

SUMITOMO
RUBBER INDUSTRIES



NEW VALUE CREATION | ANNUAL REPORT
2005

THE SRI GROUP is a corporate group that includes the Tire business of Sumitomo Rubber Industries, Ltd. as its core, the Sports business of SRI Sports Ltd., and the Industrial and Other Products business of SRI Hybrid Ltd. In its core Tire business, the Group aims for continued growth as a global corporation with its concentration of management resources in the developing Asian market and its alliance with the Goodyear Tire & Rubber Company.

In its Sports business, the Group concentrates on brand awareness improvement, mainly in golf- and tennis-related products at home and overseas. The Group's Industrial and Other Products business deals with a variety of products, ranging from household to industrial goods, and in line with these activities we strive to improve earnings capabilities by selecting and concentrating on key products.

The SRI Group continues to pursue corporate value enhancement and targets sustainable growth on behalf of all stakeholders.

CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

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TIRE BUSINESS

NET SALES: ¥398,170 million

77.6%

In the Tire business, Sumitomo Rubber Industries, Ltd. manufactures and markets tires under the Dunlop, Falken, Goodyear, Sumitomo and Ohtsu brands. In addition to overseas subsidiaries in China and Indonesia, the Group carries out tire production and sales in Europe and North America in joint ventures with The Goodyear Tire & Rubber Company. Moreover, we are constructing a tire factory in Thailand with the goal of starting operations at the end of 2006.



SPORTS BUSINESS

NET SALES: ¥54,748 million

10.7%

In the Sports business, SRI Sports Ltd. carries out operations. SRI Sports manufactures and markets Dunlop brand golf clubs and balls, and tennis balls and rackets in Japan, Taiwan and South Korea. In addition, SRI Sports sells the international SRIXON brand golf balls and clubs all over the world.



INDUSTRIAL AND OTHER PRODUCTS BUSINESS

NET SALES: ¥59,920 million

11.7%

In the Industrial and Other Products business, SRI Hybrid Ltd. and Sumitomo Rubber Industries, Ltd. carry out operations. In Japan, the Group produces marine dock fenders, blankets for offset printing presses and materials for sports facilities such as artificial turf. Overseas, the Group manufactures and markets natural rubber gloves in Malaysia, precision rubber parts for office automation equipment in China and bed-related products in France and Germany. Furthermore, we are constructing a factory in Vietnam for precision rubber parts for office automation equipment that is scheduled to commence operations in October 2006.



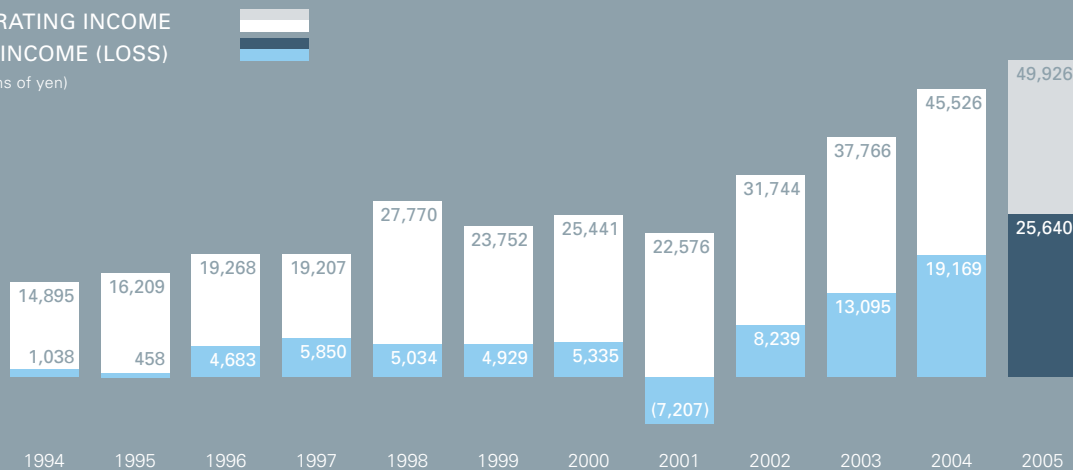


TETSUJI MINO, PRESIDENT

MITSUAKI ASAI, CHAIRMAN

We are pleased to report that in fiscal 2005, the year ended December 31, 2005, Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries ("SRI Group" or "the Group") achieved increases in revenues and earnings for the fourth consecutive year. With these results, the Group accomplished the final year objective of its Medium-Term Five-Year Management Plan, which was formulated in March 2000. We will orchestrate the Group's knowledge and technology to sustain growth at an even higher level.

OPERATING INCOME
NET INCOME (LOSS)
(Millions of yen)



RECORD NET INCOME FOR FOURTH CONSECUTIVE YEAR

Operating conditions in the fiscal year under review were severe due to a steep rise in raw material prices. Under such circumstances, the SRI Group promoted cost reductions while undertaking proactive capital expenditures to increase production in its core Tire business in order to meet brisk demand. In addition, the Group shifted to high-value-added products and implemented appropriate price revisions in response to soaring raw material prices. We strived to bring to market and expand sales of a variety of new products in the Sports business and the Industrial and Other Products business.

As a result, consolidated net sales rose 9.0% compared with the previous fiscal year to ¥512,838 million. Operating income increased 9.7% to ¥49,926 million. Propelled by improved business performances at our U.S. and European joint ventures with The Goodyear Tire & Rubber Company, equity in earnings of unconsolidated subsidiaries and affiliates increased. Accordingly, net income surged 33.8% to ¥25,640 million. Operating income and net income reached record-high levels for the third and fourth consecutive years, respectively.

Annual cash dividend significantly jumped ¥6 to ¥20 per share, contributing to a dividend increase for the third consecutive year.

APPROACH TO SOARING RAW MATERIAL PRICES

Prices for basic tire ingredients such as natural and synthetic rubbers as well as petroleum-based materials have been increasing over the past two years. Under these conditions, the SRI Group increased sales prices in both the domestic and overseas replacement markets in fiscal 2005 to offset the sharp price hikes.

In fiscal 2006, raw material prices are expected to increase, centering on petroleum materials and natural rubber, and the Group is anticipating an overall revenue increase but a profit decline in the period. We will focus on minimizing any declines in profit margin by implementing cost reductions and a shift to high-value-added products, while asking for our customers' understanding with regard to any price increases.

PROACTIVE INVESTMENT IN GROWING MARKETS

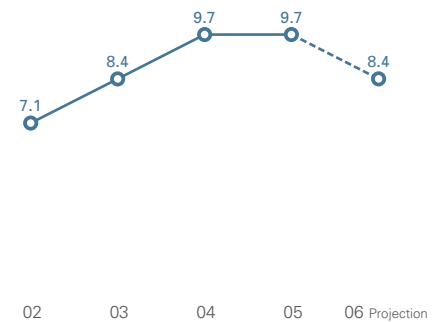
In response to globally brisk demand for tires, the SRI Group has been implementing large-scale capital increases and investments over recent years. As a result, tire production capacity in fiscal 2005 rose 5% compared with the previous fiscal year. In fiscal 2006, the Group plans to further enhance production volume by investing primarily in the factory in Changshu, China, and in the Thailand factory that is scheduled to commence operations at the end of 2006. Free cash flow has been negative for two consecutive years due to the capital expenditures needed to increase pro-

TARGET AND RESULTS IN MEDIUM-TERM FIVE-YEAR MANAGEMENT PLAN

(Millions of yen)

	2000	2001 (First year)	2005 (Final year)	
	Result	Result	Result	Target
ROE	5.1%	–	16.0%	10% or greater
Interest-bearing debt	¥252,143	¥241,600	¥205,751	¥220,000 (range)
Shareholders' equity ratio	21.0%	20.9%	30.9%	30.0%

OPERATING INCOME RATIO (%)



duction. Therefore, in its efforts to see early returns on its investments, the SRI Group strives to promptly increase production at the Changshu factory in China and commence operations at the Thailand factory.

The Group is attempting to cut costs by relocating its manufacturing base to the Asian region outside Japan. Along with this endeavor, we aim to ensure and expand market share in the burgeoning China-driven Asian market by increasing deliveries of tires for the original equipment market to Japanese automakers and formulating a sales network structure in the replacement market there.

FURTHER IMPETUS FOR STRUCTURAL REFORM

The SRI Group had proceeded with the disposition of potential loss by the end of 2005 and established a secure foundation for net income of ¥20 billion. In order to achieve higher growth, however, better selection of and higher concentration on businesses are indispensable. In its domestic tire replacement operations, the Group merged its sales subsidiaries, Dunlop Tyres Ltd. and Falken Tires Ltd., in January 2005 and reorganized affiliate sales agents in July 2005. The SRI Group continues to reform its sales depots and distribution systems in an effort to upgrade customer service and boost earnings recovery.

Despite growing market demand for LCD backlights, the Group

decided to withdraw from this business amid intense sales competition and little likelihood of a profit recovery.

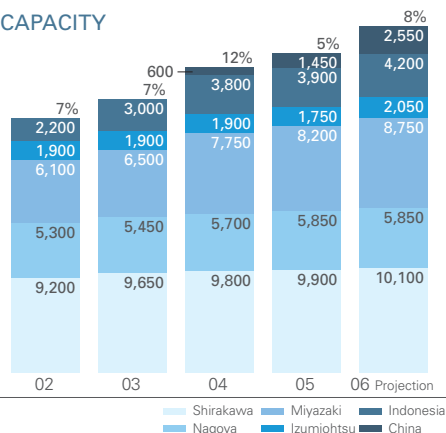
MEDIUM-TERM MANAGEMENT PLAN: GO for VALUE

The Medium-Term Management Plan for fiscal 2006-2008 has commenced. This plan was formulated and announced in February 2005 as the Group had positive prospects regarding the accomplishment of the previous Medium-Term Five-Year Management Plan for fiscal 2000-2005 at the end of fiscal 2004. We published a detailed description of this plan in last year's annual report and will provide a brief summary this year. The new Medium-Term Management Plan adopts "GO for VALUE" as a motivational concept to drive efforts to increase corporate value for all stakeholders including customers, shareholders and employees, aiming for sustainable growth supported by excellent earnings capabilities and better financial standing. Targets by fiscal 2008 are:

- Consolidated net sales of ¥550 billion
- Operating income ratio of 10% or greater
- Net income ratio of 5% or greater
- ROA (operating income base) and ROE of 10% or greater
- Interest-bearing debt in the ¥160 billion range
- Shareholders' equity ratio of 35%
- Debt-to-equity ratio below 1.0 times

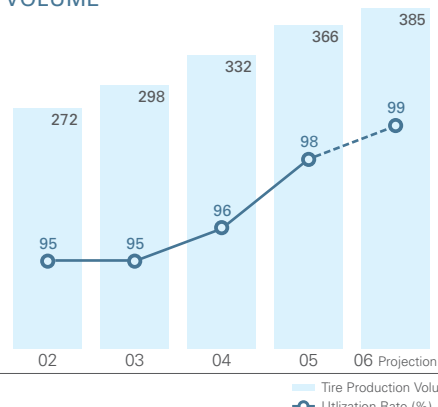
TIRE PRODUCTION CAPACITY

(Tonnes per month)
(Year-on-year change)



TIRE PRODUCTION VOLUME

(Thousands of tonnes)



CHALLENGE TO CREATE NEW VALUE FOR TIRES

Amid the recent issues such as global warming and depletion of petroleum resources that should be considered and addressed on a global scale, the SRI Group bolstered the development of environmentally friendly eco-tires. This effort bore fruit with the successful development of a tire that uses 70% non-petroleum materials, announced in October 2005. We raised the percentage of non-petroleum materials from 44% for our conventional tires to 70% for the Dunlop ENASAVE ES801. In addition, rolling resistance was lowered by 30%, contributing to improved fuel consumption. The Group will expand sales of these eco-tires specifically for those who emphasize eco-friendliness as well as those who own hybrid vehicles or fuel cell automobiles.

In January 2006, the Group also launched the world's first tire fitted with a special acoustic sponge. The Dunlop LE MANS LM703 is a low-profile tire yet offers innovative added value such as pleasant features (quietness and ride/comfort). Please refer to pages 7 to 11 for product details.

The SRI Group will continue to promote cutting-edge product development with its proprietary simulation technology in order to offer new value-added tires ahead of competitors.

AIMING TO BE A GLOBAL EXCELLENT COMPANY

The basic concept of the Medium-Term Management Plan, GO for

VALUE, is to promote value increase for all stakeholders, including customers and shareholders. The Group considers that it is essential to adhere to its value promotion despite various unfavorable conditions such as spiraling raw material prices. To that end, we revised the "Corporate Constitution Strengthening Activities" that was conducted until last year. Known as the "Value 10 Activities," under which the Group promotes further concerted cost reductions, they target everything from manufacturing costs to selling and administrative expenses. In addition, the Group will address medium- and long-term issues to enhance value for customers and shareholders through its Value 10 Activities.

With steady implementation of the Medium-Term Management Plan "GO for VALUE," the SRI Group will continue its transformation into a "global excellent company" in an effort to achieve a higher level of growth.

Your continued support will be greatly appreciated.

April 2006

Mitsuaki Asai
Chairman



Tetsuji Mino
President



TARGET IN MEDIUM-TERM MANAGEMENT PLAN: GO for VALUE

(Millions of yen)

	2004	2005	2008
	Result	Result	Target
Net sales	¥470,562	¥512,838	¥550,000
Operating income ratio	9.7%	9.7%	Consistently over 10%
Net income ratio	4.1%	5.0%	5% or greater
ROA (operating income base)	9.1%	9.2%	Consistently over 10%
ROE	15.0%	16.0%	Consistently over 10%
Interest-bearing debt	¥201,929	¥205,751	¥160,000 (range)
Shareholders' equity ratio	28.0%	30.9%	35.0%
Debt-to-equity ratio	1.4 times	1.2 times	Under 1.0 times



Jan.

Domestic replacement tire sales subsidiaries, Dunlop Tyres Ltd. and Falken Tires Ltd., merged to become Dunlop Falken Tyres Ltd.



Feb.

Announcement of Medium-Term Management Plan for Fiscal 2006 through Fiscal 2008
Large Dunlop billboards erected in Beijing and Shanghai, China ❶



Apr.

Changshu factory commenced supply of tires to Tianjin FAW Toyota Motor Co., Ltd. in China



Jun.

Market launch of long-pile artificial turf Hibrid-Turf XP ❷



Jul.

Reorganization of Dunlop Falken Tyres' affiliated sales agents
Accomplishment of complete zero emissions at all six domestic factories of the SRI Group
Dunlop automatic swing diagnosis system developed ❸



Aug.

Ground-breaking ceremony for the tire factory in Thailand ❹
Professional golfers using the SRIXON Z-UR golf ball have won 20 tournaments worldwide



Oct.

Announcement of ENASAVE ES801 tires, which use 70% non-petroleum materials ❺



Nov.

Announcement of Dunlop's ALL NEW XXIO series of woods and irons ❻
Group developed technology to simulate tire performance on sand ❽



Dec.

Realization of zero emissions at subsidiaries in Changshu and Suzhou, China, leading to complete achievement at all SRI Group factories in Japan and overseas
Announcement of LE MANS LM703 tire with special acoustic sponge ❾

NEW VALUE CREATION

J.B. Dunlop invented the world's first inflated tire more than a century ago. Carrying on the torch of Dunlop's pioneering spirit, the SRI Group has endeavored to promote new value creation for tires through innovative ideas and technologies. Tracking the evolution of tire technology, people have continued to enjoy the benefits of an advanced motorized society today. Despite these benefits, motorization has also contributed to a number of issues that cannot be ignored, including global warming: CO₂ emissions from automobiles and the burning of fossil fuels during both manufacturing and driving are imposing burdens on the environment. Against this backdrop, the SRI Group added "social responsibility" to its guidelines that have focused on "safety" and "comfort" as indices of *monozukuri* (manufacturing). We are pleased to introduce our new and unique tires along with technology that resulted from our endeavors to "Create New Value."

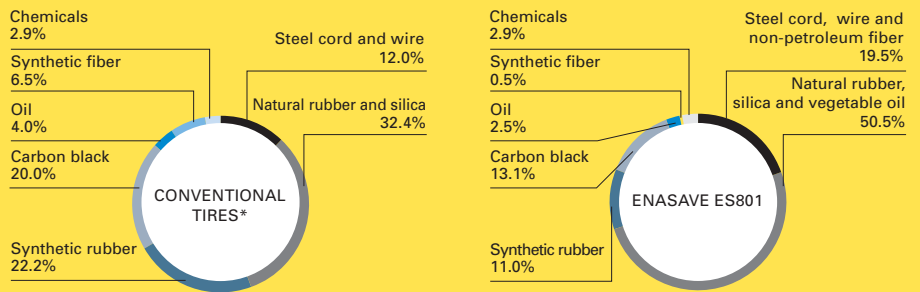
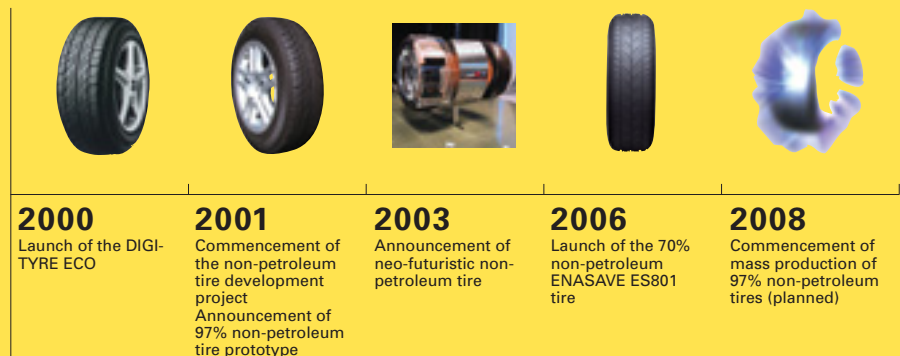
1. NON-PETROLEUM TIRES



ENASAVE ES801

APPROACH TO ECO-TIRE DEVELOPMENT

In its focus on actions a tire manufacturer can take to reduce burdens on the environment, the SRI Group has worked diligently on the development of an environmentally friendly "eco-tire." In 2000, the Group launched the Dunlop DIGI-TYRE ECO that combines fuel efficiency and durability as well as basic driving performance. Furthermore, the Group embarked on a development project for non-petroleum tires to lower oil dependence and exhibited a prototype with 97% of its tire-weight made from non-petroleum resources at the Tokyo Motor Show in 2001. At the same Show in 2003, we announced a neo-futuristic non-petroleum tire embedded with sensors, which generated a great deal of interest and feedback. Finally, in October 2005 the SRI Group announced details of the ENASAVE ES801 tire that realizes a 70% proportion of non-petroleum materials. The ENASAVE ES801 tire was released to the market in March 2006.



TIRE COMPOSITION RATIO BY WEIGHT 195/65R15 (9KG)

* Composition ratio of the average weight of materials for a passenger car tire manufactured at SRI Group's factories (195/65R15 of approximately 9.0kg)

70% NON-PETROLEUM-MADE TIRE: ENASAVE ES801

Tires are made from over 100 kinds of materials. Of this number, the four main petroleum materials are synthetic rubber, carbon black for filler, oil and synthetic fiber for casing. The Dunlop ENASAVE ES801 tire reduces the use of synthetic rubber by increasing natural rubber and utilizes natural materials for filler, oil and casing. This has successfully raised the proportion of non-petroleum materials from 44% for our conventional tires to 70% for the ENASAVE ES801. The increased use of natural rubber has also lowered rolling resistance by 30%, contributing to improved fuel consumption.

EPOXIDIZED NATURAL RUBBER COMPOUNDING

Tires that have high natural rubber content exhibit poor traction during braking and cornering. In order to overcome this problem, the SRI Group utilizes natural rubber that has a modified molecular structure. The mol-

ecular structure of epoxidized natural rubber is similar to that of synthetic rubber. Synthetic rubber has benzene rings protruding like branches from rubber molecules while epoxidized natural rubber has epoxide group on the rubber molecules instead. The epoxide group reduces molecular vibration caused by the rubber touching the road surface, improving overall traction. Utilizing epoxidized natural rubber has enabled us to lower the proportion of synthetic rubber, which previously had a major role in the traction of conventional tires.

UTILIZING DIGI-COMPOUND SIMULATION TECHNOLOGY



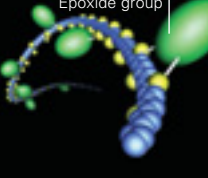
Digi-Compound, a material simulation technology at the nanometer level, played an important role in the development of epoxidized natural rubber. Digi-Compound enables us to see molecular-level changes in materials such as filler and casing of rolling tires, allowing for optimal rubber compound examination. With the full utilization of this technology, it became possi-

ble to develop new materials that combine the high fuel efficiency provided by natural rubber with driving performance.

In addition, our digital rolling simulation technology, DRS II, which predicts tire movement and deformation for moving vehicles using computer simulation, contributes to tire development for assuring driving performance to support cutting-edge hybrid cars.

AIMING FOR PRACTICAL APPLICATION OF 97% NON-PETROLEUM TIRES

The SRI Group strives for the development of tires with 97% of their weight made from non-petroleum materials, and a market launch in 2008. The world's first inflated tire created by J.B. Dunlop in 1888 was made from 100% natural rubber. By returning to natural resources with a "new retro tire," the Group will create value with an eye on the future.

SYNTHETIC RUBBER	NATURAL RUBBER	EPOXIDIZED NATURAL RUBBER
		
<p>Benzene rings attached to rubber molecules transform the overall molecular structure for better traction</p>	<p>Weak vibration in rubber molecules results in poor traction</p>	<p>Epoxide group transforms the molecular structure of rubber for better traction</p>
<p>THE MOLECULAR STRUCTURE OF RUBBER (IMAGE)</p>		

2. NOISE REDUCTION TIRES



LE MANS LM703

INCREASING DEMAND FOR LOW PROFILE TIRES

Low profile tires have a relatively wider tread and narrower sidewalls. Aside from their attractive appearance, the advantages of using low profile tires are their stable performance during high-speed driving and cornering. For these reasons, demand for low profile tires is recently increasing. Nevertheless, there are challenges with respect to quietness and ride/comfort, so the SRI Group has made a number of studies to realize more comfortable-driving low profile tires. Through these studies, the Group developed and marketed the LE MANS LM703 tire.

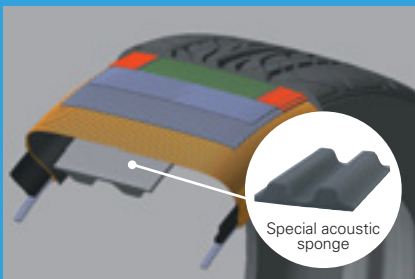
LE MANS LM703: WORLD'S FIRST ACOUSTIC SPONGE-MOUNTED TIRE

The air inside a tire vibrates in accordance with road contour. The Dunlop LE MANS LM703 tire reduces air vibration with a uniquely shaped sponge made from special

materials. This tire is successful in significantly reducing cavernous resonance, a problem previously difficult to solve. Cavernous resonance is the sound made by the air inside tires, which is often heard when driving across joints on an expressway. The SRI Group believes that the LE MANS LM703 is the world's first passenger car tire that reduces noise by a special sponge mounted inside the tire. The Group has acquired several patents for this technology in Japan and the United States, and is now applying for a total of 68 patents in Japan and around the world.

ADVANCED SIMULATION TECHNOLOGY: DRS III

Cavernous resonance, the air vibration inside tires, is transferred from the wheel to the suspension, ending up as noise inside the car. This process was discovered by the Group's DRS III technology, which simulates air pressure fluctuation inside the

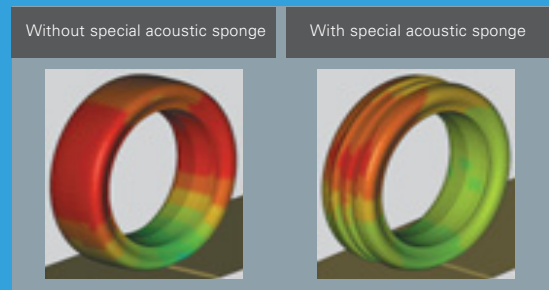


Inhibits noise caused by pressure fluctuation inside tire

SPECIAL ACOUSTIC SPONGE MOUNTED



Compares the pressure fluctuation inside tire when driving across joints on an expressway



VERIFICATION BY PRESSURE FLUCTUATION SIMULATION

3. RUNFLAT/SPARELESS TECHNOLOGIES

tire. When focusing on one spot of the tire, details of pressure fluctuations and air vibrations can be analyzed in simulations. By these means, we were able to develop the special acoustic sponge that effectively curbs air vibration for the LE MANS LM703, a successful case in decreasing cavernous resonance through simulation technology.

REDUCTION OF ROAD NOISE

When driving on rugged roads, the vibrations of the breaker edge of the tires are transferred to the sidewalls, wheels and suspension, causing noise inside the car. Our proprietary simulation technology discovered that road noise is caused in this process. The LE MANS LM703 tire adopts a new combination band structure using a PEN band, which is approximately four times stronger than a conventional nylon band. This new combination band decreases vibrations on the breaker edge, contributing to noise reduction inside the vehicle.

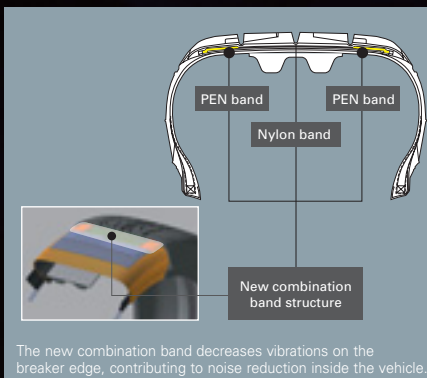
Runflat tires allow for safe driving, as they are able to run for a certain distance even when flat. They eliminate the need for spare tires and realize fuel efficiency through reduced vehicle weight. The SRI Group offers four types of runflat/spareless technologies to accommodate various car models.

The DSST CTT Runflat tire has reinforced sidewalls, an improved ride/comfort and trimmed weight in a unique shape. It is used in luxury vehicles such as Toyota's Lexus SC430 North American models. The DSST Runflat is a conventional tire with reinforced sidewalls, fitted on over 70% of BMW Group cars under both the Dunlop and Goodyear brand names.

The PAX System consists of a tire, a special wheel, a support ring to support tires in the event of a puncture, and a tire deflation warning system (DWS). Based upon a licensing agreement with

Michelin, the SRI Group develops and promotes the PAX system under the Dunlop brand name.

The Group's DWS technology warns of decreases in air pressure due to punctures by detecting changes in tire revolutions through ABS. In addition, IMS is an emergency system that fills punctured tires with sealant. Both DWS and IMS are utilized in a growing number of automobiles and are enjoying steady increases in sales.



The new combination band decreases vibrations on the breaker edge, contributing to noise reduction inside the vehicle.

TIRE BUSINESS

FISCAL 2005 RESULTS

Sales in the Tire business increased 11.6% to ¥398,170 million for the fiscal year under review and operating income surged 20.7% to ¥39,723 million.

Despite the harsh environment due to the sharp rise in raw material prices, sales volume and value surpassed the previous fiscal year in the domestic replacement, original equipment and export markets as well as at overseas subsidiaries. This was mainly attributed to successful efforts to increase sales volume, shift to high-value-added products and cut costs.

DOMESTIC REPLACEMENT MARKET

In the fiscal year under review, the SRI Group actively implemented sales promotions for new products in the domestic replacement market and increased sales prices to offset the sharp rise in raw material prices. Furthermore, snow in early 2005 and the record snowfall in December boosted winter tire sales, outstripping the previous fiscal year.

For the Dunlop brand, the Group's new LE MANS RV RV502 tire for RVs, global flagship SP SPORT MAXX tire and DIREZZA SPORT Z1 sports tire all enjoyed a high reputation in the market. In addition, the passenger car DSX studless tire received particular acclaim for its improved traction on frozen road surfaces.

The Falken brand strived to expand sales by releasing the new AZENIS RT615 sports tire that boasts both excellent traction and durability.

In its vigorous efforts to increase Goodyear brand sales, the Group launched the GT-HYBRID tire with advanced environmental performance and the EAGLE LS3000 Hybrid tire for premium cars.

ORIGINAL EQUIPMENT MARKET

Automobile production in Japan increased slightly compared with the previous fiscal year. To effectively utilize and supply its three Dunlop, Falken and Goodyear brands, the Group's engineering, production and sales operations worked in uni-

son to provide high-quality products that meet each automaker's demands. Sales in tires for the original equipment market topped the previous fiscal year.

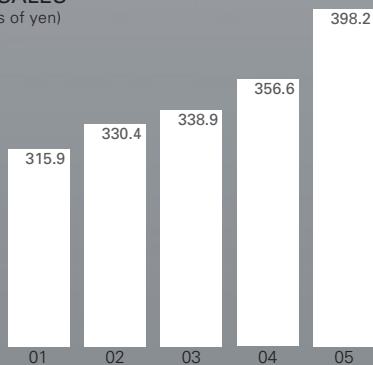
OVERSEAS REPLACEMENT MARKET

Overall sales in the overseas replacement market rose significantly year on year. This was attributed to the Group's carefully organized sales promotion activities tailored to the unique characteristics of each market, which contributed to upswings in exports to North America and the Middle East. Sales promotions by subsidiaries in Indonesia and China also bore fruit.

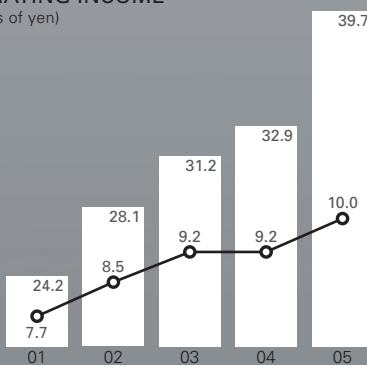
FISCAL 2006 OUTLOOK

The SRI Group expects sales to increase in the replacement, original equipment and overseas replacement markets in fiscal 2006. Operating income on the other hand is forecast to decline due to continued increases in the prices of petroleum-based materials as well as the price hikes

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



○ Operating Income Ratio (%)

in natural rubber since the end of 2005. Under these conditions, the Group plans to step up cost-cutting measures, implement constructive sales promotions and shift to high-value-added products. The Group is constructing a tire factory in Thailand, which is scheduled to commence operations at the end of 2006.

GOODYEAR



GT-HYBRID

EAGLE LS3000 Hybrid

FALKEN



AZENIS RT615

ESPIA EP-03

RI-188

DUNLOP



SP SPORT MAXX

LE MANS RV RV502

DSX

TOPICS

DUNLOP RECEIVES TOP CUSTOMER SATISFACTION RATING IN COMPACT CAR SEGMENT

The SRI Group's mainstay Dunlop brand was ranked first in the compact car segment according to the "J.D. Power Asia Pacific 2005 Japan Original Equipment Tire Customer Satisfaction Index Study." Respondents were car owners who had purchased a new vehicle in the past 8 to 16 months. The study covered customer satisfaction in tires across six categories, namely: tire appearance, quality and durability, ride/comfort, handling, traction and contribution to fuel efficiency. In addition, Dunlop was ranked second in the passenger car segment for the same study.

REORGANIZATION OF DOMESTIC TIRE SALES SUBSIDIARY'S AGENTS

In July 2005, the SRI Group reorganized its sales agents affiliated with Dunlop Falken Tyres Ltd., a sales subsidiary for domestic replacement tires. Up until then, Dunlop and Falken tires had been marketed separately through 17 Dunlop-affiliated and 11 Falken-affiliated companies. Following the reorganization, the Dunlop and Falken brands are now sold by 22 affiliated companies. The Group is developing sales strategies that address customer needs by making full use of each brand's unique features.



M-FIL series

SPORTS BUSINESS

FISCAL 2005 RESULTS

Sales in the Sports business were down 4.6% year on year to ¥54,748 million. Operating income dropped 24.7% to ¥8,305 million.

In an effort to address a broad cross section of needs, the SRI Group introduced golf clubs in different price ranges and for a variety of purposes including the premium XXIO PRIME, the mid-priced HI-BRID ADFORCE and the SRIXON 505 series for competition use. Despite the Group's efforts, overall sales confronted difficult conditions. Entering a second year since the release of the third-generation of the Group's hit XXIO golf clubs, sales experienced a decline.

In the golf ball market, the Group proactively brought three new products to market: the new XXIO utilizing state-of-the-art nanotechnology, the SRIXON Z-UR providing dynamic flight for greater distance and the SRIXON Z-URS with a softer responsive feel.

Sales of tennis balls maintained a high market share. The SRI Group released the new M-FIL series and the Diacluster RIM series to its lineup of tennis rackets and

enjoyed a positive reaction.

Overseas, sales of the SRIXON brand's golf clubs and balls were strong in their leading markets in North America, Europe, Asia and Australia. The XXIO brand golf club also experienced a significant upswing in South Korea.

FISCAL 2006 OUTLOOK

The SRI Group anticipates an increase in Sports business revenues in fiscal 2006. The Group plans to expand sales of its fourth-generation XXIO, ALL NEW XXIO golf clubs and bolster the Diacluster RIM tennis racket lineup in the face of expected stagnant conditions in the sports market in Japan. Operating income is forecast to remain on a par with the fiscal year under review due to fluctuations in foreign currency exchange rates and soaring raw material prices.

TOPICS

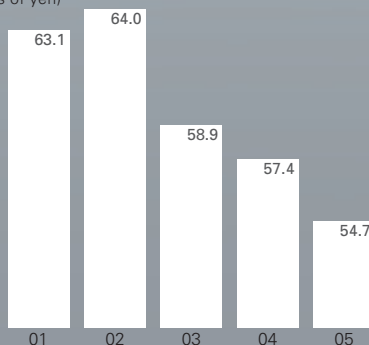
LAUNCH OF FOURTH-GENERATION ALL NEW XXIO IN CORE XXIO BRAND

The SRI Group commenced sales of the ALL NEW XXIO series in January 2006. The ALL NEW XXIO is the fourth series in the Group's core XXIO golf brand. Since its initial launch in 2000, the XXIO brand has enjoyed great popularity and is a key driver of increased earnings in the Sports business. In order to provide an easier swing and increase distance, the Group took steps to renew product performance and structure. From a regulatory perspective*, the Group provides a variety of clubs that offer both high repulsion and regulatory compliance. In this manner, the ALL NEW XXIO series strives to satisfy all types of user needs.

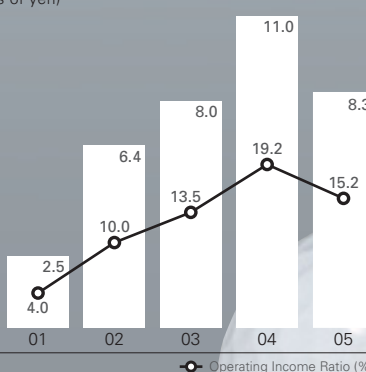
*The Japan Golf Association (JGA) will change the rules in connection with the spring-like effect (SLE) of golf club heads and particularly for drivers from 2008. Accordingly, high-repulsion golf clubs that exceed a certain SLE level will be adjudged non-compliant.



NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)





TOPICS

ESTABLISHMENT OF PRECISION RUBBER FACTORY IN VIETNAM

In January 2006, the SRI Group established Sumirubber Vietnam, Ltd. in Haiphong City, Vietnam, and will commence the production of precision rubber parts for office automation equipment in October 2006. The new factory has been established to support local procurement of parts by Japanese office automation equipment makers operating in Vietnam. Following the Group's factory in China, Sumirubber Vietnam, Ltd. is its second factory to produce precision rubber parts for office automation equipment in the Asian region outside Japan.

INDUSTRIAL AND OTHER PRODUCTS BUSINESS

FISCAL 2005 RESULTS

Sales in the Industrial and Other Products business rose 6.0% over the previous fiscal year to ¥59,920 million. Operating income edged up 0.9% to ¥1,667 million.

Sales of precision rubber parts for office automation equipment grew on the back of active demand together with sales growth in Japan and subsidiaries in China. Sales of the Group's highly acclaimed sand- and rubber chip-filled Hibrid-Turf, which is used on soccer, rugby and other sports pitches, also gained momentum.

In addition, natural rubber gloves manufactured by the Group's Malaysian subsidiary saw steady sales mainly in North America and Europe. Together with Misawa Homes, the SRI Group developed the durable anti-vibration MGEO structure that utilizes the Group's proprietary high damping rubber. The MGEO structure has enjoyed expanding sales since its market entry in January 2005.

Despite growing market demand for LCD backlights, the SRI Group decided to withdraw from this business amid intense sales competition and little likelihood of a profit recovery.

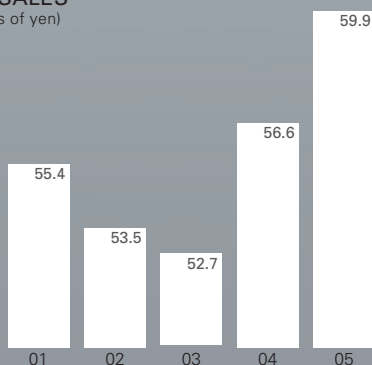
Sales of medical rubber products were brisk and exceeded the previous fiscal year's level. This can be attributed to vigorous sales promotion and efforts to cultivate new customers particularly for rubber stoppers.

In line with the slight turnaround in the European bed business, sales surpassed the previous fiscal year owing to successful efforts to bolster mattress sales primarily in Germany.

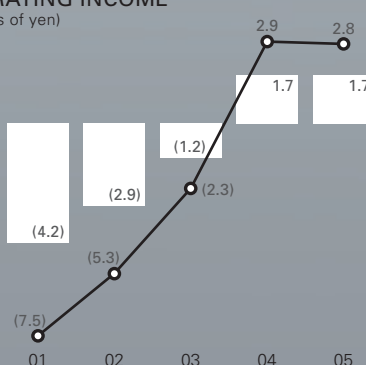
FISCAL 2006 OUTLOOK

The SRI Group plans to enhance sales with a focus on precision rubber parts, athletic facilities, industrial floor surfaces, natural rubber gloves and anti-vibration devices. In addition, the Group will implement sales promotions and customer relations improvements for the European bed business. On the back of these endeavors, the Group expects to increase revenues and earnings throughout the Industrial and Other Products business. Particularly in the anti-vibration structure business, the Group plans to commence full-fledged production and delivery of a new anti-vibration wall for high-rise buildings in collaboration with a major general contractor.

NET SALES
(Billions of yen)



OPERATING INCOME
(Billions of yen)



○ Operating Income Ratio (%)



The SRI Group gives one of the top priorities to environmental preservation in all of its business activities and the entire Group has continued to make progress in the area of environmental management. The Group also vigorously implements contributions to local communities mainly in the area of its business operations. Principal activities in the fiscal year under review are discussed below.

COMPLETE ZERO EMISSIONS ACHIEVED AT SIX FACTORIES IN JAPAN

The SRI Group achieved complete zero emissions* at its two factories in Ichijima and Kakogawa as of June 2005. With this achievement the Group accomplished complete zero emissions at all six domestic factories, including Nagoya, Shirakawa, Miyazaki and Izumiohtsu. Overseas, Sumitomo Rubber (Changshu) Co., Ltd. and Sumitomo Rubber (Suzhou) Co., Ltd. in China achieved zero emissions* as of October 2005, leading to this achievement at all SRI Group's tire factories in Japan and overseas, including P.T. Sumi Rubber Indonesia.

*"Zero emissions" is achieved when waste disposed of in landfills is maintained at less than 1% of the total amount of waste. "Complete zero emissions" is achieved when 0% of waste is disposed of in landfills.

COMPLETION OF ISO 14001 CERTIFICATION AT ALL MAJOR BUSINESS FACILITIES IN JAPAN AND OVERSEAS

The Group promoted ISO 14001 certification acquisition and ensures that certification standards are maintained in pursuance of better environmental management in its daily operations. All six domestic factories had gained certification by 1998 and renew this annually. Overseas, the Group has strived for environmental management promotion with the participation of all employees by holding study sessions for local employees, enhancing energy-saving activities and implementing separate waste collection. As a result, Sumitomo Rubber (Changshu) Co., Ltd. and Sumitomo Rubber (Suzhou) Co., Ltd. in China acquired the certification as of October 2005, following P. T. Sumi Rubber Indonesia, Zhongshan Sumirubber Precision Rubber Ltd. and Sumirubber Malaysia Sdn. Bhd. in 2003, 2004 and 2005, respectively. This completed the certification acquisition process for all the Group's major business facilities in Japan and overseas.

INTRODUCTION OF COGENERATION SYSTEMS TO ALL DOMESTIC TIRE FACTORIES

In October 2005, the SRI Group introduced a large-scale cogeneration system utilizing ESCO** schemes at the tire factory in Nagoya. With the system in full operation, the Nagoya factory expects to reduce CO₂ emissions by



A monument commemorates the achievement of zero emissions at the Shirakawa factory.



A cogeneration system is installed at the Nagoya factory.

39.8% and make energy savings of 20.8% compared with the previous fiscal year.

With this achievement the Group completed introduction of cogeneration systems at all four tire factories in Japan including Miyazaki, Shirakawa and Izumiohtsu.

** ESCO: Abbreviation for Energy Service Company. A company that offers general services regarding energy conservation and receives partial compensation from customers that benefit from energy conservation.

RECEPTION OF REDUCE, REUSE & RECYCLE PROMOTION COUNCIL CHAIRMAN'S AWARD

In October 2005, the factories in Ichijima, Japan, and Indonesia were presented with this award in recognition of the noteworthy results they achieved in their 3R initiatives. The Ichijima golf ball factory earned the award for the second time since 2003. The reception resulted from its specific endeavors in reducing the use of organic solvents, through which it achieved a significant 77% reduction compared with the 1997 figure. The award also went to the Group's Indonesian factory, which manufactures tires and golf balls, for achieving zero emissions in 2004. This was the first time for a 3R Promotion Council Chairman's Award to be presented to a Japanese rubber production company's overseas factory.

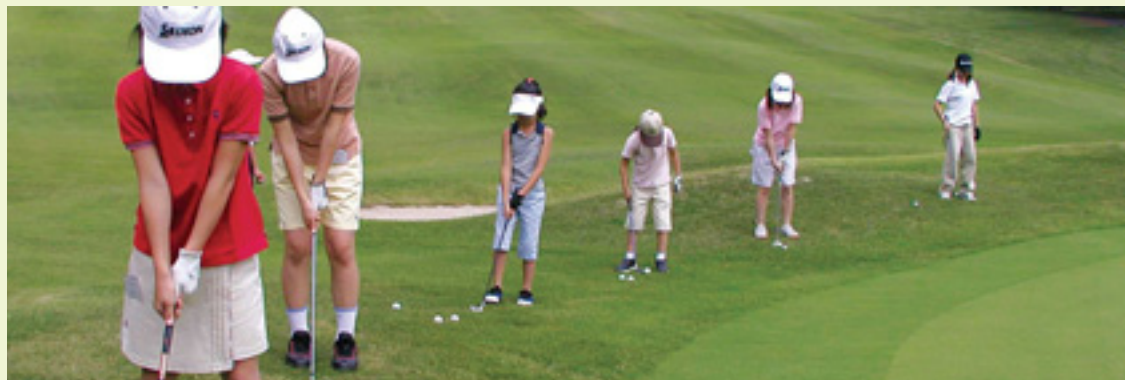
SOIL AND GROUNDWATER DECONTAMINATION AT THE KAKOGAWA FACTORY

Volatile organic compound levels in excess of environmental standards were identified on the premises of SRI Hybrid's Kakogawa factory in 2004. The SRI Group made a report to Kakogawa City and simultaneously commenced implementation of decontamination countermeasures. The Group also held an explanatory session for the neighboring residents. The land pollution was solved in December 2004 after the removal and treatment of the contaminated soil in compliance with the Soil Contamination Countermeasures Law. The Group continues to pipe up contaminated groundwater to purify it through the use of processing equipment.

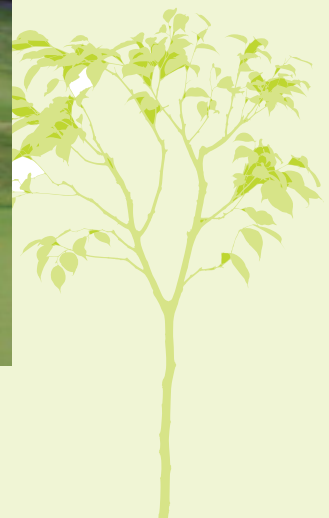
GOLF LESSONS FOR CHILDREN

The SRI Group cooperated with the NPO-sponsored "Dunlop Junior Golf School" held on spring and summer holidays every year. This golf school, which is designed to increase golf's popularity among young people, is open to both inexperienced and experienced students from elementary to high school age (6 to 18 years). Dividing students by level, the classes provide instruction on correct technique appropriate to each level, etiquette and rules.

In the first week of August 2005, the Dunlop Junior Golf Trial Lessons were held at Dunlop Golf School's affiliated practice ranges. This lesson was free of charge in order to give an opportunity for children to play or experience the fun of golf.



Dunlop Junior Golf School



The SRI Group has been promoting the acquisition and utilization of industrial property rights, namely, patents, designs and trademarks, in order to support the business of each Group company.

INCREASE IN PATENT APPLICATIONS IN ASIAN COUNTRIES

The SRI Group focuses on the acquisition of rights not only in Japan but also on a global scale. The Group selects countries to apply for patents in light of the contents of inventions.

The number of patent applications in rapidly changing Asian countries is significantly increasing in accordance with its increasing presence. In fiscal 2005, patent applications in China doubled compared with the previous fiscal year. Likewise, patent applications in Indonesia and Thailand jumped approximately fivefold and sevenfold, respectively.

The number of patent applications filed in China surpassed those in Europe, making China one of the most important countries for the SRI Group's patent applications after Japan and the United States. This trend will continue.

BUILD STRONGER RELATIONSHIPS WITH PATENT OFFICES

In the application and authorization process of patents, designs or trademarks, the key factor is keeping in regular contact with such agents as each country's patent attorneys and lawyers. The SRI Group has endeavored to maintain a closer liaison with each patent office since fiscal 2005 to eliminate imitation of the products and infringement of the Group's rights and will continue these efforts in fiscal 2006.

EFFECTIVE UTILIZATION OF PATENT INFORMATION

Patent information is significantly helpful as a source of rights information and engineering data. For that reason, the Group's Legal & Intellectual Property Department improved the contents of the patent database and gave access privileges to the Group's engineers in 2005 to utilize the information and the data for their development.

EFFICIENCY IMPROVEMENT FOR INTELLECTUAL PROPERTY OPERATIONS

Industrial property rights incur considerable expense in their acquisition and maintenance processes. The SRI Group confirms application contents, raises registration rates and streamlines unnecessary rights to improve the efficiency of its intellectual property operations.

Reflecting its high achievement levels, the Group's patent registration rate in fiscal 2005 was approximately 1.3 times the national average. We are undertaking activities to improve on this figure.

Approximately 30% of the patents in our possession are currently enforced, and the Group is trimming unnecessary rights to increase this percentage.

REVISION OF COMPENSATION SYSTEM FOR EMPLOYEE INVENTIONS

In 2005, the SRI Group implemented the compensation system for employee inventions that was revised in 2004. Evaluating patents more precisely, the new system is intended to motivate engineers and promote superior technological development. The revisions were fully in line with Patent Law amendments in Japan, as we regard them as beneficial for both the corporate side and the employee side, although further improvements are under consideration.

Sumitomo Rubber regards the enhancement of corporate governance as a key management issue. Aiming for continued growth as a global corporation that can earn the trust of all stakeholders, including shareholders, the Company strives for increased operating transparency, compliance with statutory requirements and strengthened internal control systems along with overall management efficiency.

CORPORATE GOVERNANCE STRUCTURE

Board of Directors and Board of Auditors

The board of directors implements decision-making of managerial importance and supervises the execution of operations. Sumitomo Rubber has 11 directors, one of whom is an external director, as of March 30, 2006. The Company employs an auditing system, which is comprised of five corporate auditors. From the viewpoint of audit function enhancement, three of the five are external auditors, making possible a fair and objective audit system. In addition, the Company promotes the separation of supervisory and executive management functions to clarify each business' responsibilities and authority. To that end, the Company introduced an executive officer system in March 2003 for the purpose of establishing a streamlined management structure.

Internal Audit and Accounting Audit

Sumitomo Rubber established an audit office (currently with six auditors) under the direct control of the president as its internal audit department. In accordance with audit policies and annual internal audit programs, it implements audits on the execution of operations at the Company's Head Office, major business sites and subsidiaries from the perspective of business effectiveness, efficiency and appropriateness of compliance. After internal audits, results and suggestions for improvements are reported to the president and the board of auditors to maintain a close liaison.

The Company entered an audit contract with ChuoAoyama PricewaterhouseCoopers for the implementation of accounting audits under the Commercial Code of Japan and the Securities and Exchange Law.

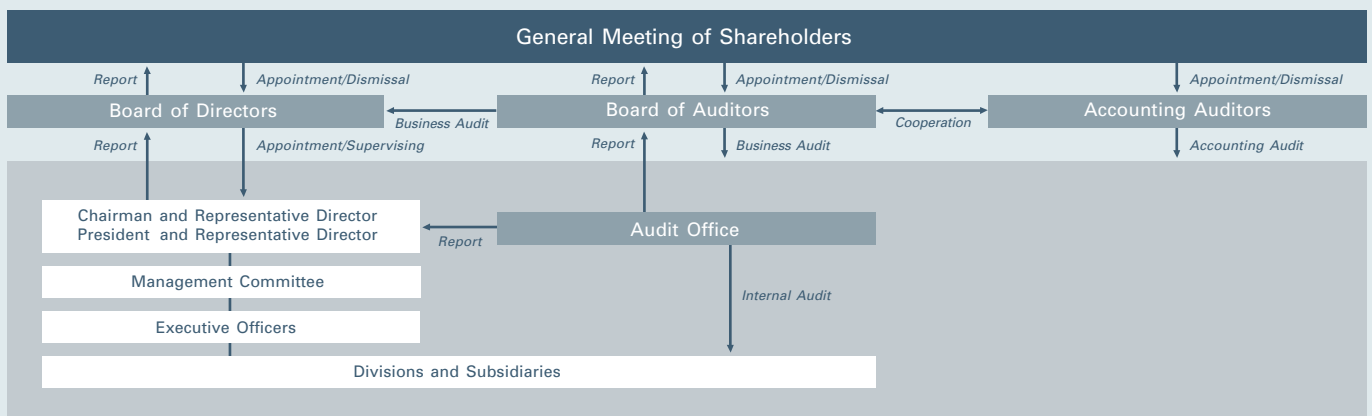
INTERNAL CONTROL SYSTEMS

Compliance

Sumitomo Rubber established "regulations on corporate ethics activities" in conjunction with the Corporate Ethics Committee in February 2003. On the back of this new regulatory structure, the Company makes every effort to assure compliance with statutory requirements and the articles of incorporation, and to establish corporate ethics and sound management. In addition, the Company set up a compliance counseling room as a corporate ethics helpline for employees and established an infrastructure. The Company also established a system focusing on a Corporate Ethics Committee to investigate any problems that arise and give sufficient attention to ensure that those employees who come forward are not penalized. Furthermore, the Company pays close attention to legal aspects by taking advice from a corporate attorney as circumstances demand.

Risk Management

The SRI Group practices risk management of any managerial risks related to business operations, law, environment, accidents and disasters that may have a crucial impact on its business activities. This is implemented through a process of prior risk analysis, countermeasures examination in related divisions and management committee discussions. The Group also receives advice from specialists such as corporate attorneys when necessary.



11-YEAR SUMMARY OF CONSOLIDATED FINANCIAL DATA

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen			
Years ended December 31	2005	2004	2003	2002
For the year:				
Net sales	¥512,838	¥470,562	¥450,491	¥447,893
Cost of sales	325,286	288,684	281,392	286,755
Selling, general and administrative expenses	137,626	136,352	131,333	129,394
Operating income	49,926	45,526	37,766	31,744
Net income (loss)	25,640	19,169	13,095	8,239
Depreciation and amortization	25,755	25,098	24,313	25,163
Capital expenditures	40,415	36,881	29,171	30,557
Cash flows from operating activities	38,984	32,056	44,225	50,700
Cash flows from investing activities	(42,878)	(37,622)	(28,545)	(31,269)
Cash flows from financing activities	(3,376)	7,609	(20,821)	(19,628)
At year-end:				
Total assets	¥563,442	¥520,157	¥481,553	¥477,293
Shareholders' equity	174,267	145,492	110,395	101,633
Interest-bearing debt	205,751	201,929	210,681	220,085
Yen				
Per share amounts:				
Net income (loss)	¥97.10	¥78.64	¥55.07	¥33.97
Net income—diluted	—	—	—	—
Cash dividends paid	20.00	14.00	12.00	10.00
Percent				
Key ratios:				
Operating income ratio	9.7%	9.7%	8.4%	7.1%
ROE	16.0	15.0	12.4	7.9
ROA (operating income base)	9.2	9.1	7.9	6.4
Shareholders' equity ratio	30.9	28.0	22.9	21.3

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥118 per US\$1, the approximate exchange rate prevailing at December 31, 2005.

2. In 1995 the Company changed its method of translating financial statements of foreign subsidiaries and affiliates into Japanese yen from the modified temporal method to the current rate method. Had the method that was applied before January 1, 1995, been employed, total assets as of December 31, 1995, and net income for the year then ended would be decreased by ¥21,383 million and ¥100 million, respectively.

3. 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.

4. 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.

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)
2001	2000	1999	1998	1997	1996	1995	2005
¥434,463	¥423,247	¥509,215	¥653,525	¥613,753	¥582,360	¥533,307	\$4,346,085
279,074	273,451	351,492	456,705	433,573	411,237	377,997	2,756,661
132,813	124,355	133,971	169,032	160,973	151,855	139,101	1,166,322
22,576	25,441	23,752	27,770	19,207	19,268	16,209	423,102
(7,207)	5,335	4,929	5,034	5,850	4,683	458	217,288
24,645	25,275	32,911	40,218	38,366	35,564	31,739	218,263
25,372	19,944	41,634	46,754	46,527	52,003	36,223	342,500
42,359	36,086	20,327	58,814	47,024	36,411	37,404	330,373
(25,284)	(21,685)	43,403	(43,213)	(40,310)	(47,120)	(38,651)	(363,373)
(15,172)	(25,690)	(64,559)	(4,871)	(9,385)	12,489	2,743	(28,610)
¥514,415	¥523,560	¥441,707	¥614,197	¥644,631	¥629,828	¥594,090	\$4,774,932
107,391	109,995	97,475	96,091	93,855	89,962	75,289	1,476,839
241,600	252,143	223,727	311,574	324,327	313,069	300,332	1,743,653
							U.S. dollars (Note 1)
¥(29.71)	¥23.24	¥22.57	¥23.06	¥26.79	¥22.46	¥2.28	\$0.823
—	—	20.63	—	—	—	—	—
10.00	10.00	9.00	9.00	9.00	9.00	9.00	0.169
							Percent
5.2%	6.0%	4.7%	4.2%	3.1%	3.3%	3.0%	
—	5.1	5.1	5.3	6.4	5.7	0.6	
4.4	5.3	4.5	4.4	3.0	3.1	2.8	
20.9	21.0	22.1	15.6	14.6	14.3	12.7	

SCOPE OF CONSOLIDATION

In fiscal 2005 ended December 31, 2005, six subsidiary companies and six equity-method affiliates were newly included in Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries' ("the SRI Group") scope of consolidation, while 15 subsidiary companies and one company accounted for under the equity method were excluded. One subsidiary company was newly included in the Group's scope of consolidation after an increase in its material significance. The remaining five subsidiary companies newly included in the Group's scope of consolidation commenced operations during the fiscal year under review as a production subsidiary in Thailand and domestic sales subsidiaries. The 15 subsidiaries were excluded from the Group's scope of consolidation as a result of company liquidations, the merger of domestic sales subsidiaries, etc. These changes had little impact on the Group's consolidated results for the fiscal year under review.

NET SALES

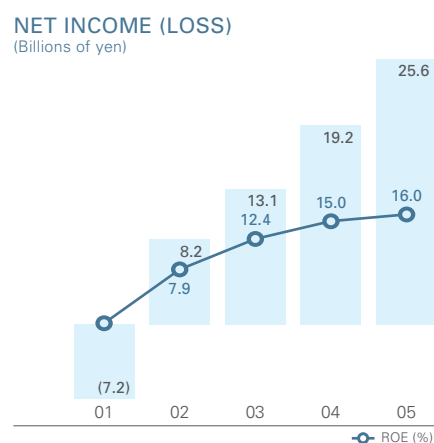
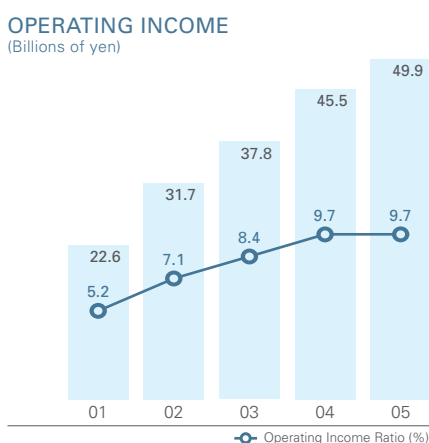
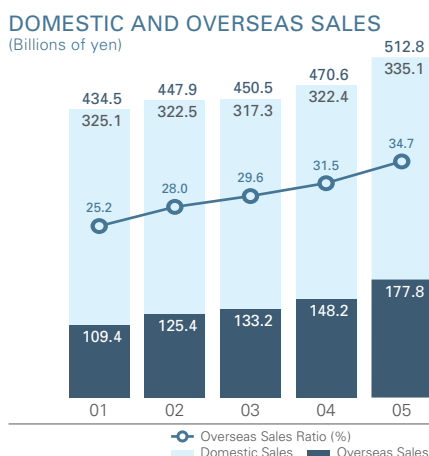
In fiscal 2005, consolidated net sales rose 9.0% compared with the previous fiscal year to ¥512,838 million. In the Group's core Tire business, sales were robust in replacement, original equipment and export markets. As a result, sales increased 11.6% to ¥398,170 million. Sales in the Sports business were down by 4.6% to ¥54,748 million, reflecting the sales decline of the Group's core brand, third-generation XXIO golf clubs as they entered the second year since their release. Sales in the

Industrial and Other Products business were up by 6.0% to ¥59,920 million owing to the strong sales in precision rubber parts for office automation equipment and sand- and rubber chip-filled Hibrid-Turf.

Overseas sales grew 19.9% to ¥177,770 million, and the overseas sales ratio gained 3.2 percentage points to 34.7%. This is attributable to vigorous sales in North America and the Middle East, as well as to sales growth in Asia due to enhanced factory production capacity.

EARNINGS

In the fiscal year under review, consolidated operating income climbed 9.7% to ¥49,926 million, and the operating income ratio remained unchanged from the previous fiscal year at 9.7%. Price increases for raw materials such as petroleum-based materials including synthetic rubber as well as metals and natural rubber impacted Tire business sales. Despite the severe environment, the Group strived to implement cost-cutting measures while increasing sales volume and shifting to high-value-added products. As a result, operating income in the Tire business rose 20.7% year on year to ¥39,723 million. Operating income in the Sports business stood at ¥8,305 million, down by 24.7% from the year earlier. In the Industrial and Other Products business, operating income was on a par with the previous fiscal year at ¥1,667 million. Despite the growing market demand, the SRI Group decided to withdraw from the LCD backlights business amid intense sales



competition and little likelihood of a profit recovery.

Net other expenses fell 36.6% to ¥5,663 million, primarily owing to the interest expenses of ¥2,371 million, write-down of trademarks of ¥1,659 million and net exchange loss of ¥1,563 million. At the same time, equity in earnings of unconsolidated subsidiaries and affiliates recorded significant growth from ¥717 million in the previous fiscal year to ¥4,825 million, reflecting a sales recovery in our U.S. and European joint ventures with The Goodyear Tire & Rubber Company (“Goodyear”).

As a result of the above factors, income before income taxes significantly improved 21.0% to ¥44,263 million. Income taxes rose 8.6% to ¥17,555 million, representing an effective tax rate of 39.7%, down by 4.5 percentage points. Minority interest in consolidated subsidiaries decreased 15.3% to ¥1,068 million. Net income jumped 33.8% to ¥25,640 million. Operating income and net income marked the third and fourth consecutive year of record profit, respectively.

Net income per share was ¥97.10, and ROE (net income base) improved 1.0 percentage point to 16.0%.

DIVIDENDS

Sumitomo Rubber Industries, Ltd. recognizes return of gains to shareholders to be 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. Sumitomo Rubber utilizes retained earnings for strategic investments aimed at expanding the Group’s revenue base, with priority given to capital investments for both increased and streamlined production, as well as R&D.

The full-year dividend for fiscal 2005 is ¥20.00 per share, an increase of ¥6.00 over the previous year. Dividend payout ratio on a consolidated basis was 20.6%.

CASH FLOWS

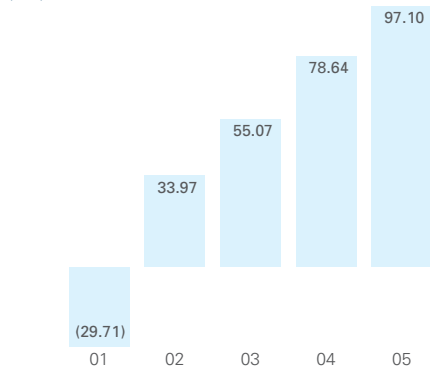
Net cash provided by operating activities rose 21.6% year on year to ¥38,984 million owing to the significant increase in income before income taxes.

Net cash used in investing activities climbed 14.0% to ¥42,878 million. Cash was primarily used in acquiring property, plant and equipment to actively expand production capabilities in support of brisk sales.

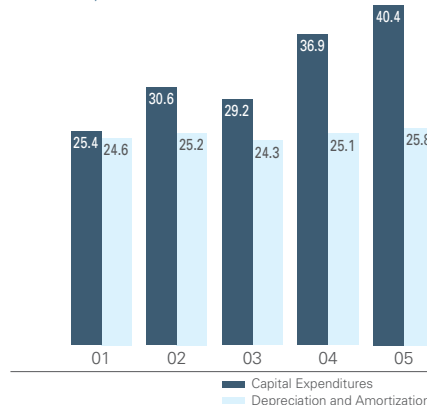
Free cash flow (net cash provided by operating activities minus net cash used in investing activities) ended with a negative balance of ¥3,894 million.

Net cash provided by financing activities declined from being a revenue source of ¥7,609 million in the previous fiscal year to a payout of ¥3,376 million at the end of fiscal 2005. Primary sources of revenue were proceeds from long-term debt and newly issued bonds of ¥33,714 million, net decrease in short-term borrowings of ¥6,208 million, repayments of long-term debt and redemption of bonds of ¥25,810 million and dividend payments of ¥4,201 million.

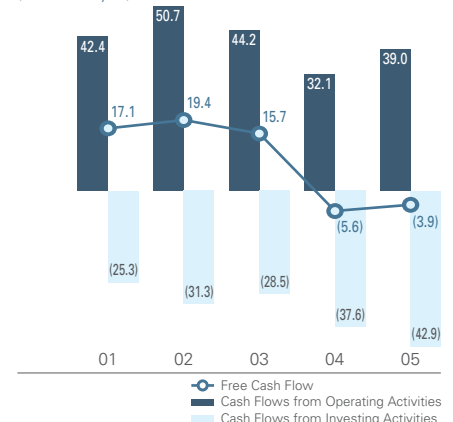
NET INCOME (LOSS) PER SHARE
(Yen)



**CAPITAL EXPENDITURES/
DEPRECIATION AND AMORTIZATION**
(Billions of yen)



CASH FLOWS
(Billions of yen)



As a result of these activities, plus the effects of exchange rate fluctuations and changes in the scope of consolidation, cash and cash equivalents at the end of the year dropped 33.3% to ¥12,829 million.

FINANCIAL POSITION

Total assets as of December 31, 2005, were up 8.3% year on year to ¥563,442 million. Total current assets climbed 8.6% to ¥225,185 million, reflecting the increase in sales.

Total investments and other assets rose 5.5% to ¥135,628 million, owing to an increase in investments in securities of ¥6,284 million reflecting the rise in market prices.

Property, plant and equipment grew 10.0% to ¥202,629 million due to capital expenditures for buildings and structures, and machinery and equipment in line with the Group's efforts to increase production.

Total current liabilities as of the end of the fiscal year under review edged up 0.1 percentage point to ¥214,448 million, while long-term liabilities were up 8.5% to ¥165,971 million. Total liabilities increased ¥14,343 million compared with the corresponding period of the previous fiscal year. Interest-bearing debt as of December 31, 2005, was ¥205,751 million, up ¥3,822 million year on year. Total shareholders' equity rose 19.8% to ¥174,267 million, thanks primarily to the gain in retained earnings due to the increase in profit.

As a result of these factors, the shareholders' equity ratio at the end of fiscal 2005 gained 2.9 percentage points to 30.9%.

ROA (operating income base) increased 0.1 percentage point to 9.2%, and the debt-to-equity ratio improved by 0.2 of a point from a year earlier to 1.2 times.

R&D EXPENSES

Research and development expenses were ¥16,259 million, representing 3.2% of consolidated net sales. The Tire business accounted for ¥13,157 million, the Sports business ¥1,508 million, and the Industrial and Other Products business ¥1,593 million. Having its R&D organization and facility at its core, the Group works in close liaison with its subsidiaries and affiliated companies across the world to promote wide-ranging R&D activities in its Tire, Sport and Industrial and Other Products businesses. Particularly in the Tire business, R&D activities consisted of technology exchanges through its global alliance with Goodyear, as well as the formation of targeted project teams for joint product research.

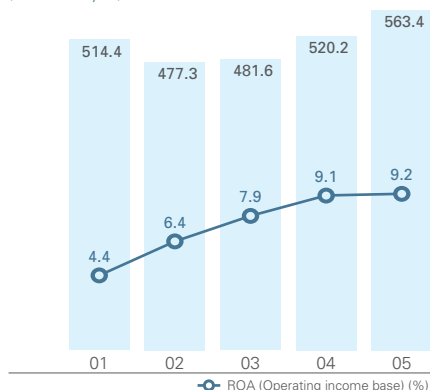
NUMBER OF EMPLOYEES

The total number of employees increased 696 from the end of the previous fiscal year to 17,433.

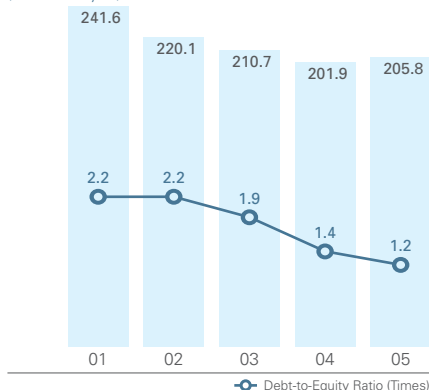
OUTLOOK

Net sales for fiscal 2006, ending December 31, 2006, are forecast to climb 7.2% to ¥550,000 million, while net income is forecast to decline 6.4% to ¥24,000 million. Assumed exchange rates are JPY110 = USD1.00 and JPY135 = EUR 1.00.

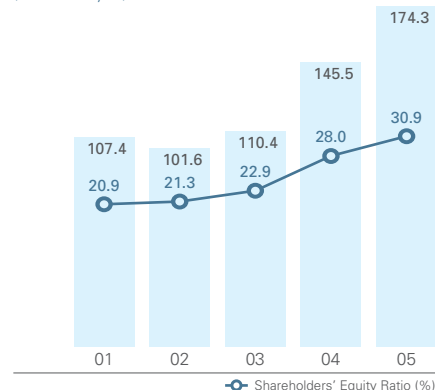
TOTAL ASSETS
(Billions of yen)



INTEREST-BEARING DEBT
(Billions of yen)



SHAREHOLDERS' EQUITY
(Billions of yen)



The SRI Group's business environment is expected to remain harsh due to the price increases in its primary raw materials of natural and synthetic rubbers. Under these circumstances, the Group will make further efforts to promote overall cost reductions and develop vigorous sales promotion, building up its earnings capabilities. In addition, the Group will strive to address medium- and long-term issues in an effort to add value for all stakeholders, including customers and shareholders.

RISK INFORMATION

The SRI Group has identified the following key risk factors that it considers may impact business performance and financial position. Risk factors relating to the future 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 strives to address them accordingly.

Exchange Rate Fluctuations

Exchange rate fluctuations impact the value of the Group's exports, raw materials, 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 affect 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 34.7% in fiscal 2005, the possibility exists that its results may be further affected by exchange rate fluctuation. The SRI 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 fluctuation. Such precautions, however, may not be sufficient to avoid all possible exchange rate fluctuation risks.

Changes in Raw Material Prices

The SRI 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 such as diversi-

fied 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 the prescribed quality standards, the SRI Group takes full-scale measures to assure product quality. Yet it is difficult to reduce defective products and customer complaints to zero. To offset the possibility of any claims for damages resulting from defective products, the Group obtains the appropriate casualty 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, product recall and exchange. These cases may affect the Group's operating results, financial position and social standing.

Alliance with Goodyear

Based on the 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, 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

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

CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

December 31	2005	2004	Thousands of U.S.dollars (Note 1)
		Millions of yen	
Assets			
Current assets:			
Cash and time deposits	¥ 13,119	¥ 19,309	\$ 111,178
Notes and accounts receivable (Note 14)—			
Trade	121,444	109,751	1,029,186
Other	14,335	10,656	121,483
Allowance for doubtful accounts	(2,650)	(2,450)	(22,458)
Inventories (Note 4)	57,205	48,953	484,788
Short-term loans (Note 14)	4,623	3,858	39,178
Deferred tax assets (Note 10)	9,469	10,353	80,246
Other	7,640	6,985	64,746
Total current assets	225,185	207,415	1,908,347
Investments and other assets:			
Investments in securities (Note 5)	23,904	17,620	202,576
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14)	68,291	66,623	578,737
Long-term loans	1,050	1,296	8,898
Deferred tax assets (Note 10)	2,086	2,610	17,678
Long-term prepaid expenses	3,466	3,330	29,373
Trademarks (Note 8)	2,859	5,351	24,229
Goodwill and other intangible assets	7,581	6,977	64,246
Prepaid pension cost (Note 11)	18,633	17,043	157,907
Other	9,458	9,705	80,153
Allowance for doubtful accounts	(1,700)	(2,000)	(14,407)
Total investments and other assets	135,628	128,555	1,149,390
Property, plant and equipment (Notes 7 and 9):			
Land	42,241	41,060	357,975
Buildings and structures	125,819	120,905	1,066,263
Machinery and equipment	368,181	348,801	3,120,178
Construction in progress	9,705	6,231	82,246
Accumulated depreciation	(343,317)	(332,810)	(2,909,467)
Total property, plant and equipment	202,629	184,187	1,717,195
Total assets	¥ 563,442	¥ 520,157	\$ 4,774,932

The accompanying notes are an integral part of these statements.

	Millions of yen	Thousands of U.S.dollars (Note 1)	
	2005	2004	2005
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	¥ 51,402	¥ 56,178	\$ 435,610
Current portion of long-term debt (Note 9)	18,375	25,694	155,720
Notes and accounts payable—			
Trade (Note 14)	78,584	69,035	665,966
Construction	8,790	9,003	74,492
Other	25,850	23,514	219,068
Accrued expenses	16,766	15,812	142,085
Allowance for sales returns	2,226	—	18,864
Accrued income taxes (Note 10)	10,727	11,023	90,907
Other	1,728	3,905	14,642
Total current liabilities	214,448	214,164	1,817,354
Long-term liabilities:			
Long-term debt (Note 9)	135,974	120,057	1,152,322
Deferred tax liabilities (Note 10)	8,767	8,031	74,297
Accrued retirement benefits (Note 11)	11,753	12,670	99,602
Other	9,477	11,154	80,315
Total long-term liabilities	165,971	151,912	1,406,536
Contingent liabilities (Note 15)			
Minority interest in consolidated subsidiaries	8,756	8,589	74,203
Shareholders' equity (Note 17):			
Common stock—			
Authorized: 800,000,000 shares			
Issued: 263,043,057 shares	42,658	42,658	361,508
Capital surplus	38,657	38,656	327,601
Retained earnings	74,626	53,046	632,424
Net unrealized gains on available-for-sale securities	8,519	4,960	72,195
Translation adjustments	10,251	6,416	86,874
	174,711	145,736	1,480,602
Less treasury stock, at cost—			
2005—634,805 shares	(444)	—	(3,763)
2004—467,371 shares	—	(244)	—
Total shareholders' equity	174,267	145,492	1,476,839
Total liabilities and shareholders' equity	¥563,442	¥520,157	\$4,774,932

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Net sales (Note 14)	¥512,838	¥470,562	\$4,346,085
Cost of sales (Note 14)	325,286	288,684	2,756,661
Gross profit	187,552	181,878	1,589,424
Selling, general and administrative expenses	137,626	136,352	1,166,322
Operating income	49,926	45,526	423,102
Other income (expenses):			
Interest and dividend income	502	384	4,254
Interest expenses	(2,371)	(1,786)	(20,093)
Loss on sales or disposal of property, plant, and equipment, net	(603)	(1,470)	(5,110)
Exchange loss, net	(1,563)	(783)	(13,246)
Equity in earnings of unconsolidated subsidiaries and affiliates	4,825	717	40,890
Loss on transition to defined contribution plans from defined benefit plans (Note 11)	—	(1,848)	—
Start-up costs in foreign subsidiaries	—	(580)	—
Amortization of initial transition cost of pension and severance plans (Note 11)	(578)	(532)	(4,898)
Expenses relating to product liabilities	(1,029)	(1,215)	(8,720)
Write-down of investments in securities	(482)	—	(4,085)
Write-down of trademarks (Note 8)	(1,659)	—	(14,059)
Other, net	(2,705)	(1,825)	(22,925)
	(5,663)	(8,938)	(47,992)
Income before income taxes and minority interest in consolidated subsidiaries	44,263	36,588	375,110
Income taxes (Note 10):			
Current	17,847	17,038	151,246
Deferred	(292)	(880)	(2,475)
	17,555	16,158	148,771
Income before minority interest in consolidated subsidiaries	26,708	20,430	226,339
Minority interest in consolidated subsidiaries	(1,068)	(1,261)	(9,051)
Net income	¥ 25,640	¥ 19,169	\$ 217,288
		Yen	U.S.dollars (Note 1)
Per share amounts:			
Net income	¥97.10	¥78.64	\$0.823
Cash dividends paid	20.00	14.00	0.169

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Common stock:			
Balance at beginning of year	¥ 42,658	¥ 33,905	\$ 361,508
Issuance of capital stock	—	8,753	—
Balance at end of year	¥ 42,658	¥ 42,658	\$ 361,508
Capital surplus:			
Balance at beginning of year	¥ 38,656	¥ 28,657	\$ 327,593
Issuance of capital stock	—	1,246	—
Gain on sales of treasury stock	1	8,753	8
Balance at end of year	¥ 38,657	¥ 38,656	\$ 327,601
Retained earnings:			
Balance at beginning of year	¥ 53,046	¥ 41,084	\$ 449,542
Net income	25,640	19,169	217,288
Cash dividends	(4,201)	(3,103)	(35,602)
Bonuses to directors and statutory auditors	(140)	(95)	(1,186)
Other comprehensive income of foreign subsidiaries and affiliates	281	200	2,382
Effect of change in reporting entities	—	(4,209)	—
Balance at end of year	¥ 74,626	¥ 53,046	\$ 632,424
Net unrealized gains on available-for-sale securities at end of year	¥ 8,519	¥ 4,960	\$ 72,195
Translation adjustments at end of year	¥ 10,251	¥ 6,416	\$ 86,874
Less treasury stock, at cost at end of year:			
Balance at beginning of year	¥ (244)	¥ (1,824)	\$ (2,068)
Acquisition	(202)	(176)	(1,712)
Sale	2	1,756	17
Balance at end of year	¥ (444)	¥ (244)	\$ (3,763)
Total shareholders' equity at end of year	¥174,267	¥145,492	\$1,476,839

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interest in consolidated subsidiaries	¥ 44,263	¥ 36,588	\$ 375,110
Adjustments to reconcile income before income taxes and minority interest in consolidated subsidiaries to net cash provided by operating activities—			
Depreciation and amortization	25,755	25,098	218,263
Loss on sales or disposal of property, plant and equipment, net	603	1,470	5,110
Amortization of initial transition cost of pension and severance plans	578	532	4,898
Write-down of trademarks	1,659	—	14,059
Increase in prepaid pension costs, net of payment	(1,590)	(9,336)	(13,475)
Increase (decrease) in pension premium payable for transition to defined contribution plan	(2,624)	4,986	(22,237)
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,825)	(717)	(40,890)
Provision for (reversal of) allowance for doubtful accounts	275	(29)	2,331
Reversal of accrued retirement benefits, net of payment	(705)	(3,011)	(5,975)
Interest and dividend income	(502)	(384)	(4,254)
Interest expenses	2,371	1,786	20,093
Increase in notes and accounts receivable	(10,877)	(2,052)	(92,178)
Increase in inventories	(7,000)	(8,301)	(59,322)
Increase in notes and accounts payable	9,117	280	77,263
Other	(168)	2,761	(1,423)
Subtotal	56,330	49,671	477,373
Interest and dividends received	3,673	1,790	31,127
Interest paid	(2,367)	(1,818)	(20,059)
Income taxes paid	(18,652)	(17,587)	(158,068)
Net cash provided by operating activities	38,984	32,056	330,373
Cash flows from investing activities:			
Capital expenditures	(42,951)	(36,881)	(363,992)
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	1,963	1,034	16,636
Acquisition of investments in securities	(662)	(66)	(5,610)
Proceeds from sales of investments in securities	37	150	314
Additional acquisition of shares in unconsolidated subsidiaries and affiliates	(1,152)	(1,310)	(9,763)
Net increase in short-term loans receivable	(694)	(724)	(5,881)
Increase in long-term loans receivable	(113)	(3,294)	(958)
Decrease in long-term loans receivable	465	3,424	3,941
Other	229	45	1,940
Net cash used in investing activities	(42,878)	(37,622)	(363,373)
Cash flows from financing activities:			
Net decrease in short-term borrowings	(6,208)	(22,300)	(52,610)
Proceeds from long-term debt and newly issued bonds	33,714	33,674	285,712
Repayments of long-term debt and redemption of bonds	(25,810)	(19,940)	(218,729)
Dividends paid	(4,201)	(3,103)	(35,602)
Dividends on minority interest	(675)	(364)	(5,720)
Proceeds from issuance of capital stock	—	17,507	—
Proceeds from sales (payments for purchases) of treasury stock, net	(199)	2,826	(1,686)
Payments relating to issuance of common stock and sales of treasury stock	—	(872)	—
Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries	6	186	51
Other	(3)	(5)	(26)
Net cash provided by (used in) financing activities	(3,376)	7,609	(28,610)
Effect of exchange rate changes on cash and cash equivalents	637	(1)	5,398
Net increase (decrease) in cash and cash equivalents	(6,633)	2,042	(56,212)
Cash and cash equivalents at beginning of year	19,246	16,453	163,102
Increase in cash and cash equivalent due to change in reporting entities	216	751	1,830
Cash and cash equivalents at end of year	¥ 12,829	¥ 19,246	\$ 108,720

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, 2005 and 2004

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 are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars. The rate of ¥118=U.S.\$1, the approximate rate prevailing at December 31, 2005, 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 20%- to 50%-owned companies ("affiliates") are, with minor exceptions, accounted for on an equity basis. On 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 elimination of unrealized intercompany profits.

SRITP LIMITED, whose operations became significant in 2004, is included in the 2004 consolidation. Shanghai Dunlop Trading Co., Ltd., Tianjin Dunlop Global Trading Co., Ltd., Dalian Dunlop Trading Co., Ltd., and Guangzhou Dunlop Trading Co., Ltd., which were established during fiscal 2004, are included in the 2004 consolidation. Falken TEC Taiwan Corp. and Srixon Sports (Malaysia) Sdn. Bhd. were liquidated in 2004. Falken Tire Trading Ltd. was merged with SRI Tire Trading Ltd. in 2004.

Changshu SRI Tech, Ltd. whose operations became significant in 2005 is included in the 2005 consolidation. Sumitomo Rubber (Thailand) Co., Ltd., Dunlop Falken Kanto Ltd., Dunlop Falken Chiba Ltd., Dunlop Falken Keiji Ltd. and Dunlop Falken San-in Ltd., which were established during fiscal 2005, are included in the consolidation. SRI Finance Co., Ltd., SRI Allied Goods Sales Co., Ltd. and Falken TEC Vietnam Co., Ltd. were liquidated in 2005. T. M. E. Co., Ltd. and Ohtsu Kouki Engineering Co., Ltd. merged with SRI Engineering Ltd. Falken Tires Ltd. was merged with Dunlop Tyres Ltd. and changed its name to Dunlop Falken Tyres Ltd. in 2005.

In case of 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 incurred when those companies are initially included in consolidation or accounted for under the equity method. Such differences are amortized using the straight-line method over a 5-year period. Two exceptions to this policy are the difference related to Goodyear Dunlop Tires Europe B.V., which is being amortized over a 10-year period, and the difference related to Falken Tire Corporation, which is no longer amortized from fiscal 2003 in compliance with SFAS No. 142 of the United States of America (see note 2 (10)). Minor differences are charged or credited to income as incurred.

(2) Consolidated statements of cash flows

The form of the accompanying consolidated statements of cash flows is defined by the Financial Services Agency of Japan.

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

Capital expenditures presented in the consolidated statements of cash flows comprise acquisition of tangible assets, long-term prepaid expenses, trademarks and other intangible assets.

(3) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency 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, except for shareholders' equity, which is translated at historical exchange rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at average rates of exchange prevailing during the year. The resulting translation adjustments are shown as a separate component of shareholders' equity.

(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, which are recorded as a component of shareholders' equity. Securities with no fair market value are stated at cost. Loss on significant decline of the fair value of securities that is not temporary is 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 of exposure to fluctuation in currency exchange rates and interest in respect of their financial assets and liabilities in accordance with their internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives used for hedging purposes.

b. Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments deferring any gain or loss over the period of the hedging contracts together with offsetting against the deferred loss or gain on the related hedged items.

However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated by 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 items.

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
Interest rate swap contracts	Short-term borrowings and long-term debt

c. Hedging policy

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

d. Assessment method of hedging effectiveness

The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing the cumulative changes in fair value or the cumulative changes in cash flow on hedging instruments and the related hedged items from the commencement of the hedges.

(6) Inventories

Inventories are principally stated at the lower of cost or market, cost being determined using the average-cost method.

(7) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during certain reference periods plus the estimated uncollectible amount based on the analysis of individual accounts.

(8) Property, plant and equipment, and depreciation

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 Head Office and the Nagoya factory of the Company and some domestic consolidated companies, which are depreciated using the declining-balance method, based on the estimated useful lives of the assets.

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of an impaired asset or a group of the assets to recoverable amount to be measured at the higher of net realizable value and value in use.

The standard is effective for fiscal years beginning on January 1, 2006.

(9) Accounting for leases

Finance leases which are not subject to transfer of ownership of property to the lessees 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 lives (5 to 20 years). The new standard discussed in (8) above will be also subject to intangible assets when it is adopted.

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. Their 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 as of December 31.

(11) Research and development expenses

Research and development expenses for improvement of existing products or 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 sales returns of snow tires subsequent to the balance sheet date, the estimation of which is based on an average rate of such returns of snow tires in prior years.

(Accounting change)

Effective from January 1, 2005, the Company and its consolidated subsidiaries changed their method of accounting for losses on sales returns of snow tires caused by the seasonal fluctuation of sales returns. The previous method of recognizing accrued expenses by sales returns of snow tires that occurred within one month succeeding the balance sheet date was changed to providing an allowance for future sales returns estimated based on an average rate of such returns of snow tires in prior years.

This change was made to reflect more accurately periodical income and loss due to increases in sales returns of snow tires and the dealers' network system improvements that enable more accurate estimations of the loss on sales returns of snow tires.

As a result of this change, cost of sales increased by ¥815 million (\$6,907 thousand), and operating income, income before income taxes and minority interest in consolidated subsidiaries decreased by the same amount.

(13) Accrued retirement benefits

The liabilities and expenses for retirement and severance benefits are accounted for based on the estimated amounts of projected benefit obligation and plan assets at the balance sheet date.

Accrued retirement benefits for directors and statutory auditors of certain consolidated subsidiaries are recorded at an amount equivalent to 100% of such benefits that the Company would be required to pay based on the internal rule at the balance sheet date.

Payments of the benefits are subject to resolution at the shareholders' meeting.

Before March 2005, the Company and certain consolidated subsidiaries also provided for accrued retirement benefits for directors and statutory auditors based on the internal retirement benefit plans. However, in March 2005 the Company and those subsidiaries abolished the retirement benefit plans and decided to pay to directors and statutory auditors the amount which was payable when the plans were abolished, when he or she retires in the future.

(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 adopt interperiod income tax allocation using the asset and liability method of accounting with respect to all such temporary differences including tax loss carryforward.

(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, 2005 and 2004.

(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 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 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥ 13,119	¥ 19,309	\$ 111,178
Time deposits with a maturity of over three months	(39)	(39)	(331)
Bank overdraft	(251)	(24)	(2,127)
Cash and cash equivalents	¥ 12,829	¥ 19,246	\$ 108,720

4. INVENTORIES

Inventories as of December 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods	¥38,167	¥32,822	\$323,449
Work in process	3,818	4,096	32,356
Raw materials	10,668	8,147	90,407
Supplies	4,552	3,888	38,576
	¥57,205	¥48,953	\$484,788

5. INVESTMENTS IN SECURITIES

As of December 31, 2005 and 2004, cost, book value and the 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
	2005	2004	2005
Available-for-sale securities:			
Cost	¥ 7,886	¥ 7,344	\$ 66,831
Book value	22,203	15,668	188,161
Unrealized gains	14,332	8,410	121,458
Unrealized losses	(15)	(86)	(127)

Available-for-sale securities sold during the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds	¥37	¥ 150	\$314
Realized gains	20	97	169
Realized losses	—	(0)	—

6. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value information regarding derivative financial instruments as of December 31, 2005 and 2004 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Currency related contracts:									
Foreign exchange contracts									
To purchase	¥384	¥381	¥(3)	¥257	¥258	¥1	\$3,254	\$3,228	\$(16)
	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	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	¥1,000	¥(16)	¥(16)	¥1,000	¥(32)	¥(32)	\$8,474	\$(135)	\$(135)

7. PROPERTY, PLANT AND EQUIPMENT

The depreciation charges for the years ended December 31, 2005 and 2004 were ¥21,651 million (\$183,483 thousand) and ¥20,684 million, respectively. Estimated useful lives of the major classes of depreciable assets ranged from 2 to 60 years (principally 31 years) for buildings and structures, and from 2 to 20 years (principally 10 years) for machinery and equipment.

8. TRADEMARKS

For the years ended December 31, 2005 and 2004, amortization charges for capitalized trademarks were ¥975 million (\$8,263 thousand) and ¥885 million, respectively.

The write-down of trademarks of ¥1,659 million (\$14,059 thousand) in the 2005 consolidated statements of income was related to a foreign subsidiary whose operational performance had deteriorated, and was recorded in addition to the amortization.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings, other than commercial paper, of ¥36,402 million (\$308,491 thousand) and ¥36,678 million as of December 31, 2005 and 2004 bore interest ranging from 0.029% to 6.050%, and from 0.100% to 7.250% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥15,000 million (\$127,119 thousand) and ¥19,500 million as of December 31, 2005 and 2004 bore interest ranging from 0.014% to 0.028%, and from 0.011% to 0.014% per annum, respectively.

Long-term debt as of December 31, 2005 and 2004 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
1.900% unsecured bonds due 2006 payable in Japanese yen	¥ 10,000	¥ 10,000	\$ 84,746
0.570% unsecured bonds due 2005 payable in Japanese yen	—	10,000	—
0.910% unsecured bonds due 2007 payable in Japanese yen	10,000	10,000	84,746
0.840% unsecured bonds due 2008 payable in Japanese yen	10,000	10,000	84,746
1.150% unsecured bonds due 2009 payable in Japanese yen	20,000	20,000	169,492
0.670% unsecured bonds due 2008 payable in Japanese yen	5,000	5,000	42,372
1.080% unsecured bonds due 2010 payable in Japanese yen	10,000	10,000	84,746
0.740% unsecured bonds due 2011 payable in Japanese yen	20,000	—	169,492
Loans payable to banks and other financial institutions due 2006–2019, with interest of 0.414%–4.95% for 2005 and 2004:			
Secured	22,754	25,585	192,821
Unsecured	46,595	45,166	394,881
	154,349	145,751	1,308,042
Less portion due within one year	18,375	25,694	155,720
	¥ 135,974	¥ 120,057	\$ 1,152,322

The aggregate annual maturities of long-term debt as of December 31, 2005 were as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 18,375	\$ 155,720
2007	16,895	143,178
2008	25,545	216,483
2009	40,419	342,534
2010	21,823	184,941
2011 and thereafter	31,292	265,186
	¥ 154,349	\$ 1,308,042

Substantially all loans from banks and other financial institutions are borrowed 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, or may treat any collateral, whether furnished as security for short-term or long-term loans or otherwise, as collateral for all indebtedness to the banks and other financial institutions. Default provisions of the agreements grant certain rights of possession to the banks and other financial institutions.

As of December 31, 2005, property, plant and equipment amounting to ¥29,617 million (\$250,992 thousand), net of accumulated depreciation, were pledged as collateral for long-term debt and short-term borrowings amounting to ¥22,954 million (\$194,525 thousand).

10. INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate normal cumulative statutory tax rates of approximately 40.4% and 41.7% in Japan for the years ended December 31, 2005 and 2004, respectively.

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, 2004 were as follows. Information for 2005 was omitted because the difference between the normal cumulative statutory tax rate and effective tax rate was immaterial.

	2005	2004
Normal cumulative statutory tax rate	—	41.7%
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	—	0.5
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	—	(0.8)
Current operating losses of foreign subsidiaries	—	2.3
Expenses not deductible for tax purposes	—	1.1
Change in valuation allowance for deferred tax assets	—	0.6
Other	—	(1.2)
Effective tax rate per consolidated statements of income	—	44.2%

On March 31, 2003, the law governing local taxes in Japan was revised to impose a size-based enterprise tax on corporations, and accordingly, the enterprise tax rate is reduced for the fiscal years commencing on January 1, 2005, or later.

Significant components of the deferred tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets—current:			
Provision for doubtful accounts	¥ 676	¥ 608	\$ 5,729
Accrued business enterprise tax	1,270	997	10,763
Unrealized intercompany profits on inventories	2,915	3,342	24,703
Tax loss carryforward	—	1,049	—
Allowance for sales returns	899	—	7,619
Other	3,709	4,357	31,432
Total	¥ 9,469	¥10,353	\$ 80,246
Deferred tax assets—non-current:			
Unrealized intercompany profits on fixed assets	¥ 714	¥ 1,002	\$ 6,051
Provision for accrued retirement benefits	1,376	875	11,661
Other	(4)	733	(34)
Total	¥ 2,086	¥ 2,610	\$ 17,678
Deferred tax liabilities—current:	¥ (73)	¥ (80)	\$ (619)
Deferred tax liabilities—non-current:			
Deferred gain on sales of property, plant and equipment	¥(2,338)	¥ (2,283)	\$(19,814)
Unrealized gain on land of a consolidated subsidiary	(1,586)	(1,586)	(13,441)
Provision for accrued retirement benefits	(2,032)	(1,580)	(17,220)
Unrealized gains on available-for-sale securities	(5,576)	(3,271)	(47,254)
Other	2,765	689	23,432
Total	¥(8,767)	¥ (8,031)	\$(74,297)

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 voluntarily retiring under normal circumstance, minimum payment amount is calculated based on current rate of pay, length of service and condition under which the employee retires. In calculating the payment amount for an involuntarily retiring employee, including an employee retiring due to meeting mandatory retirement age, the Company or the domestic consolidated subsidiaries may grant additional benefit.

The Company and most of the domestic consolidated subsidiaries have established their own defined benefit pension plans and defined contribution pension plans described as below.

Before April 1, 2004, the Company had a contributory defined benefit pension plan, which was pursuant to the Japanese Welfare Pension Insurance Law. The pension plan covered a portion of the benefits provided by a government welfare pension program, under which contributions were made by the Company and its employees. The other portion of the pension plan represented a non-contributory pension plan. Under the pension plan, the non-contributory portion covered (i) payments to those employees who had served with the Company for more than 20 years and retired at the age limit and (ii) a 25% portion of the lump-sum retirement indemnities for the employees who were not qualified to receive the annuity payments. Contributions to the plan were deposited with and managed by several financial institutions in accordance with the applicable laws and regulations.

On April 1, 2004, upon the enactment of the Defined Contribution Pension Law, the Company and some of its domestic consolidated subsidiaries transferred a portion of lump-sum benefit plans to defined contribution pension plans.

As a result, the Company and the subsidiaries recorded loss of ¥1,848 million in aggregate in the consolidated statement of income for the year ended December 31, 2004 pursuant to Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan.

The transition to defined contribution plan increased prepaid pension cost and decreased accrued retirement benefit. The net effect of the above was as follows:

	Millions of yen
	2004
Decrease in benefit obligation	¥11,519
Decrease in unrecognized initial transition cost at date of adoption of pension accounting	(467)
Decrease in unrecognized actuarial losses	(2,375)
Decrease in unrecognized prior service cost	372
	¥ 9,049

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans that substantially cover all of their employees, under which the cost of benefit is currently funded or accrued. Benefits awarded under these plans are based primarily on current rate 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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Benefit obligation	¥(51,045)	¥(46,725)	\$(432,585)
Fair value of plan assets	65,521	50,108	555,263
Funded status:			
Benefit obligation in excess of plan assets	14,476	3,383	122,678
Unrecognized initial transition cost at date of adoption	—	466	—
Unrecognized actuarial losses	(3,921)	5,428	(33,229)
Unrecognized prior service cost	(3,645)	(3,937)	(30,890)
Subtotal	6,910	5,340	58,559
Prepaid pension cost	18,633	17,043	157,907
Accrued retirement benefits	¥(11,723)	¥(11,703)	\$ (99,347)

The accrued retirement benefits for directors and statutory auditors as of December 31, 2005 and 2004, amounting to ¥30 million (\$254 thousand) and ¥967 million, respectively, were excluded from the above table.

As discussed in Note 2 (13), the Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors and provided a reserve at ¥580 million as of December 31, 2005, which was included in long-term liabilities—"Other".

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 2,459	¥2,070	\$ 20,839
Interest cost	978	1,031	8,288
Expected return on plan assets	(1,394)	(951)	(11,814)
Amortization of transition obligation at date of adoption	466	532	3,949
Amortization of actuarial loss	478	616	4,051
Amortization of prior service cost	(292)	(253)	(2,475)
Severance and retirement benefit expenses	¥ 2,695	¥3,045	\$ 22,839
Transitional loss into the defined contribution pension plan	—	1,848	—
Contributions to the defined contribution pension plan	472	324	4,000
Net periodic benefit costs	¥ 3,167	¥5,217	\$ 26,839

In 2005 and 2004, the discount rates used by the Company and the domestic consolidated subsidiaries were 2.0% and 2.5%, and the range of expected return on plan assets was from 0.84% to 2.5%. 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, 2005 and 2004 were ¥16,259 million (\$137,788 thousand) and ¥15,730 million, respectively.

13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate principally in three industries: tires, sports and industrial products.

Operations in the Tires segment involve the production and sales 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 sales of a variety of sporting goods, principally golf balls, golf clubs, golf bags and tennis balls.

Operations in the Industrial and Other Products segment involve the production and sales of a variety of rubber and rubber-based products, including flooring for gymnasiums, all-weather tennis courts, track and field facilities, industrial flooring coating, marine fenders, precision rubber parts for office machines, blankets for offset printing presses, and beds.

Capital expenditures in the segment information comprise acquisition of tangible assets, depreciable assets such as long-term prepaid expenses, trademarks and other intangible assets in accordance with Japanese accounting practices.

(1) Information by industry segment

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales:			
Tires—			
Sales to unaffiliated customers	¥398,170	¥356,646	\$3,374,322
Intersegment sales and transfers	196	144	1,661
	398,366	356,790	3,375,983
Sports—			
Sales to unaffiliated customers	54,748	57,363	463,966
Intersegment sales and transfers	320	464	2,712
	55,068	57,827	466,678
Industrial and Other Products—			
Sales to unaffiliated customers	59,920	56,553	507,797
Intersegment sales and transfers	2,819	2,866	23,890
	62,739	59,419	531,687
Adjustment and eliminations	(3,335)	(3,474)	(28,263)
	¥512,838	¥470,562	\$4,346,085
Operating income:			
Tires	¥ 39,723	¥ 32,899	\$ 336,636
Sports	8,305	11,023	70,381
Industrial and Other Products	1,667	1,652	14,127
	49,695	45,574	421,144
Adjustment and eliminations	231	(48)	1,958
	¥ 49,926	¥ 45,526	\$ 423,102
Identifiable assets:			
Tires	¥473,507	¥428,311	\$4,012,771
Sports	37,871	40,935	320,941
Industrial and Other Products	37,524	41,079	318,000
	548,902	510,325	4,651,712
Corporate assets and eliminations	14,540	9,832	123,220
	¥563,442	¥520,157	\$4,774,932
Capital expenditures:			
Tires	¥ 39,158	¥ 36,091	\$ 331,847
Sports	1,529	1,255	12,958
Industrial and Other Products	2,399	1,416	20,331
	43,086	38,762	365,136
Corporate assets and eliminations	17	45	144
	¥ 43,103	¥ 38,807	\$ 365,280
Depreciation and amortization:			
Tires	¥ 21,780	¥ 20,947	\$ 184,576
Sports	1,533	1,636	12,992
Industrial and Other Products	2,430	2,511	20,593
	25,743	25,094	218,161
Corporate assets and eliminations	12	4	102
	¥ 25,755	¥ 25,098	\$ 218,263

(2) Information by geographic area

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales:			
Japan—			
Sales to unaffiliated customers	¥440,362	¥409,505	\$3,731,881
Sales between geographic areas	19,759	17,273	167,449
	460,121	426,778	3,899,330
Other—			
Sales to unaffiliated customers	72,476	61,057	614,203
Sales between geographic areas	15,562	9,613	131,881
	88,038	70,670	746,084
	548,159	497,448	4,645,414
Adjustment and eliminations	(35,321)	(26,886)	(299,331)
	¥512,838	¥470,562	\$4,346,085
Operating income:			
Japan	¥ 48,011	¥ 43,176	\$ 406,873
Other	2,021	1,942	17,127
	50,032	45,118	424,000
Adjustment and eliminations	(106)	408	(898)
	¥ 49,926	¥ 45,526	\$ 423,102
Identifiable assets:			
Japan	¥464,234	¥439,237	\$3,934,186
Other	92,803	71,649	786,466
	557,038	510,886	4,720,662
Corporate assets and eliminations	6,404	9,271	54,271
	¥563,442	¥520,157	\$4,774,933

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales:			
North America	¥ 57,928	¥ 47,279	\$ 490,915
Europe	43,296	42,369	366,915
Asia	28,994	21,449	245,712
Other areas	47,552	37,142	402,983
Total	¥177,770	¥148,239	\$1,506,525
		Percentage	
Percentage of such sales in consolidated net sales	34.7%	31.5%	

14. RELATED PARTY TRANSACTIONS

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2005 and 2004, and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes and accounts receivable:			
Trade	¥ 4,364	¥ 3,009	\$ 36,983
Other	344	662	2,915
	¥ 4,708	¥ 3,671	\$ 38,898
Short-term loans	¥ 3,247	¥ 2,641	\$ 27,517
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	¥ 2,967	¥ 3,170	\$ 25,144
Notes and accounts payable, trade	¥ 5,617	¥ 4,928	\$ 47,602
Sales	¥ 14,588	¥ 10,532	\$ 123,627
Purchases	¥ 14,632	¥ 11,262	\$ 124,000

15. CONTINGENT LIABILITIES

As of December 31, 2005, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥3,694	\$31,305
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	61	517

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, 2005 and 2004 were as follows:

As of December 31, 2005

	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	¥6,319	¥2,953	¥3,366	\$53,551	\$25,025	\$28,525
Other	298	146	152	2,525	1,237	1,288
Total	¥6,617	¥3,099	¥3,518	\$56,076	\$26,263	\$29,814

As of December 31, 2004

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥6,283	¥3,519	¥2,764
Other	91	53	38
Total	¥6,374	¥3,572	¥2,802

Lease payments under non-capitalized finance leases for the years ended December 31, 2005 and 2004 amounted to ¥1,281 million (\$10,856 thousand) and ¥1,361 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥1,160	¥1,073	\$ 9,831
Due later	2,358	1,729	19,983
	¥3,518	¥2,802	\$29,814

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 273	¥ 222	\$ 2,314
Due later	1,529	1,435	12,957
	¥1,802	¥1,657	\$15,271

17. 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 30, 2006:

	Millions of yen		Thousands of U.S. dollars
Balance at December 31, 2005	¥83,041		\$703,737
Appropriations—			
Cash dividends (¥13 per share outstanding at December 31, 2005)	(3,411)		(28,907)
Bonuses to directors and statutory auditors	(120)		(1,017)
Balance after appropriations	¥79,510		\$673,814

Nakanoshima Mitsui Building 16F
3-3-3, Nakanoshima,
Kita-Ku, Osaka 530-8248 Japan

To the Board of Directors and Shareholders of
Sumitomo Rubber Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2005 and 2004, 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.

As discussed in Note 2 (12) to the consolidated financial statements, the Company changed its accounting policy for allowance for sales returns effective from January 1, 2005.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the consolidated financial statements.



March 30, 2006

DIRECTORY

(As of March 30, 2006)

Domestic Offices and Facilities

Head Office

3-6-9, Wakinohama-cho
Chuo-ku, Kobe,
Hyogo 651-0072, Japan
Tel: (078) 265-3000
Fax: (078) 265-3111

Tokyo Head Office

Toyosu Center Bldg.
3-3-3, Toyosu, Koto-ku,
Tokyo 135-6005, Japan
Tel: (03) 5546-0111
Fax: (03) 5546-0140

Facilities

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

Overseas Offices

Los Angeles Office

California, U.S.A.

Rancho Office

California, U.S.A.

Atlanta Office

Georgia, U.S.A.

Toronto Office

Toronto, Ontario, Canada

Brussels Office

Diegem, Belgium

Offenbach Office

Offenbach, Germany

Melbourne Office

Somerton, Victoria, Australia

Dubai Office

Dubai, UAE

Jeddah Office

Jeddah, Saudi Arabia

Singapore Office

Singapore, Singapore

Santiago Office

Santiago, Chile

Shanghai Office

Shanghai, China

Moscow Office

Moscow, Russia
(As of April 30, 2006)

Major Subsidiaries

Dunlop Falken Tyres Ltd.

Koto-ku, Tokyo, Japan

Goodyear Japan Ltd.

Minato-ku, Tokyo, Japan

Dunlop Goodyear Tires Ltd.

Koto-ku, Tokyo, Japan

SRI Tire Trading Ltd.

Koto-ku, Tokyo, Japan

SRI Sports Ltd.

Kobe, Japan

SRI Hybrid Ltd.

Kobe, Japan

SRI Engineering Ltd.

Kobe, Japan

SRI Research & Development Ltd.

Kobe, Japan

P.T. Sumi Rubber Indonesia

Jakarta, Indonesia

Oniris S.A.S.

Limay, France

Sumirubber Malaysia Sdn. Bhd.

Sungai Petani, Kedah, Malaysia

Sumitomo Rubber (Thailand) Co., Ltd.

Rayong, Thailand

Sumirubber Vietnam, Ltd.

Haiphong, Vietnam

Zhongshan Sumirubber Precision Rubber Ltd.

Guangdong Province, China

Sumitomo Rubber (Changshu) Co., Ltd.

Jiangsu Province, China

Sumitomo Rubber (Suzhou) Co., Ltd.

Jiangsu Province, China

Major Affiliates

Goodyear Dunlop Tires Europe B.V.

Amsterdam, Netherlands

Goodyear Dunlop Tires North America, Ltd.

Akron, Ohio, U.S.A.

Goodyear-SRI Global Purchasing Company

Akron, Ohio, U.S.A.



Nagoya Factory



Shirakawa Factory



Ichijima Factory



Kakogawa Factory



Izumiohtsu Factory



Miyazaki Factory



P.T. Sumi Rubber Indonesia



Sumirubber Malaysia Sdn. Bhd.

Board of Directors

Chairman
Mitsuaki Asai*

President
Tetsuji Mino*

Managing Executive Officers
Toshiyuki Noguchi*
Ryochi Sawada*
Hisao Takahashi
Akihiko Nakamura

Senior Executive Officers
Koji Soeda
Yasuyuki Sasaki
Takaki Nakano
Yoshinori Yamada

Director
Norio Okayama

*Representative Directors

Corporate Auditors

Hiroo Jikihara
Masashi Mine
Kimio Toma
Hiroshi Izumitani
Tadao Kagono

Executive Officers

Takayuki Saimen
Susumu Shiotani
Hiroaki Tanaka
Yasushi Nojiri
Ikuji Ikeda
Hironobu Nakamura
Kaoru Taniguchi
Masanori Ichihara
Kenji Onga
Takahiro Fukumoto
Kosaburo Nakaseko
Hirotsugu Hasegawa

(As of March 30, 2006)

Investor Information

Paid-in Capital
¥42,658,014 thousand

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

Number of Shareholders
11,473

Major Shareholders

Sumitomo Electric Industries, Ltd.	26.7%
Japan Trustee Services Bank, Ltd. (Trust Account)	13.0%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7.6%
Sumitomo Corporation	3.7%
Sumitomo Mitsui Banking Corporation	2.0%
Trust & Custody Services Bank, Ltd. (Trust Account B)	1.6%
The Goodyear Tire & Rubber Company	1.3%
Mitsubishi UFJ Trust and Banking Corporation (Trust Account)	1.3%
Morgan Stanley & Co. Inc.	1.3%
Japan Trustee Services Bank, Ltd. (Securities Investment Trust Account)	1.3%

Stock Exchange Listings

Tokyo, Osaka

Ticker Symbol
5110

Transfer Agent

The Sumitomo Trust & Banking Co., Ltd.
5-33, 4-chome, Kitahama, Chuo-ku,
Osaka 541-0041, Japan

Independent Auditors

ChuoAoyama PricewaterhouseCoopers
Nakanoshima Mitsui Bldg., 16th Floor
3-3-3, Nakanoshima, Kita-ku,
Osaka 530-8248, Japan

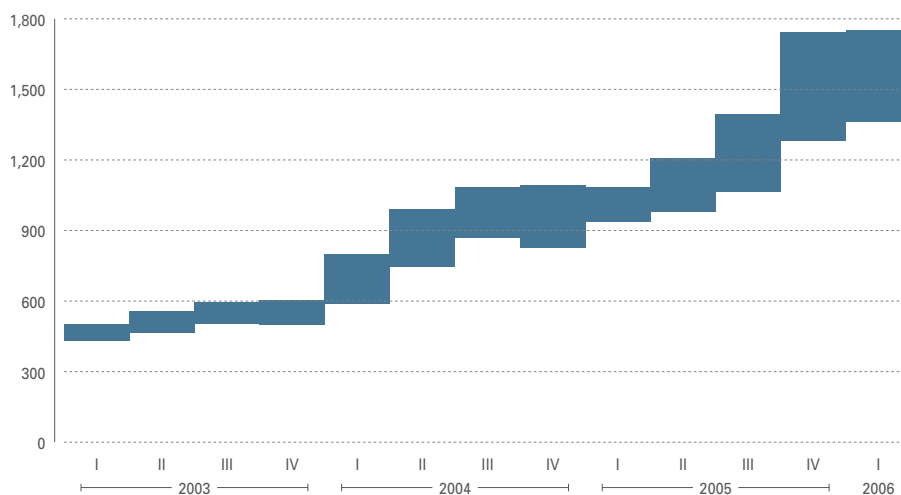
Investor Relations

Public Relations,
Corporate Planning Department
Sumitomo Rubber Industries, Ltd.
3-6-9, Wakinocho, Chuo-ku, Kobe,
Hyogo 651-0072, Japan
Tel: (078) 265-3004
Fax: (078) 265-3113

(As of December 31, 2005)

STOCK PRICE

(Yen)



Zhongshan Sumirubber Precision Rubber Ltd. (China)



Sumitomo Rubber (Changshu) Co., Ltd.
Sumitomo Rubber (Suzhou) Co., Ltd.

 **SUMITOMO RUBBER INDUSTRIES, LTD.**

3-6-9, Wakinohama-cho, Chuo-ku, Kobe, Hyogo 651-0072, Japan

Tel: (078) 265-3004 Fax: (078) 265-3113

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