# Financial Section

## 11-Year Summary of Consolidated Financial Data

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

| | | | | Millions of yen |
|---|---|---|---|---|
| Years ended December 31 | **2008** | 2007 | 2006 | 2005 |
| **For the year:** | | | | |
| Net sales | **¥604,974** | ¥567,307 | ¥534,086 | ¥512,838 |
| Cost of sales | **412,824** | 368,783 | 342,856 | 307,538 |
| Selling, general and administrative expenses | **166,491** | 153,398 | 154,440 | 155,374 |
| Operating income | **25,659** | 45,126 | 36,790 | 49,926 |
| Net income (loss) | **1,021** | 19,499 | 27,586 | 25,640 |
| Depreciation and amortization | **35,475** | 30,165 | 27,052 | 25,755 |
| Capital expenditures | **49,601** | 53,205 | 45,308 | 40,415 |
| Cash flows from operating activities | **25,879** | 56,594 | 23,872 | 38,984 |
| Cash flows from investing activities | **(58,067)** | (65,167) | (33,923) | (42,878) |
| Cash flows from financing activities | **34,088** | 8,692 | 14,687 | (3,376) |
| **At year-end:** | | | | |
| Total assets | **¥639,941** | ¥671,117 | ¥606,938 | ¥563,442 |
| Net assets | **202,642** | 250,799 | 223,852 | — |
| Shareholders' equity | **—** | — | — | 174,267 |
| Interest-bearing debt | **275,746** | 239,573 | 219,372 | 205,751 |
| | | | | Yen |
| **Per share amounts:** | | | | |
| Net income (loss) | **¥ 3.89** | ¥ 74.31 | ¥ 105.13 | ¥ 97.10 |
| Net income—diluted | **—** | — | — | — |
| Cash dividends paid | **18.00** | 20.00 | 20.00 | 20.00 |
| | | | | Percent |
| **Key ratios:** | | | | |
| Operating income ratio | **4.2%** | 8.0% | 6.9% | 9.7% |
| ROE | **0.5** | 9.1 | 14.7 | 16.0 |
| ROA (operating income base) | **3.9** | 7.1 | 6.3 | 9.2 |
| Equity ratio | **28.3** | 33.9 | 33.3 | 30.9 |
| Number of employees | **20,369** | 18,410 | 16,031 | 17,433 |
| Number of shares issued | **263,043,057** | 263,043,057 | 263,043,057 | 263,043,057 |

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥91 per US$1.00, the approximate exchange rate prevailing at December 31, 2008.

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.

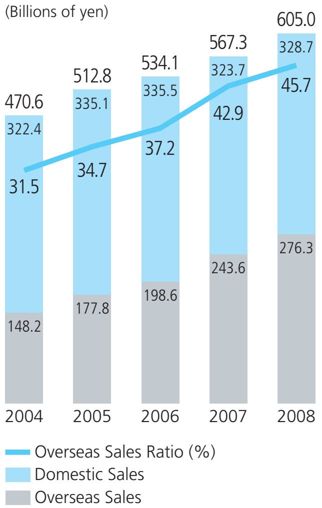
3. In 2000, the Company changed the accounting policy for technical aid income and expense. As a result of these changes, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million, however, there were no effects on net income.

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).

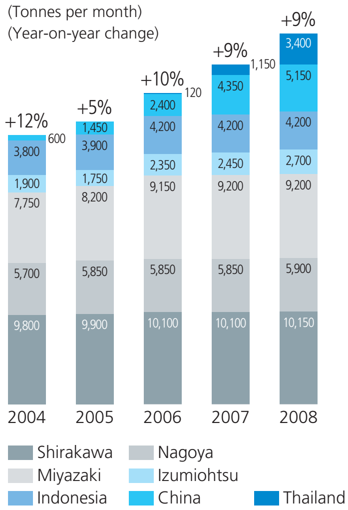
5. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Millions of yen | Thousands of U.S. dollars (Note 1) |
| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | **2008** |
| ¥470,562 | ¥450,491 | ¥447,893 | ¥434,463 | ¥423,247 | ¥509,215 | ¥653,525 | **$6,648,066** |
| 288,684 | 281,392 | 286,755 | 279,074 | 273,451 | 351,492 | 456,705 | **4,536,528** |
| 136,352 | 131,333 | 129,394 | 132,813 | 124,355 | 133,971 | 169,032 | **1,829,571** |
| 45,526 | 37,766 | 31,744 | 22,576 | 25,441 | 23,752 | 27,770 | **281,967** |
| 19,169 | 13,095 | 8,239 | (7,207) | 5,335 | 4,929 | 5,034 | **11,220** |
| 25,098 | 24,313 | 25,163 | 24,645 | 25,275 | 32,911 | 40,218 | **389,835** |
| 36,881 | 29,171 | 30,557 | 25,372 | 19,944 | 41,634 | 46,754 | **545,066** |
| 32,056 | 44,225 | 50,700 | 42,359 | 36,086 | 20,327 | 58,814 | **284,385** |
| (37,622) | (28,545) | (31,269) | (25,284) | (21,685) | 43,403 | (43,213) | **(638,099)** |
| 7,609 | (20,821) | (19,628) | (15,172) | (25,690) | (64,559) | (4,871) | **374,594** |
| ¥520,157 | ¥481,553 | ¥477,293 | ¥514,415 | ¥523,560 | ¥441,707 | ¥614,197 | **$7,032,319** |
| — | — | — | — | — | — | — | **2,226,836** |
| 145,492 | 110,395 | 101,633 | 107,391 | 109,995 | 97,475 | 96,091 | **—** |
| 201,929 | 210,681 | 220,085 | 241,600 | 252,143 | 223,727 | 311,574 | **3,030,176** |
| | | | | | | Yen | U.S. dollars (Note 1) |
| ¥ 78.64 | ¥ 55.07 | ¥ 33.97 | ¥ (29.71) | ¥ 23.24 | ¥ 22.57 | ¥ 23.06 | **$ 0.043** |
| — | — | — | — | — | 20.63 | — | **—** |
| 14.00 | 12.00 | 10.00 | 10.00 | 10.00 | 9.00 | 9.00 | **0.198** |
| | | | | | | Percent | |
| 9.7% | 8.4% | 7.1% | 5.2% | 6.0% | 4.7% | 4.2% | |
| 15.0 | 12.4 | 7.9 | — | 5.1 | 5.1 | 5.3 | |
| 9.1 | 7.9 | 6.4 | 4.4 | 5.3 | 4.5 | 4.4 | |
| 28.0 | 22.9 | 21.3 | 20.9 | 21.0 | 22.1 | 15.6 | |
| 16,737 | 15,573 | 15,312 | 15,123 | 15,348 | — | — | |
| 263,043,057 | 242,543,057 | 242,543,057 | 242,543,057 | 242,543,057 | 218,288,751 | 218,288,751 | |

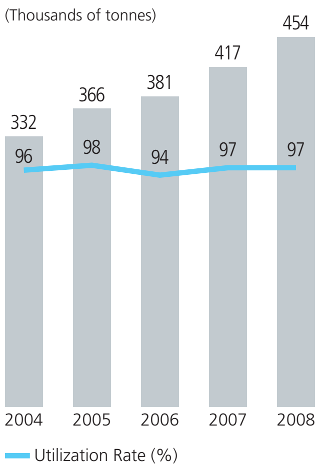
DOMESTIC AND OVERSEAS SALES
(Billions of yen)




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




TIRE PRODUCTION VOLUME
(Thousands of tonnes)




## SCOPE OF CONSOLIDATION

The Sumitomo Rubber Group's consolidated financial statements include those of Sumitomo Rubber Industries and its 74 consolidated subsidiaries as well as 38 equity-method affiliates (28 nonconsolidated subsidiaries and 10 affiliated companies).

In fiscal 2008, ended December 31, 2008, one subsidiary company was newly included in the Company's scope of consolidation, while six subsidiary companies were excluded. The newly consolidated subsidiary is a tire sales company in Russia, and its new consolidated status is due to its increased importance in the Group's business. The exclusion from consolidation of one of the six subsidiaries was due to the merger of SRI Research and Development, Ltd. with Sumitomo Rubber Industries, and the exclusion of the remaining five reflected the restructuring of sales companies in Japan and overseas Sports businesses.

## BUSINESS ENVIRONMENT

Amid increasing uncertainty in business trends due to soaring crude oil and raw material prices, the Japanese economy remained weak during fiscal 2008, reflecting global financial instability caused by the U.S. subprime loan crisis. When such financial conditions worsened further in October 2008, the real economy rapidly deteriorated as exports and corporate capital investment dropped substantially, while personal consumption became stagnant.

The environment surrounding the Group was harsh, with unprecedented increases in raw material prices affecting its profits in the first half of fiscal 2008. In addition, in the second half of the fiscal year under review, a slump in global demand for many products, including automobiles, and a substantial profit deterioration in the export business due to the rapid appreciation of the Japanese yen affected the Group's performance.

## REVENUES AND EARNINGS

In fiscal 2008, consolidated net sales rose 6.6% from the previous fiscal year to ¥604,974 million. Overseas sales increased 13.4% to ¥276,269 million, and the overseas sales ratio was up 2.8 percentage points to 45.7%.

Cost of sales grew 11.9% year on year to ¥412,824 million. The cost to sales ratio rose 3.2 percentage points to 68.2% due to soaring raw material prices, while gross operating profit declined 3.2% to ¥192,150 million. Selling, general and administrative expenses increased 8.5% to ¥166,491 million. The ratio of selling, general and administrative expenses to net sales edged up 0.5 of a percentage point to 27.5%.

As a result, operating income for the fiscal year under review dropped 43.1% to ¥25,659 million, while the operating income ratio decreased 3.8 percentage points to 4.2%.

Net other income (expenses) rose from a negative ¥4,700 million in fiscal 2007 to a negative ¥12,789 million in the period under review. Major factors included a substantial increase in exchange loss due to the appreciation of the yen, as well as equity in loss of unconsolidated subsidiaries and affiliates reflecting fallen revenues in joint ventures collaboratively owned with The Goodyear Tire & Rubber Company.

Reflecting these factors, income before income taxes and minority interests in consolidated subsidiaries fell 68.2% to ¥12,870 million. Income taxes dropped 44.7% to ¥10,362 million, representing an effective tax rate of 80.5%, an increase of 34.2 percentage points. After deducting minority interests in consolidated subsidiaries, net income was ¥1,021 million, down 94.8% year on year.

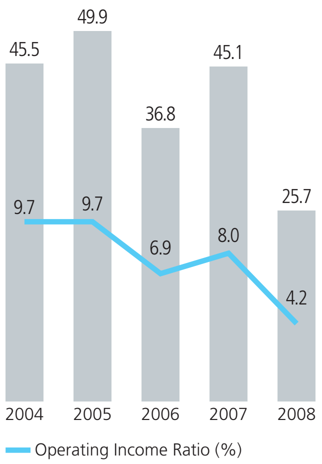
Net income per share was ¥3.89, and ROE (net income base) fell 8.6 percentage points to 0.5%.

## RESULTS BY INDUSTRY SEGMENT

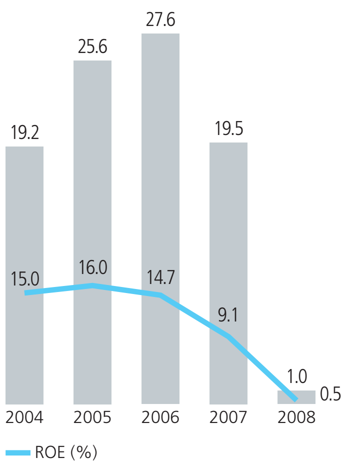
### Tire Business

Sales in the Tire business rose 4.7% year on year to ¥501,063 million, while operating income dropped 55.8% to ¥15,849 million. This was due to unprecedented raw material price hikes and profit deterioration in the export business, reflecting the appreciation of the Japanese yen in the second half of fiscal 2008. Compared with the previous fiscal year, such factors caused the Group's overall raw material costs to rise by approximately ¥36.7 billion and brought about ¥5 billion in foreign currency exchange losses. With the aim of absorbing the impact of decreased earnings,

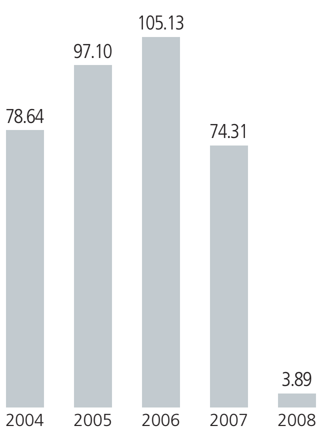
OPERATING INCOME
(Billions of yen)




NET INCOME
(Billions of yen)




NET INCOME PER SHARE
(Yen)




Sumitomo Rubber Industries strived to develop and release new products, while implementing proactive sales expansion promotion activities in overseas markets. Furthermore, the Company pushed to streamline product distribution and increase production overseas. Together with this, the Company engaged in various measures, including the optimization of sales prices, in pursuit of securing profits.

**Sports Business**

Sales in the Sports business grew 24.8% year on year to ¥74,289 million, and operating income expanded 13.9% to ¥7,719 million. Amid deteriorating golf goods markets both in Japan and overseas, demand for The XXIO golf clubs remained robust in the domestic market. Overseas, SRI Sports acquired U.S. golf club maker Cleveland in December 2007. These factors resulted in an increase in sales and profits.

**Industrial and Other Products Business**

Sales in the Industrial and Other Products business rose 1.1% from the previous fiscal year to ¥29,622 million, while operating income decreased 25.7% to ¥1,813 million. During the fiscal year under review, sales of civil engineering/marine facility-related products such as marine fenders and medical rubber parts were favorable. In addition, artificial turf for sporting use and GRAST vibration-control technology using extra-high damping rubber showed brisk demand. However, sales of this segment’s mainstay precision rubber parts for printers and photocopiers were stagnant on the back of the global economic recession and the impact of the strong yen. As a result, decreased revenues and earnings were recorded in this segment.

## R&D EXPENSES

Research and development expenses climbed 6.2% year on year to ¥19,351 million, representing 3.2% of consolidated net sales. The Tire business accounted for ¥16,013 million of these expenses, up 6.0% from the previous fiscal year, the Sports business ¥1,417 million, up 12.9%, and the Industrial and Other Products business ¥1,920 million, up 3.1%.

## DIVIDENDS

Sumitomo Rubber Industries 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. In addition, 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 2008 was ¥18.00 per share, a decrease of ¥2.00 from the previous fiscal year. The dividend payout ratio on a consolidated basis was 462.7%.

## FINANCIAL POSITION

Total assets as of December 31, 2008 were down 4.6% year on year to ¥639,941 million.

Total current assets grew 1.8% to ¥271,912 million, mainly reflecting the increase in inventories.

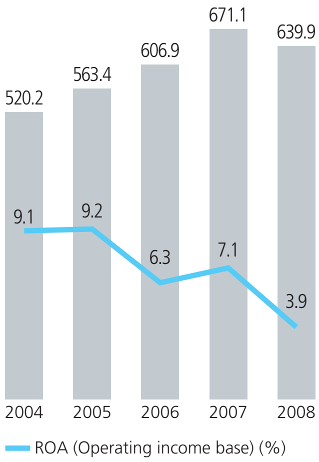
Total investments and other assets fell 19.1% to ¥131,738 million, mainly attributable to a decrease in investments in securities due to stagnant securities markets.

Total property, plant and equipment declined 2.1% year on year to ¥236,291 million.

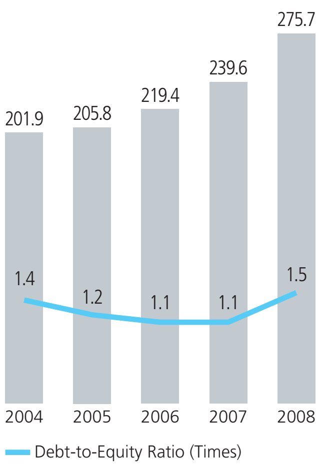
As of the end of the fiscal year under review, total liabilities climbed 4.0% to ¥437,299 million. Interest-bearing debt as of the fiscal 2008 year-end increased ¥36,173 million to ¥275,746 million, and the debt-to-equity ratio deteriorated from 1.1 times as of the previous fiscal year-end to 1.5 times.

Total net assets at the fiscal year-end dropped 19.2% to ¥202,642 million, and net assets per share were ¥689.70. As a result, the equity ratio (net assets minus minority interests in consolidated subsidiaries to total assets) at the end of fiscal 2008 fell 5.6 percentage points to 28.3%. ROA (operating income base) declined 3.2 percentage points to 3.9%.

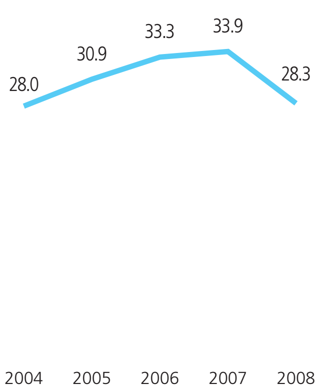
TOTAL ASSETS
(Billions of yen)




INTEREST-BEARING DEBT
(Billions of yen)




EQUITY RATIO
(%)




## CAPITAL EXPENDITURES

During the fiscal year under review, the Sumitomo Rubber Group made capital expenditures of ¥49,601 million, focusing mainly on the Tire business. This represented a 6.8% decrease from the previous fiscal year. The Tire business accounted for ¥46,987 million, which was used for facility renovation aimed at boosting and streamlining production and the improvement of labor efficiency. The Sports business spent ¥1,698 million for the improvement of golf ball production efficiency at SRI Sports Limited, and the Industrial and Other Products business used ¥915 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, borrowings and corporate bonds.

With the aim of addressing rapidly worsened global demand since October 2008, the Sumitomo Rubber Group is reviewing the aggressive capital expenditures it has made to increase production in the Tire business over the past few years. To that end, the Group will cut its capital expenditures in the fiscal year ending December 31, 2009 to ¥38,000 million. The Sumitomo Rubber Group will continue to review its capital investment plan carefully to further reduce expenditures.

## CASH FLOWS

Net cash provided by operating activities dropped 54.3% year on year to ¥25,879 million, mainly comprising significantly decreased income before income taxes and minority interests as well as an increase in inventories and income taxes paid.

Net cash used in investing activities declined 10.9% to ¥58,067 million. During the fiscal year under review, total cash outflow in investing activities decreased year on year despite proactive capital investment. This was mainly due to a cash outflow of ¥9,032 million for SRI Sports' acquisition of Cleveland in fiscal 2007.

Net cash provided by financing activities jumped 292.2% to ¥34,088 million. Net fund procurement, including short-term borrowings, the redemption of bonds and long-term debt, was ¥40,213 million. Dividends paid also contributed to the result.

These activities, along with the effect of exchange rate changes on 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 edging up 0.9% to ¥18,526 million.

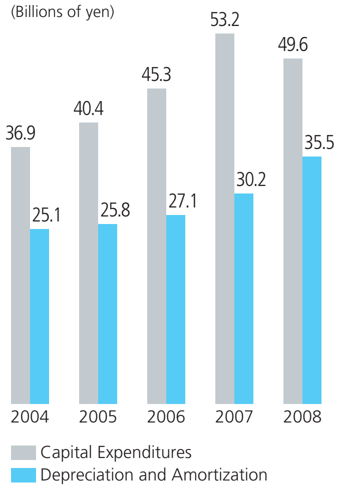
Free cash flow (net cash provided by operating activities less net cash used in investing activities) was a negative ¥32,188 million. This was mainly attributable to the increase in capital investment and inventories. Although the Sumitomo Rubber Group will continue to carry out capital investment, the Group will aim to expand inflow of cash from operating activities by increasing sales volumes and improving profitability at the same time. By doing so, the Group will make every effort to ensure both business growth and secured cash liquidity, as well as to enhance its financial standing.

## OUTLOOK

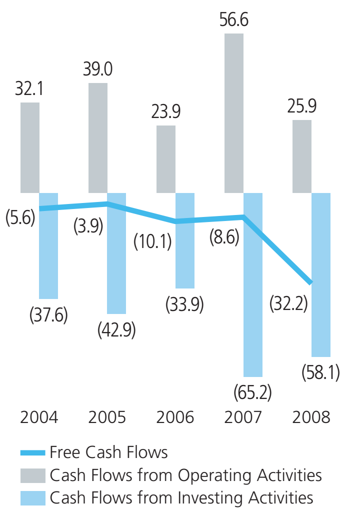
Looking at the future of the economy, the fear is that conditions will become increasingly severe. Under these circumstances, it is anticipated that the Japanese economy will contract due to negative growth, reflecting the concurrent slowdown of the world economy. Despite the plateauing raw material prices, the business environment surrounding the Sumitomo Rubber Group may become increasingly harsh. This is based on an assumption of a sluggish employment and income environment, declining corporate profits, and weakening personal consumption and capital investment. In particular, a significant production decrease is expected in the automobile sector due to sluggish demand in both the domestic and overseas markets.

Amid such circumstances, the Sumitomo Rubber Group will commemorate its 100th anniversary in fiscal 2009. In pursuit of a reinvigorated corporate structure aimed at securing profitability under this harsh business environment, and to take the first steps forward toward the next 100 years, the Group will resolutely carry out structural reform, including human resource development, organizational capabilities enhancement and business efficiency improvement. With this in mind, the Group will make further efforts to reduce manufacturing costs and other expenditures through an overall cost reduction campaign, while cutting distribution costs and foreign currency exchange risks by promoting the shift to optimal production systems. Furthermore, the Group will strive to develop and release products that excel at environment friendliness and meet market needs from a long-term perspective, while developing a management platform that will accelerate toward the next 100 years.

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 45.6% in fiscal 2008, 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-shareholdings with Goodyear. As each joint venture is included in the Group's scope of consolidation as 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 | **2008** | 2007 | **2008** |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and time deposits (Note 3) | **¥ 19,187** | ¥ 19,147 | **$ 210,846** |
| Notes and accounts receivable (Note 14)— | | | |
| Trade | **117,451** | 131,454 | **1,290,670** |
| Other | **21,882** | 16,593 | **240,462** |
| Allowance for doubtful accounts | **(1,800)** | (1,650) | **(19,780)** |
| Securities | **1,000** | — | **10,989** |
| Inventories (Note 4) | **95,049** | 80,068 | **1,044,495** |
| Short-term loans (Note 14) | **6,384** | 7,011 | **70,154** |
| Deferred tax assets (Note 10) | **8,628** | 10,587 | **94,813** |
| Other | **4,131** | 3,815 | **45,395** |
| **Total current assets** | **271,912** | 267,025 | **2,988,044** |
| **Investments and other assets:** | | | |
| Investments in securities (Note 5) | **11,276** | 24,398 | **123,912** |
| Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14) | **57,757** | 74,405 | **634,692** |
| Long-term loans | **457** | 541 | **5,022** |
| Deferred tax assets (Note 10) | **5,153** | 4,676 | **56,626** |
| Long-term prepaid expenses | **4,076** | 4,502 | **44,791** |
| Trademarks (Note 8) | **1,397** | 1,856 | **15,352** |
| Goodwill and other intangible assets | **15,334** | 16,343 | **168,505** |
| Prepaid pension cost (Note 11) | **27,652** | 26,608 | **303,868** |
| Other | **9,986** | 10,853 | **109,737** |
| Allowance for doubtful accounts | **(1,350)** | (1,400) | **(14,835)** |
| **Total investments and other assets** | **131,738** | 162,782 | **1,447,670** |
| **Property, plant and equipment** (Notes 7 and 9)**:** | | | |
| Land | **37,125** | 38,643 | **407,967** |
| Buildings and structures | **139,335** | 136,909 | **1,531,154** |
| Machinery and equipment | **419,637** | 413,300 | **4,611,396** |
| Construction in progress | **14,732** | 13,623 | **161,890** |
| Accumulated depreciation | **(374,538)** | (361,165) | **(4,115,802)** |
| **Net property, plant and equipment** | **236,291** | 241,310 | **2,596,605** |
| **Total assets** | **¥ 639,941** | ¥ 671,117 | **$ 7,032,319** |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| **Liabilities and Net Assets** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings (Note 9) | **¥ 83,648** | ¥ 60,122 | **$ 919,209** |
| Current portion of long-term debt (Note 9) | **43,539** | 25,504 | **478,451** |
| Notes and accounts payable (Note 14)— | | | |
| Trade | **81,380** | 77,053 | **894,286** |
| Construction | **7,148** | 10,367 | **78,549** |
| Other | **22,475** | 27,001 | **246,978** |
| Accrued expenses | **10,720** | 12,240 | **117,802** |
| Allowance for sales returns | **1,820** | 1,952 | **20,000** |
| Accrued income taxes (Note 10) | **3,823** | 12,221 | **42,011** |
| Other | **4,482** | 6,684 | **49,252** |
| **Total current liabilities** | **259,035** | 233,144 | **2,846,538** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 9) | **148,559** | 153,947 | **1,632,516** |
| Deferred tax liabilities (Note 10) | **11,753** | 15,450 | **129,154** |
| Accrued retirement benefits (Note 11) | **10,593** | 10,404 | **116,407** |
| Other | **7,359** | 7,373 | **80,868** |
| **Total long-term liabilities** | **178,264** | 187,174 | **1,958,945** |
| **Contingent liabilities** (Note 15) | | | |
| **Net Assets** | | | |
| **Shareholders' equity** (Note 19)**:** | | | |
| Common stock— | | | |
| Authorized: 800,000,000 | | | |
| Issued: 263,043,057 shares in 2008 and 2007 | **42,658** | 42,658 | **468,769** |
| Capital surplus | **38,661** | 38,661 | **424,846** |
| Retained earnings | **112,601** | 109,673 | **1,237,374** |
| Less treasury stock, at cost— | | | |
| 2008—696,200 shares | | | |
| 2007—688,541 shares | **(531)** | (524) | **(5,835)** |
| **Total shareholders' equity** | **193,389** | 190,468 | **2,125,154** |
| **Valuation and translation adjustments** | | | |
| Net unrealized gains on available-for-sale securities | **957** | 8,585 | **10,516** |
| Deferred losses on hedges | **(461)** | (314) | **(5,066)** |
| Translation adjustments | **(12,945)** | 29,041 | **(142,252)** |
| **Total valuation and translation adjustments** | **(12,449)** | 37,312 | **(136,802)** |
| **Minority interests** | **21,702** | 23,019 | **238,484** |
| **Total net assets** | **202,642** | 250,799 | **2,226,836** |
| **Total liabilities and net assets** | **¥639,941** | ¥671,117 | **$7,032,319** |

## Consolidated Statements of Income

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| Years ended December 31 | **2008** | 2007 | **2008** |
| **Net sales** (Note 14) | **¥604,974** | ¥567,307 | **$6,648,066** |
| **Cost of sales** (Note 14) | **412,824** | 368,783 | **4,536,528** |
| **Gross profit** | **192,150** | 198,524 | **2,111,538** |
| **Selling, general and administrative expenses** | **166,491** | 153,398 | **1,829,571** |
| **Operating income** | **25,659** | 45,126 | **281,967** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **1,220** | 1,198 | **13,407** |
| Interest expense | **(4,766)** | (3,287) | **(52,374)** |
| Loss on sales or disposal of property, plant, and equipment, net | **(759)** | (1,550) | **(8,341)** |
| Exchange loss, net | **(4,757)** | (1,195) | **(52,275)** |
| Equity in (loss) earnings of unconsolidated subsidiaries and affiliates | **(182)** | 3,646 | **(2,000)** |
| Loss on asset impairment (Note 17) | **(590)** | (725) | **(6,484)** |
| Loss on voluntary recall of products (Note 18) | **—** | (500) | **—** |
| Loss on transition to defined contribution plans from defined benefit plans (Note 11) | **—** | (25) | **—** |
| Group restructuring expenses | **(573)** | — | **(6,297)** |
| Other, net | **(2,382)** | (2,262) | **(26,174)** |
| | **(12,789)** | (4,700) | **(140,538)** |
| **Income before income taxes and minority interests in consolidated subsidiaries** | **12,870** | 40,426 | **141,429** |
| **Income taxes** (Note 10): | | | |
| Current | **7,269** | 16,787 | **79,879** |
| Deferred | **3,093** | 1,943 | **33,989** |
| | **10,362** | 18,730 | **113,868** |
| **Income before minority interests in consolidated subsidiaries** | **2,508** | 21,696 | **27,561** |
| **Minority interests in consolidated subsidiaries** | **(1,487)** | (2,197) | **(16,341)** |
| **Net income** | **¥ 1,021** | ¥ 19,499 | **$ 11,220** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Per share amounts:** | | | |
| Net income | **¥ 3.89** | ¥ 74.31 | **$ 0.043** |
| Cash dividends paid | **18.00** | 20.00 | **0.198** |

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

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 | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2007** | ¥42,658 | ¥38,661 | ¥109,673 | ¥(524) | ¥ 8,585 | ¥(314) | ¥ 29,041 | ¥23,019 | ¥250,799 |
| Disposal of treasury stock | | **0** | | **2** | | | | | **2** |
| Cash dividends | | | **(5,247)** | | | | | | **(5,247)** |
| Net income | | | **1,021** | | | | | | **1,021** |
| Repurchase of treasury stock | | | | **(9)** | | | | | **(9)** |
| Effect of change in reporting entities | | | **(5)** | | | | | | **(5)** |
| Increase due to merger of non-consolidated subsidiaries, net | | | **43** | | | | | | **43** |
| Other | | | **7,116** | | **(7,628)** | **(147)** | **(41,986)** | **(1,317)** | **(43,962)** |
| **Balance at December 31, 2008** | **¥42,658** | **¥38,661** | **¥112,601** | **¥(531)** | **¥ 957** | **¥(461)** | **¥(12,945)** | **¥21,702** | **¥202,642** |

Thousands of U.S. dollars (Note 1)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2007** | $468,769 | $424,846 | $1,205,197 | $(5,758) | $ 94,340 | $(3,451) | $ 319,132 | $252,958 | $2,756,033 |
| Disposal of treasury stock | | **0** | | **22** | | | | | **22** |
| Cash dividends | | | **(57,659)** | | | | | | **(57,659)** |
| Net income | | | **11,220** | | | | | | **11,220** |
| Repurchase of treasury stock | | | | **(99)** | | | | | **(99)** |
| Effect of change in reporting entities | | | **(55)** | | | | | | **(55)** |
| Increase due to merger of non-consolidated subsidiaries, net | | | **473** | | | | | | **473** |
| Other | | | **78,198** | | **(83,824)** | **(1,615)** | **(461,384)** | **(14,474)** | **(483,099)** |
| **Balance at December 31, 2008** | **$468,769** | **$424,846** | **$1,237,374** | **$(5,835)** | **$ 10,516** | **$(5,066)** | **$(142,252)** | **$238,484** | **$2,226,836** |

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 | **2008** | 2007 | **2008** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests in consolidated subsidiaries | **¥ 12,870** | ¥ 40,426 | **$ 141,429** |
| Adjustments to reconcile income before income taxes and minority interests in consolidated subsidiaries to net cash provided by operating activities— | | | |
| Depreciation and amortization | **35,475** | 30,165 | **389,835** |
| Loss on asset impairment | **590** | 725 | **6,484** |
| Loss on sales or disposal of property, plant and equipment, net | **759** | 1,550 | **8,341** |
| Loss on transition to defined contribution plans from defined benefit plans | **—** | 25 | **—** |
| Equity in loss (earnings) of unconsolidated subsidiaries and affiliates | **182** | (3,646) | **2,000** |
| Provision for (Reversal of) allowance for doubtful accounts | **351** | (356) | **3,857** |
| Increase (Decrease) in accrued retirement benefits, net of payment | **569** | (204) | **6,253** |
| Increase in prepaid pension costs, net of payment | **(1,044)** | (3,230) | **(11,473)** |
| Decrease in pension premiums payable for transition to defined contribution plan | **—** | (2,182) | **—** |
| Interest and dividend income | **(1,220)** | (1,198) | **(13,407)** |
| Interest expenses | **4,766** | 3,287 | **52,374** |
| Decrease (Increase) in notes and accounts receivable | **9,292** | (7,089) | **102,110** |
| Increase in inventories | **(22,044)** | (8,700) | **(242,242)** |
| Increase (Decrease) in notes and accounts payable | **10,935** | (2,154) | **120,165** |
| Decrease in accounts payable | **(3,991)** | — | **(43,857)** |
| Other | **(2,112)** | 6,173 | **(23,209)** |
| Subtotal | **45,378** | 53,592 | **498,660** |
| Interest and dividends received | **6,100** | 11,738 | **67,033** |
| Interest paid | **(4,680)** | (3,246) | **(51,429)** |
| Income taxes paid | **(20,919)** | (5,490) | **(229,879)** |
| **Net cash provided by operating activities** | **25,879** | 56,594 | **284,385** |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | **(56,238)** | (52,421) | **(618,000)** |
| Proceeds from sales of property, plant and equipment, net of related outstanding receivables | **450** | 913 | **4,945** |
| Additional acquisition of shares in consolidated subsidiaries and affiliates from minority interests | **(472)** | (677) | **(5,187)** |
| Acquisition of shares of newly consolidated subsidiaries | **(284)** | (9,032) | **(3,121)** |
| Acquisition of investments in securities | **(699)** | (100) | **(7,681)** |
| Proceeds from sales of investments in securities | **7** | 156 | **77** |
| Acquisition of shares of unconsolidated subsidiaries and affiliates | **(1,107)** | (966) | **(12,165)** |
| Proceeds from sales of investment in consolidated subsidiaries and affiliates | **—** | 44 | **—** |
| Net decrease (increase) in short-term loans | **661** | (281) | **7,264** |
| Payments for long-term loans | **(90)** | (75) | **(989)** |
| Proceeds from collection of long-term loans | **88** | 96 | **967** |
| Proceeds from withdrawal of time deposits | **969** | — | **10,648** |
| Payments for purchase of time deposits | **(1,043)** | (1,766) | **(11,462)** |
| Other | **(309)** | (1,058) | **(3,395)** |
| **Net cash used in investing activities** | **(58,067)** | (65,167) | **(638,099)** |
| **Cash flows from financing activities:** | | | |
| Net increase in short-term borrowings | **26,996** | 2,204 | **296,659** |
| Proceeds from long-term debt and newly issued bonds | **39,019** | 29,000 | **428,780** |
| Repayments of long-term debt and redemption of bonds | **(25,802)** | (16,839) | **(283,538)** |
| Dividends paid | **(5,247)** | (5,248) | **(57,659)** |
| Dividends paid to minority interests | **(870)** | (842) | **(9,560)** |
| Subscription by minority interests for issuance of common stock of consolidated subsidiaries | **—** | 459 | **—** |
| Payments for purchases of treasury stock, net | **(7)** | (41) | **(77)** |
| Other | **(1)** | (1) | **(11)** |
| **Net cash provided by financing activities** | **34,088** | 8,692 | **374,594** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(2,969)** | (13) | **(32,627)** |
| **Net (decrease) increase in cash and cash equivalents** | **(1,069)** | 106 | **(11,747)** |
| **Cash and cash equivalents at beginning of year** | **18,361** | 18,152 | **201,769** |
| **Increase in cash and cash equivalents due to change in reporting entities** | **1,234** | 103 | **13,560** |
| **Cash and cash equivalents at end of year** (Note 3) | **¥ 18,526** | ¥ 18,361 | **$ 203,582** |

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, 2008 and 2007

### 1. Major Policies Applied in Preparing Consolidated Financial Statements

The accompanying consolidated financial statements are a translation of the financial statements publicly issued in Japan and have been modified to enhance foreign readers' understanding. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In addition, the notes to the consolidated financial statements include financial information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts appearing in the consolidated financial statements are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent U.S. dollars or have been or could be converted into U.S. dollars. The rate of ¥91=U.S.$1.00, the approximate rate prevailing at December 31, 2008, 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.

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.

Dunlop Tire CIS Limited Liability Company, whose operations became significant in 2008, is included in the 2008 consolidation. SRI Research and Development Ltd. was merged with Sumitomo Rubber Industries, Ltd.; Dunlop Sports Kyusyu Co., Ltd. was merged with Dunlop Sports Co., Ltd.; and Srixon Sports USA Inc. was merged with Roger Cleveland Golf Company, Inc., respectively in 2008. Riviera S.A.S., Belfry Golf, Ltd. and Cleveland Deutschland GmbH transferred their business to Srixon Sports Europe Ltd. in 2008. Riviera S.A.S. was liquidated in 2008. The Company decided to exclude Belfry Golf, Ltd. and Cleveland Deutschland GmbH from consolidation, because their operations became insignificant in 2008.

All consolidated subsidiaries 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 of and the underlying net equity in 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 by 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, and the difference related to Cleveland Golf Group is scheduled to be amortized over 15 years from 2008. 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.

**(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 and 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 change in the 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 rate. 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 over 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 revised Tax Law, for tangible fixed assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries have started to depreciate the remaining balance of the assets over a five-year period using the straight-line method from the fiscal year following the year when the book value of the assets decreases to 5% of the acquisition costs under the method of depreciation under the Tax Law before revision. As a result of this change operating income was ¥1,968 million ($21,626 thousand) less and income before income taxes and others was ¥1,974 million ($21,703 thousand) less than they would have been with the previous method.

**(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 other intangible assets with indefinite useful lives held by U.S. subsidiaries are not amortized but under certain circumstances, tested for impairment on an annual basis under certain circumstances and written down when impaired. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment.

**(11) Research and development expenses**
Research and development expenses 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) 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 are 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.

**(14) Income taxes**
The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes which, in case of costs and expenses, are not currently tax deductible and, in the case of income, are not currently taxable. The Company and its consolidated subsidiaries 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.

**(15) Per share amounts**
Net income per share is computed based on the average number of shares outstanding during each period. Diluted net income per share is not presented because there were no outstanding common stock equivalents as of December 31, 2008 or December 31, 2007.

**(16) Use of estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**(17) Reclassifications**
Certain reclassifications of previously reported amounts have been made to conform with current classifications.

## 3. Cash Flow Information

Reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Cash and time deposits | **¥19,187** | ¥19,147 | **$210,846** |
| Securities | **1,000** | — | **10,989** |
| Time deposits with a maturity of over three months | **(1,661)** | (786) | **(18,253)** |
| Cash and cash equivalents | **¥18,526** | ¥18,361 | **$203,582** |

## 4. Inventories

Inventories as of December 31, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Finished goods | **¥59,341** | ¥50,470 | **$ 652,099** |
| Work-in-process | **24,322** | 19,149 | **267,275** |
| Raw materials | **5,568** | 5,083 | **61,187** |
| Supplies | **5,818** | 5,366 | **63,934** |
| | **¥95,049** | ¥80,068 | **$1,044,495** |

## 5. Investments in Securities

As of December 31, 2008 and 2007, 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 |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Available-for-sale securities: | | | |
| Cost | **¥ 8,647** | ¥ 8,563 | **$ 95,022** |
| Book value | **10,199** | 22,947 | **112,077** |
| Unrealized gains | **2,940** | 14,680 | **32,308** |
| Unrealized losses | **(1,388)** | (296) | **(15,253)** |

## 6. Derivative Financial Instruments

Fair value information regarding derivative financial instruments as of December 31, 2008 and 2007 was as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | | | 2007 | | | **2008** | | |
| | 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 | **¥170** | **¥152** | **¥(18)** | ¥302 | ¥296 | ¥ (5) | **$1,868** | **$1,670** | **$(198)** |
| To sell foreign currencies | **626** | **594** | **31** | — | — | — | **6,879** | **6,527** | **341** |
| | | | **¥ 13** | | | ¥ (5) | | | **$ 143** |

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | | | 2007 | | | **2008** | | |
| | 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 | **¥21,820** | **¥(474)** | **¥ 70** | ¥20,000 | ¥(545) | ¥(545) | **$239,780** | **$(5,209)** | **$ 769** |
| Give variable rate, receive fixed rate | **59,600** | **371** | **50** | 59,600 | 321 | 850 | **654,945** | **4,077** | **550** |
| | | | **¥120** | | | ¥ 305 | | | **$1,319** |

## 7. Property, Plant and Equipment

Depreciation expenses for the years ended December 31, 2008 and 2007 were ¥ 31,201 million ($342,868 thousand) and ¥26,182 million, respectively.

## 8. Trademarks

For the years ended December 31, 2008 and 2007, amortization expenses for capitalized trademarks were ¥341 million ($3,747 thousand) and ¥299 million, respectively.

## 9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings, other than commercial paper, of ¥67,648 million ($743,385 thousand) and ¥45,622 million as of December 31, 2008 and 2007 bore interest ranging from 0.95% to 7.76% and from 0.82% to 7.48% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥16,000 million ($175,824 thousand) as of December 31, 2008 and ¥14,500 million as of December 31, 2007 bore interest ranging from 1.21% to 1.60% and from 0.79% to 0.95% per annum, respectively.

Long-term debt as of December 31, 2008 and 2007 comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| 0.84% unsecured bonds due 2008 payable in Japanese yen | **¥ —** | ¥ 10,000 | **$ —** |
| 1.15% unsecured bonds due 2009 payable in Japanese yen | **20,000** | 20,000 | **219,780** |
| 0.67% unsecured bonds due 2008 payable in Japanese yen | **—** | 5,000 | **—** |
| 1.08% unsecured bonds due 2010 payable in Japanese yen | **10,000** | 10,000 | **109,890** |
| 0.74% unsecured bonds due 2011 payable in Japanese yen | **20,000** | 20,000 | **219,780** |
| 1.83% unsecured bonds due 2013 payable in Japanese yen | **10,000** | 10,000 | **109,890** |
| 2.19% unsecured bonds due 2017 payable in Japanese yen | **5,000** | 5,000 | **54,944** |
| 1.84% unsecured bonds due 2018 payable in Japanese yen | **10,000** | — | **109,890** |
| 2.17% unsecured bonds due 2018 payable in Japanese yen | **10,000** | — | **109,890** |
| Loans payable to banks and other financial institutions due from 2009 to 2019, with interest of 0.65% to 4.97% for 2008 and 2007: | | | |
| Secured | **16,112** | 21,272 | **177,055** |
| Unsecured | **90,986** | 78,178 | **999,848** |
| | **192,098** | 179,450 | **2,110,967** |
| Less portion due within one year | **43,539** | 25,504 | **478,451** |
| | **¥148,559** | ¥153,947 | **$1,632,516** |

The aggregate annual maturities of long-term debt as of December 31, 2008 were as follows:

| Years ending December 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥ 43,539 | $ 478,451 |
| 2010 | 23,114 | 254,000 |
| 2011 | 36,260 | 398,462 |
| 2012 | 19,514 | 214,440 |
| 2013 | 24,113 | 264,978 |
| 2014 and thereafter | 45,558 | 500,636 |
| | ¥192,098 | $2,110,967 |

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, 2008, property, plant and equipment amounting to ¥27,521 million ($302,429 thousand), net of accumulated depreciation, was pledged as collateral for long-term debt and short-term borrowings amounting to ¥16,112 million ($177,055 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, 2008 and 2007.

Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statements of income for the years ended December 31, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|---|---|---|
| Normal cumulative statutory tax rate | **40.4%** | 40.4% |
| Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates | **23.7** | 11.3 |
| Expenses not deductible for tax purposes | **2.7** | 0.9 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | **—** | (3.6) |
| Foreign tax credits | **(23.5)** | (2.9) |
| Valuation allowance | **48.5** | 1.3 |
| Tax credits for research and development costs | **(5.1)** | (2.6) |
| Difference in statutory tax rates of foreign subsidiaries | **(3.8)** | — |
| Other | **(2.4)** | 1.5 |
| Effective tax rate per consolidated statements of income | **80.5%** | 46.3% |

Significant components of deferred tax assets and liabilities as of December 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Deferred tax assets: | | | |
| Provision for doubtful accounts | **¥ 1,073** | ¥ 155 | **$ 11,791** |
| Unrealized profits | **6,190** | 6,556 | **68,022** |
| Tax loss carryforwards | **5,842** | 2,497 | **64,198** |
| Provision for accrued retirement benefits | **1,649** | 1,627 | **18,121** |
| Loss on impairment of fixed assets | **1,669** | 1,324 | **18,341** |
| Accrued business enterprise tax | **713** | 1,143 | **7,835** |
| Accrued bonuses | **859** | 893 | **9,440** |
| Allowance for sales returns | **735** | 788 | **8,077** |
| Unrealized intercompany profits on inventories | **886** | 678 | **9,736** |
| Loss on impairment of investments | **548** | 668 | **6,022** |
| Advertising | **669** | 600 | **7,352** |
| Write-down of investment in affiliates | **304** | — | **3,341** |
| Directors' accrued retirement benefits | **—** | 218 | **—** |
| Loss on voluntary recall of products | **—** | 202 | **—** |
| Incentive bonus | **811** | — | **8,912** |
| Foreign tax credit | **727** | — | **7,989** |
| Loss on impairment of golf club memberships | **341** | — | **3,747** |
| Other | **4,103** | 3,901 | **45,087** |
| Total | **¥ 27,119** | ¥ 21,250 | **$ 298,011** |
| Less valuation allowance | **10,551** | 3,603 | **115,945** |
| Total | **¥ 16,568** | ¥ 17,647 | **$ 182,066** |
| Deferred tax liabilities: | | | |
| Deferred gain on sales of property, plant and equipment | **¥ (2,547)** | ¥ (2,626) | **$ (27,989)** |
| Unrealized gains on available-for-sale securities | **(619)** | (5,788) | **(6,802)** |
| Provision for accrued retirement benefits | **(7,656)** | (7,011) | **(84,132)** |
| Unrealized gain on land of a consolidated subsidiary | **(1,384)** | (1,384) | **(15,209)** |
| Other | **(2,541)** | (1,104) | **(27,923)** |
| Total | **¥(14,747)** | ¥(17,913) | **$(162,055)** |

Deferred income taxes, net, as of December 31, 2008 are included in the following accounts:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2008** | **2008** |
| Current assets—deferred tax assets | **¥ 8,628** | **$ 94,813** |
| Investments and other assets—deferred tax assets | **5,153** | **56,626** |
| Current liabilities—deferred tax liabilities | **(207)** | **(2,275)** |
| (Current liabilities—other) | | |
| Long-term liabilities—deferred tax liabilities | **(11,753)** | **(129,154)** |

## 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, 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 cover substantially 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, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Benefit obligation | **¥(48,548)** | ¥(49,059) | **$(533,495)** |
| Fair value of plan assets | **49,904** | 71,076 | **548,396** |
| Funded status: | | | |
| Benefit obligation in excess of plan assets | **1,356** | 22,017 | **14,901** |
| Unrecognized actuarial differences | **18,472** | (2,752) | **202,989** |
| Unrecognized prior service cost | **(2,769)** | (3,061) | **(30,429)** |
| Subtotal | **17,059** | 16,204 | **187,461** |
| Prepaid pension cost | **27,652** | 26,608 | **303,868** |
| Accrued retirement benefits | **¥(10,593)** | ¥(10,404) | **$(116,407)** |

The Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors and provided a reserve of ¥191 million ($2,099 thousand) and ¥413 million as of December 31, 2008 and 2007 respectively, which were included in long-term liabilities—other. Certain consolidated subsidiaries still keep their own retirement benefits plans for directors and statutory auditors. The accrued retirement benefits for directors and statutory auditors, amounting to ¥343 million ($3,769 thousand) and ¥164 million as of December 31, 2008 and 2007 respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Service cost | **¥ 2,205** | ¥ 2,116 | **$ 24,231** |
| Interest cost | **844** | 858 | **9,275** |
| Expected return on plan assets | **(1,083)** | (1,646) | **(11,901)** |
| Amortization of actuarial differences | **(36)** | (1,200) | **(396)** |
| Amortization of prior service cost | **(288)** | (292) | **(3,165)** |
| Severance and retirement benefit expenses | **¥ 1,642** | ¥ (164) | **$ 18,044** |
| Transition loss into the defined contribution pension plan | **—** | 25 | **—** |
| Contributions to the defined contribution pension plan | **616** | 601 | **6,769** |
| Net periodic benefit costs | **¥ 2,258** | ¥ 462 | **$ 24,813** |

The discount rate used by the Company and the domestic consolidated subsidiaries was mainly 2.0% in 2008 and 2007, and the expected return on plan assets was mainly 2.5% in 2008 and 2007. 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 prior service cost is 15 years.

## 12. Research and Development Expenses

Research and development expenses for the years ended December 31, 2008 and 2007 were ¥19,351 million ($212,648 thousand) and ¥18,223 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.

## (1) Information by industry segment

| Years ended December 31 | 2008 (Millions of yen) | 2007 (Millions of yen) | 2008 (Thousands of U.S. dollars) |
|---|---|---|---|
| **Net sales:** | | | |
| Tires— | | | |
| Sales to unaffiliated customers | **¥501,063** | ¥478,483 | **$5,506,187** |
| Intersegment sales and transfers | **283** | 281 | **3,110** |
| | **501,346** | 478,764 | **5,509,297** |
| Sports— | | | |
| Sales to unaffiliated customers | **74,289** | 59,518 | **816,363** |
| Intersegment sales and transfers | **400** | 376 | **4,395** |
| | **74,689** | 59,894 | **820,758** |
| Industrial and Other Products— | | | |
| Sales to unaffiliated customers | **29,622** | 29,306 | **325,516** |
| Intersegment sales and transfers | **1,559** | 2,623 | **17,132** |
| | **31,181** | 31,929 | **342,648** |
| Adjustments and eliminations | **(2,242)** | (3,280) | **(24,637)** |
| | **¥604,974** | ¥567,307 | **$6,648,066** |
| **Operating income:** | | | |
| Tires | **¥ 15,849** | ¥ 35,893 | **$ 174,165** |
| Sports | **7,719** | 6,780 | **84,824** |
| Industrial and Other Products | **1,813** | 2,441 | **19,923** |
| | **25,381** | 45,114 | **278,912** |
| Adjustments and eliminations | **278** | 12 | **3,055** |
| | **¥ 25,659** | ¥ 45,126 | **$ 281,967** |
| **Identifiable assets:** | | | |
| Tires | **¥547,914** | ¥554,241 | **$6,021,033** |
| Sports | **58,309** | 62,034 | **640,758** |
| Industrial and Other Products | **23,648** | 23,591 | **259,868** |
| | **629,871** | 639,866 | **6,921,659** |
| Corporate assets and eliminations | **10,070** | 31,251 | **110,660** |
| | **¥639,941** | ¥671,117 | **$7,032,319** |
| **Capital expenditures:** | | | |
| Tires | **¥ 49,651** | ¥ 51,578 | **$ 545,615** |
| Sports | **1,995** | 3,178 | **21,923** |
| Industrial and Other Products | **910** | 1,025 | **10,000** |
| | **52,556** | 55,781 | **577,538** |
| Corporate assets and eliminations | **—** | 11 | **—** |
| | **¥ 52,556** | ¥ 55,792 | **$ 577,538** |
| **Depreciation and amortization:** | | | |
| Tires | **¥ 32,542** | ¥ 27,466 | **$ 357,604** |
| Sports | **1,750** | 1,483 | **19,231** |
| Industrial and Other Products | **1,183** | 1,200 | **13,000** |
| | **35,475** | 30,149 | **389,835** |
| Corporate assets and eliminations | **—** | 16 | **—** |
| | **¥ 35,475** | ¥ 30,165 | **$ 389,835** |
| **Loss on asset impairment:** | | | |
| Tires | **¥ 522** | ¥ 486 | **$ 5,737** |
| Sports | **68** | 39 | **747** |
| Industrial and Other Products | **—** | 200 | **—** |
| | **590** | 725 | **6,484** |
| Corporate assets and eliminations | **—** | — | **—** |
| | **¥ 590** | ¥ 725 | **$ 6,484** |

### (2) Information by geographic area

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended December 31 | **2008** | 2007 | **2008** |
| **Net sales:** | | | |
| Japan— | | | |
| Sales to unaffiliated customers | **¥ 496,644** | ¥ 488,163 | **$ 5,457,626** |
| Sales between geographic areas | **39,717** | 33,249 | **436,451** |
| | **536,361** | 521,412 | **5,894,077** |
| Asia— | | | |
| Sales to unaffiliated customers | **55,079** | 42,542 | **605,264** |
| Sales between geographic areas | **56,315** | 42,671 | **618,846** |
| | **111,394** | 85,213 | **1,224,110** |
| Other— | | | |
| Sales to unaffiliated customers | **53,252** | 36,601 | **585,187** |
| Sales between geographic areas | **912** | 167 | **10,022** |
| | **54,164** | 36,768 | **595,209** |
| | **701,919** | 643,393 | **7,713,396** |
| Adjustments and eliminations | **(96,945)** | (76,086) | **(1,065,330)** |
| | **¥ 604,974** | ¥ 567,307 | **$ 6,648,066** |
| **Operating income:** | | | |
| Japan | **¥ 18,753** | ¥ 37,757 | **$ 206,077** |
| Asia | **3,720** | 3,515 | **40,879** |
| Other | **3,225** | 3,218 | **35,440** |
| | **25,698** | 44,490 | **282,396** |
| Adjustments and eliminations | **(39)** | 636 | **(429)** |
| | **¥ 25,659** | ¥ 45,126 | **$ 281,967** |
| **Identifiable assets:** | | | |
| Japan | **¥ 643,804** | ¥ 621,291 | **$ 7,074,769** |
| Asia | **118,728** | 116,963 | **1,304,703** |
| Other | **43,776** | 45,926 | **481,055** |
| | **806,308** | 784,180 | **8,860,527** |
| Corporate assets and eliminations | **(166,367)** | (113,063) | **(1,828,208)** |
| | **¥ 639,941** | ¥ 671,117 | **$ 7,032,319** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Years ended December 31 | **2008** | 2007 | **2008** |
| **Net sales:** | | | |
| North America | **¥ 85,870** | ¥ 76,282 | **$ 943,626** |
| Europe | **33,273** | 26,790 | **365,637** |
| Asia | **72,810** | 58,503 | **800,110** |
| Other areas | **84,316** | 82,065 | **926,550** |
| Total | **¥276,269** | ¥243,640 | **$3,035,923** |

| | Percentage | |
|---|---|---|
| Percentage of such sales in consolidated net sales | **45.7%** | 42.9% |

## 14. Related Party Transactions

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2008 and 2007 and for the years then ended were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Notes and accounts receivable: | | | |
| Trade | **¥ 3,904** | ¥ 5,224 | **$ 42,901** |
| Other | **485** | 622 | **5,330** |
| | **4,389** | 5,846 | **48,231** |
| Short-term loans | **5,755** | 5,350 | **63,242** |
| Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates) | **2,871** | 2,871 | **31,549** |
| Notes and accounts payable: | | | |
| Trade | **5,650** | 5,316 | **62,087** |
| Other | **496** | 988 | **5,451** |
| | **6,146** | 6,304 | **67,538** |
| Sales | **19,255** | 19,442 | **211,593** |
| Purchases | **¥25,986** | ¥26,614 | **$285,560** |

## 15. Contingent Liabilities

As of December 31, 2008 and 2007, the Company and its consolidated subsidiaries were contingently liable for the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Trade notes discounted | **¥2,283** | ¥3,775 | **$25,088** |
| Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates | **182** | 203 | **2,000** |

## 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 term of the lease, as of December 31, 2008 and 2007 were as follows:

| As of December 31, 2008 | 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 | **¥10,409** | **¥4,067** | **¥6,342** | **$114,385** | **$44,692** | **$69,693** |
| Other | **1,027** | **349** | **678** | **11,285** | **3,835** | **7,450** |
| Total | **¥11,436** | **¥4,416** | **¥7,020** | **$125,670** | **$48,527** | **$77,143** |

| As of December 31, 2007 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net leased property |
| Machinery and equipment | ¥8,743 | ¥3,394 | ¥5,349 |
| Other | 796 | 228 | 568 |
| Total | ¥9,539 | ¥3,622 | ¥5,917 |

Lease payments under non-capitalized finance leases for the years ended December 31, 2008 and 2007 amounted to ¥1,806 million ($19,846 thousand) and ¥1,534 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2008 and 2007, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Due within one year | **¥1,595** | ¥1,483 | **$17,528** |
| Due later | **5,427** | 4,434 | **59,637** |
| | **¥7,022** | ¥5,917 | **$77,165** |

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2008** | 2007 | **2008** |
| Due within one year | **¥ 738** | ¥ 546 | **$ 8,110** |
| Due later | **3,113** | 2,622 | **34,209** |
| | **¥3,851** | ¥3,168 | **$42,319** |

## 17. Impairment Loss

The Company and its domestic subsidiaries recognized impairment loss for the following property groups for the year ended December 31, 2008.

| | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Group | Location | Assets | Impairment loss | |
| Sports business | Nishinomiya City, Hyogo and other | Buildings, structures and other | **¥ 69** | **$ 758** |
| Rental property | Hiroshima City, Hiroshima and other | Land, buildings, structures and other | **391** | **4,298** |
| Idle assets | Kagoshima City, Kagoshima | Land | **130** | **1,429** |

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 ¥590 million ($6,484 thousand) on buildings, machinery and other in 2008, described above. Impairment losses were recognized for assets for which the market value fell 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 or use value of the assets decreased significantly. When determining the market price, the assets of groups of high importance are assessed by the valuation amount based on real estate appraisal standards. Use value is based on the present value of expected cash flows using a discount rate of 11.0% in 2008.

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

| | | | Millions of yen |
|---|---|---|---|
| Group | Location | Assets | Impairment loss |
| Industrial business | Kakogawa City, Hyogo | Machinery and other | ¥ 200 |
| Sports business | Minoh City, Osaka | Buildings, machinery and other | 39 |
| Rental property | Miyakonojo City, Miyazaki and other | Land and buildings | 265 |
| Idle assets | Kohoku-ku, Yokohama City | Land, buildings, structures and other | 221 |

## 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 loss that can be 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 27, 2009:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Balance at December 31, 2008 | ¥93,773 | $1,030,473 |
| Appropriations— | | |
| Cash dividends (¥8 per share outstanding at December 31, 2008) | (2,099) | (23,066) |
| Balance after appropriations | ¥91,674 | $1,007,407 |

## 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, 2008 and 2007, 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, 2008 and 2007, 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.

The U.S. dollars amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2008 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 27, 2009