yen)



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.

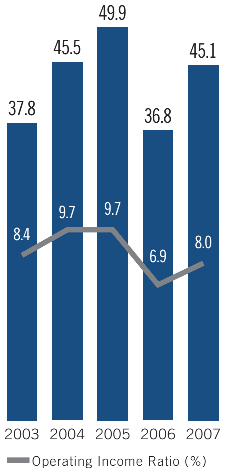
Overseas sales increased 22.7% to ¥243,640 million, and the overseas sales ratio was up 5.7 percentage points to 42.9%.

EARNINGS

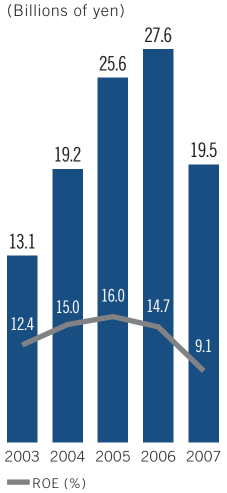
During the fiscal year under review, consolidated operating income increased 22.7% to ¥45,126 million, and the operating income ratio was up 1.1 percentage points year on year to 8.0%.

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.

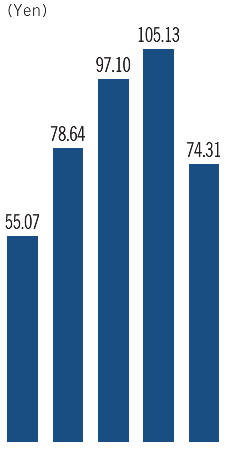
OPERATING INCOME
(Billions of yen)



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

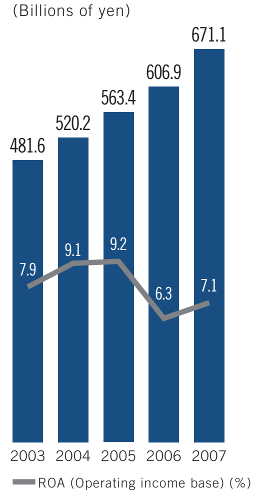
Total assets as of December 31, 2007, were up 10.6% year on year to ¥671,117 million.

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.

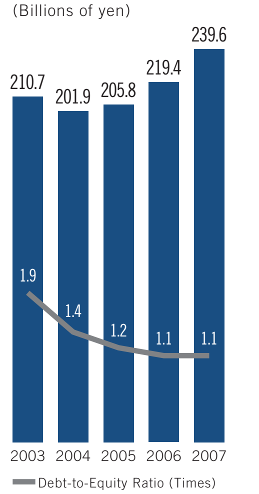
Total investments and other assets grew 12.2% to ¥162,782 million. This was largely due to an increase in goodwill and other intangible assets, reflecting the acquisition of Cleveland, an increase in investments in and advances to unconsolidated subsidiaries, and an increase in prepaid pension costs.

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.

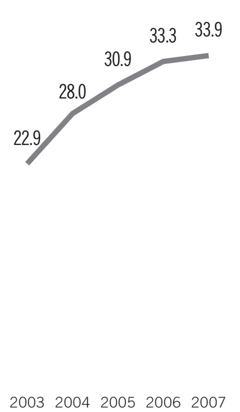
TOTAL ASSETS
(Billions of yen)



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.

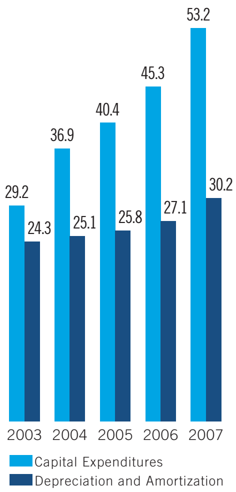
OUTLOOK

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.

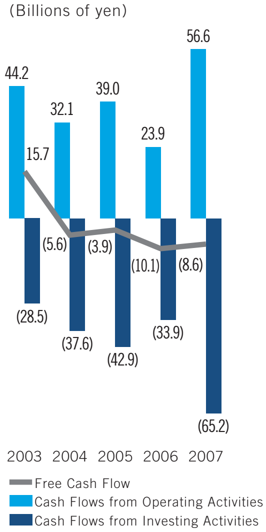
The Sumitomo Rubber Group is anticipating an even more severe business environment, given ongoing raw material price hikes and a further appreciation of the yen.

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
December 31	**2007**	2006	**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 (Millions of yen)	2006 (Millions of yen)	2007 (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)

	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	$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 (Current liabilities—other)	**(79)**	**(694)**
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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2007**	2006	**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 2007	2006
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.

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

			Millions of yen
Group	Location	Assets	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