



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

#### **INCREASED REVENUE AND DECLINING EARNINGS UNDER ADVERSE OPERATING CONDITIONS**

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

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

#### **SUMITOMO RUBBER GROUP LONG-TERM VISION**

In August 2006, the Group announced the Sumitomo Rubber Group Long-Term Vision. This sets out what the Group sees as its ideal position in 2015 and encourages

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

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

#### **RESULTS FROM STRUCTURAL REFORM**

During the fiscal year under review, the Group sold its Europe-based bed business and the LCD backlight unit

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

#### PROACTIVE INVESTMENT IN GROWING MARKETS

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

In the North American and European markets, the Group works in close cooperation with The Goodyear Tire & Rubber Company. In addition, the Group will boost Falken Tire Corporation's sales capabilities. The Group will also make optimum use of the office it established in

Moscow in April 2006 to conduct aggressive sales promotion activities, in anticipation of rapid expansion in the Russian automobile market.

#### RETURNING PROFITS TO SHAREHOLDERS

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

#### TOWARD ENHANCED CORPORATE VALUE

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

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

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

April 2007



Tetsuji Mino  
President