SUMITOMO
RUBBER INDUSTRIES

GO for VALUE

On Course for Accelerated Success

ANNUAL REPORT 2004

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. and Sumitomo Rubber. In its core Tire business, the Group aims for continued growth as a global corporation with its concentration of management resources in the growth market of Asia and its alliance with The Goodyear Tire & Rubber Company. After spinning off its Sports and Industrial Products businesses in accordance with restructuring plans, the Sports business achieved dramatic improvements in profitability and the Industrial Products business returned to the black.

Under the previous Medium-Term Five-Year Management Plan drawn up in 2000, the Group succeeded in putting itself back on a road to growth, with improvements in profitability and financial standing. With "GO for VALUE" as its guiding principle, the Group formulated a New Medium-Term Management Plan for fiscal 2006 to 2008, aiming to make further leaps forward. The Group will continue to pursue the enhancement of corporate value for all stakeholders.

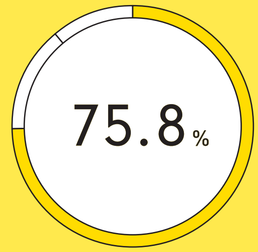
Cautionary Statements with Respect to Forward-Looking Statements
Statements made in this annual report with respect to Sumitomo Rubber Industries, Ltd.'s current plans, estimates, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future 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.

TIRE BUSINESS

SPORTS BUSINESS

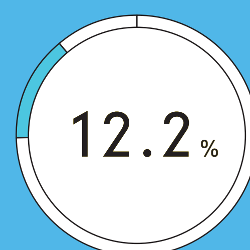
INDUSTRIAL AND OTHER PRODUCTS BUSINESS

In the Tire business, Sumitomo Rubber 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 the U.S. in joint ventures with The Goodyear Tire & Rubber Company. Moreover, we are currently planning to construct a tire factory in Thailand with the goal of starting operations at the end of 2006. Certain products of the Tire business are mutually imported and exported within Group companies.



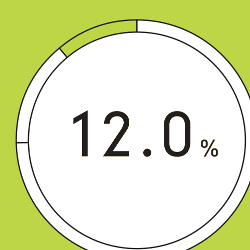
NET SALES:
¥356,646 MILLION

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 Korea. In addition, SRI Sports sells the international SRIXON brand golf balls and clubs all over the world.



NET SALES:
¥57,363 MILLION

In the Industrial and Other Products business, SRI Hybrid Ltd. and Sumitomo Rubber carry out operations according to products. In Japan, the Group produces marine dock fenders, blankets for offset printing presses, artificial turf, liquid crystal display (LCD) backlights and other goods. 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.



NET SALES:
¥56,553 MILLION

Tetsuji Mino, President (left)
Mitsuaki Asai, Chairman

"We have gained confidence by transforming our corporate structure to the point where we can aim for ¥20 billion in net income."

MESSAGE FROM CHAIRMAN ASAI

In fiscal 2004, the year ended December 31, 2004, Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries ("Sumitomo Rubber," "SRI Group" or "the Group") recorded particularly impressive results. We achieved increases in both sales and profits and set a new record for net income for the third consecutive year.

Contributing to these excellent fiscal results was the Medium-Term Five-Year Management Plan, which was formulated in March 2000. By adhering to the Plan, SRI Group has once again become a profitable group of sound financial standing and is on course for future growth.

Under new President Tetsuji Mino, the Group will strive to achieve continued growth and increased corporate value. We will implement the New Medium-Term Management Plan, which was formulated as a plan of action for our long-term vision.

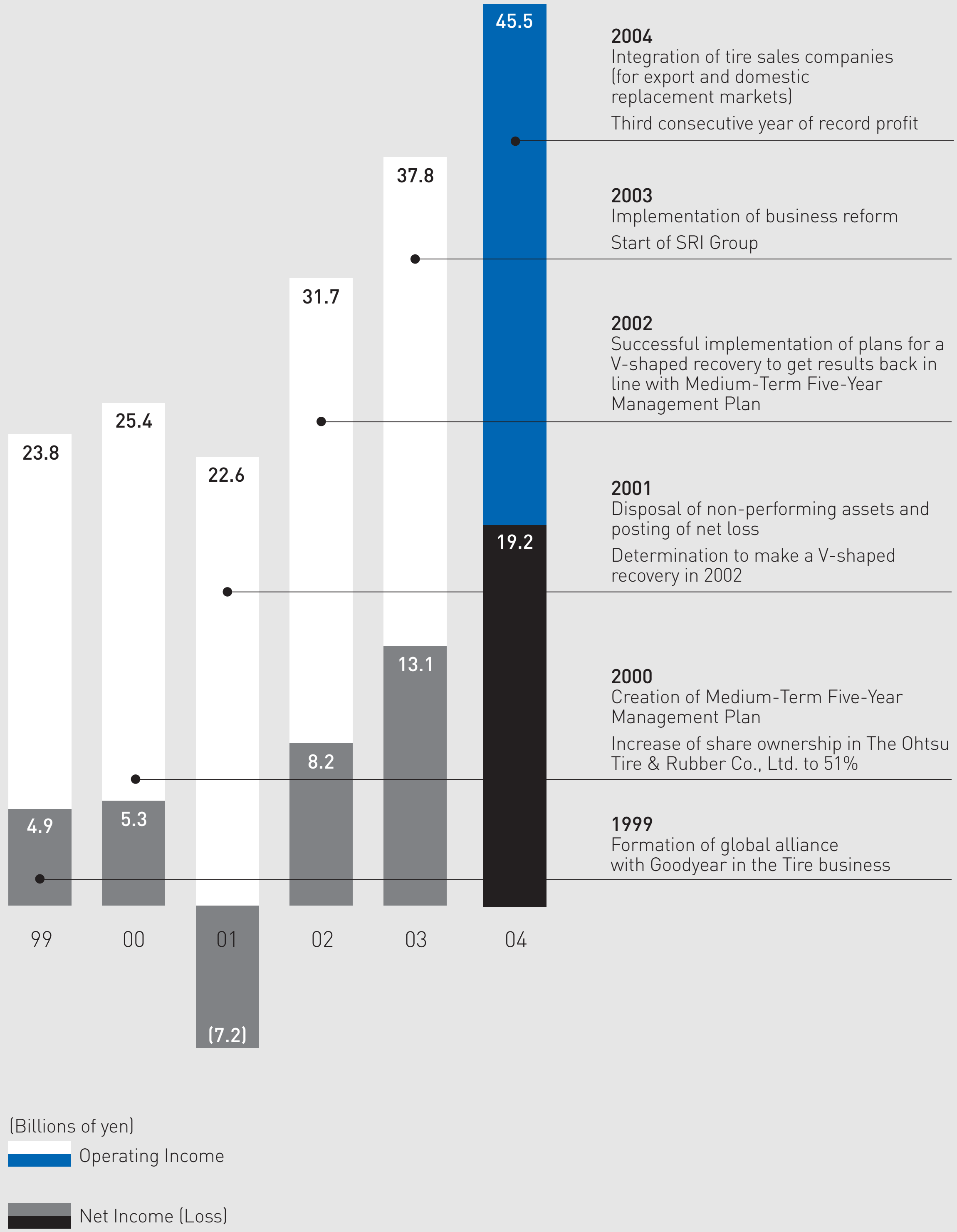
Record Net Income for Third Consecutive Year

Operating conditions in the fiscal year under review remained harsh, plagued by escalating prices of natural rubber and other raw materials, the continuing appreciation of the yen and the influence of natural disasters.

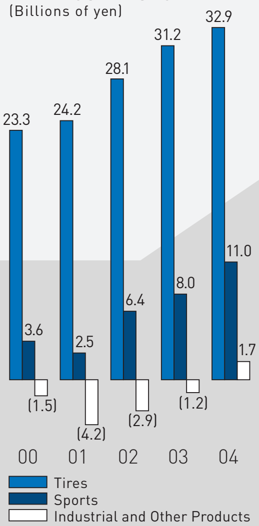
The Group overcame these adverse circumstances, however, and accelerated further along the path to growth. While reducing costs, the Group continued to maximize sales in each business segment by introducing new technologies and products. The Group also devoted efforts to strengthening competitiveness, carrying out proactive capital expenditures to increase production and further optimize its supply structure.

As a result, net sales rose 4.5%, compared with the previous fiscal year, to ¥470,562 million, operating income jumped 20.6% to ¥45,526 million and net income surged 46.4% to ¥19,169 million. The Group achieved an increase in net sales for the fourth consecutive year, record operating income for

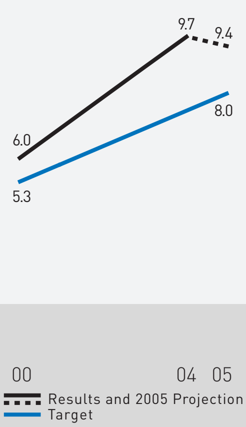
PRINCIPAL ACHIEVEMENTS DURING SIX YEARS UNDER MR. ASAI



OPERATING INCOME BY INDUSTRY SEGMENT
(Billions of yen)



OPERATING INCOME RATIO
(%)



the second consecutive year and record net income for the third consecutive year. We have gained confidence by transforming our corporate structure to the point where we can aim for ¥20 billion in net income.

Review of Six-Year Term as President and Previous Medium-Term Five-Year Management Plan

As of March 30, 2005, I resigned the office of President and entered the office of Chairman. When I became President in 1999, the Group had just overcome a difficult period marked by factory closing caused by the Great Hanshin Earthquake of 1995. In addition, our alliance with The Goodyear Tire & Rubber Company ("Goodyear") in the Tire business was announced in February 1999 and at the end of that year the sales contract expired for our key Sports business product, Callaway brand golf clubs. I started at a time when our employees felt a mixture of anticipation and great uncertainty.

Under these conditions, we determined the most prudent direction for the Group and established specific goals in the previous Medium-Term Five-Year Management Plan. Net sales in 1998 reached ¥653.5 billion but earnings capabilities were weak. A huge interest-bearing debt and non-performing assets (such as golf courses) were severe burdens for the Group, resulting in a fragile structure. Against this backdrop, we identified "Reformed financial standing" and "Improved profitability" as the Group's most pressing issues and we implemented numerous measures such as the "Overhaul and disposal of unprofitable businesses," "Radical structural changes to improve profitability" and "Raising technical expertise to enhance competitiveness."

Reconstruction of Business Structure Leads to Striking Improvements in Profitability

After the start of the alliance with Goodyear in 1999, we put together project teams in order to quickly realize synergistic effects. The ¥27 billion in cost reductions achieved through 2003 has become the building block for the current competitiveness of our Tire business. The Group strengthened profitability by making The Ohtsu Tire & Rubber Co., Ltd. ("Ohtsu Tire") a consolidated subsidiary in 2000, which marked the starting point for the current structure of the Tire business. In 2001, the Group carried out across-the-board disposal of unprofitable golf course operations and other businesses and registered a non-recurring loss of ¥27 billion. Although we caused terrible trouble to shareholders by finishing that year with a net loss of ¥7.2 billion, we were able to greatly improve asset quality.

In order to get faltering results back on track with goals set in the Medium-Term Five-Year Management Plan, the Group implemented measures for a V-shaped recovery. In combination with structural reforms, those measures resulted in the Group successfully achieving a V-shaped recovery in 2002. In fiscal 2003, we pressed ahead with business reforms related to the integration with Ohtsu Tire and other measures and we were able to quickly realize improved profitability in each of our businesses, posting record net income for the second consecutive year.

Improved profitability enabled the Group to boldly press ahead with capital expenditures to increase

EVENTS IN FISCAL
2004

JAN.

Falken ZIEX ZE329 passenger car tire introduced to market

Four new products introduced in Dunlop's DECTES series of truck and bus tires

FEB.

Expansion of steel cord production capacity at our affiliate in response to increased tire production

production for future growth in response to booming worldwide tire demand. This increased production was linked with our strong results in fiscal 2004. That year also saw the return to the black of our Industrial and Other Products business and the Group gained confidence in its ability to advance under the comprehensive three-pillar structure of the Tire, Sports and Industrial and Other Products businesses.

After attaining operating income ratio and ROE targets a year earlier, in fiscal 2005 the Group is taking up the challenge to achieve sales and shareholders' equity ratio targets.

Increased Production for Further Growth

> *"Sumitomo Rubber is committed to make speedy and flexible investment decisions matched with market demand of recent years."*

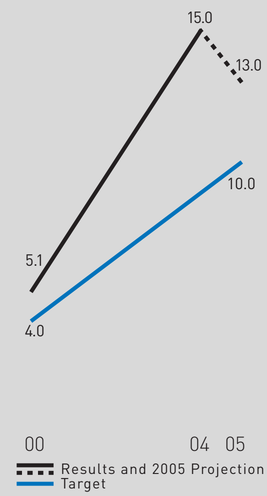
The Group has actively carried out capital expenditures to increase production in response to the rapidly growing Asian tire market and the increasing demand for high performance tires, primarily in Japan, the U.S. and Europe. Demand has continued to outpace expectations and production of radial truck and bus, SUV and passenger car tires is running at full capacity. In August of 2004, we added ¥5.6 billion to our planned production-related capital expenditures from fiscal 2004 to 2005, raising the figure from ¥38.5 billion to ¥44.1 billion. In addition to raising combined daily production of radial passenger car tires at our factories in Indonesia and Changshu, China by 10,000 units, we are also raising production capacity of high-value-added tires at our Miyazaki factory.

When changes are made to investment plans, time is required to set up equipment between the decision and the beginning of operations, especially in the case of tires. Sumitomo Rubber is committed to make speedy and flexible investment decisions matched with market demand of recent years.

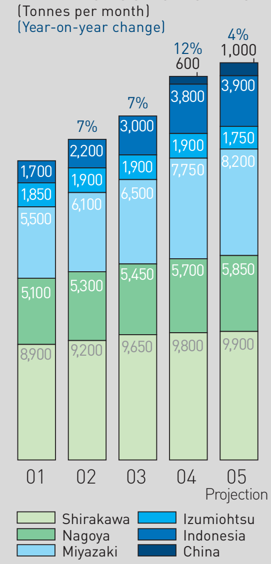
Production capacity at the Miyazaki factory was increased by the expansion of the plant after the integration with Ohtsu Tire, and being added with investments up to this point, tire production capacity at our domestic factories and our Indonesian factory has reached its peak. From hereon, production capacity will be expanded at our Changshu, China factory and our planned Thailand factory, which is due to begin operations at the end of 2006.

In line with sales targets for fiscal 2005, Sumitomo Rubber plans to increase production volume by 6% over the previous fiscal year. Based upon effective and concentrated investment, productivity will also be enhanced and a high level of capacity utilization will be maintained (98% target).

ROE
(%)



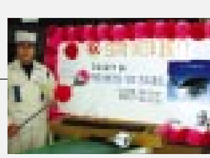
TIRE PRODUCTION CAPACITY
(Tonnes per month)
(Year-on-year change)



Mar.

Falken's television commercial awarded silver prize at international advertising competition held in New York

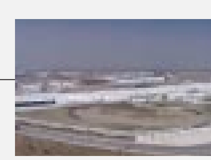
Dunlop Golf Club production tops 10 million units at Miyazaki factory



Apr.

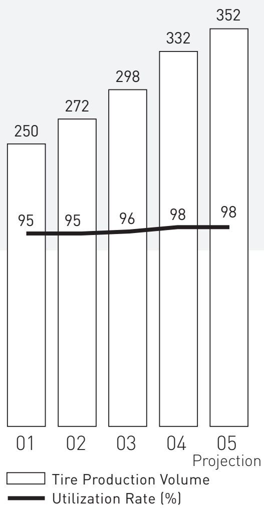
Acquisition of ISO/TS16949:2002 certification, the automotive quality system standard

Start of tire production at Changshu factory in China

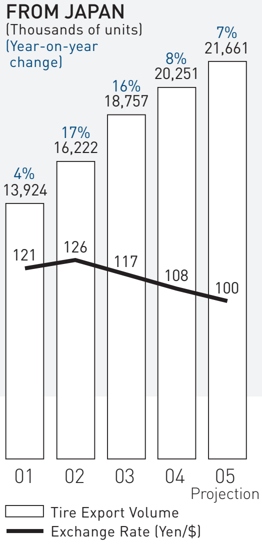


Announcement of large-scale reduction of organic solvent use in production process at our golf ball factory in Ichijima

TIRE PRODUCTION VOLUME
(Thousands of tonnes)



VOLUME OF TIRE EXPORTS FROM JAPAN
(Thousands of units)
(Year-on-year change)



Our Hit Original Brand "XXIO"

In the Sports business, our XXIO (pronounced "zeksio") golf clubs have been a huge hit, becoming our core product. The development of XXIO clubs is the result of meticulous efforts to survey and improve upon a wide range of user needs, ranging from flying distance to user-friendliness, following the sense of urgency brought on by the termination of our domestic marketing contract for Callaway brand clubs. This exceptionally high-performance golf gear has received the support of many players and the third-generation model is off to a better start than the second-generation model. Through the huge success of the XXIO brand, clubs now account for over 50% of sales in our golf business, making this original brand a pillar supporting the profitability of the Sports business.

Industrial and Other Products Business: From Reconstruction to an Offensive Posture

After falling into the red, the Industrial and Other Products business had become a drag on earnings. From 2000, the Group implemented profit and loss accounting of each product, cleared problems related to different products and aimed for profitability across the board. That process required the disposal of unprofitable businesses and the reorganization of subsidiaries and resulted in losses exceeding ¥2 billion. However, the Group was able to dispose of unprofitable assets before the spin-off of this business segment in July 2003 and the business became a forward-looking enterprise with a new structure. Moreover, two key factors stand out in the return to the black of the Industrial and Other Products business since fiscal 2003: first, the reform of the structure of our precision rubber parts business to respond flexibly to customer needs by utilizing our factory in Zhongshan, China; second, the high evaluation that our Hibrid-Turf, rubber chip- and sand-filled artificial turf, has received. Together with Misawa Homes Co., Ltd., the Group co-developed anti-vibration wall panels for the MGEO structure for home use as a new product and released it in November 2004. The Group will continue to take a proactive posture in business expansion efforts.

Proactive R&D Reinvigorates Competitiveness

When we developed unique simulation technology, Sumitomo Rubber identified it as an important foundational technology and further advanced it into an unrivaled proprietary technology. We first introduced digital rolling simulation technology for rolling tires on various road surfaces in 1998, and in 2002 we expanded the area of the simulation to include tires fitted on vehicles and rolled under normal driving conditions as well as tires driven on wet and snowy roads. In 2003, we introduced Digi-Compound, a nanometer-level technology that can simulate the movement of rubber materials. We have utilized this technology in our golf balls in addition to tires and it has become a key factor behind the popularity of our XXIO balls.

With this technology as a foundation, we began a comprehensive Group project as a way to accelerate responsiveness across business divisions. Content of the project ranges from solution of current problems to advancing forward-looking themes based on the outlook for medium- and long-term technology trends. Through

MAY

Fortieth year since the establishment of our engineers' education system, which supports the progress of work from a scientific standpoint

JUN.

Dunlop and oodyear runflat tires fitted on over of BW's cars

JUL.

ntroduction of cogeneration system at Shirakawa factory utiliing S schemes actions such as proposal-style development tailored to vehicle manufacturers, we have increased the fitment of new technology tires on new vehicles and increased sales. Examples include the successes of our runflat tires, fuel-efficient ECORUT truck and bus tires and others. We are also further developing our *Taiyo* cell production system and passenger car, SUV and runflat tires are already being produced with the technology.

Complete Zero Emissions Achieved

The Group has made environmental preservation one of its top priorities in all business activities, establishing an environmental management system based on ISO14001 certification and making continual improvements in our environmental preservation efforts. As concrete results of those efforts, in 2003 we became Japan's first tire manufacturer to achieve zero emissions at its headquarters and all domestic factories and in 2004 we became the first Japanese tire manufacturer to achieve zero emissions at an overseas subsidiary, achieving the milestone at our Indonesian factory. Zero emissions is defined as disposing of less than one percent of all waste generated in landfills. Moreover, in January of 2004 the Group set out to achieve complete zero emissions, meaning that zero percent of waste generated is disposed of in landfills and began initial efforts toward that goal. As a result, by the end of 2004 the three tire factories in Nagoya, Shirakawa and Miyazaki, and by the end of March 2005 the factory in Izumiohtsu had all achieved complete zero emissions. This marks the first time in the tire industry that a manufacturer has achieved complete zero emissions at all domestic factories that make tires. We are currently pushing ahead to achieve complete zero emissions at our two remaining domestic factories in Kakogawa and Ichijima by the end of 2005.

MESSAGE FROM PRESIDENT MINO

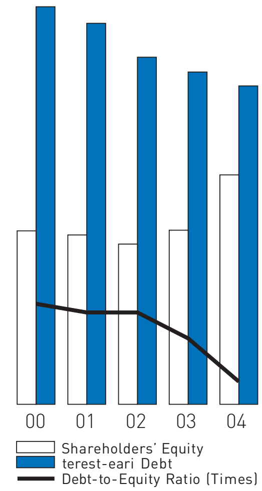
New Medium-Term Management Plan to Accelerate Track to Growth

After the successful results of the previous Medium-Term Five-Year Management Plan, the Group formulated a New Medium-Term Management Plan for the three years from fiscal 2006 to 2008. This new plan represents the Group's commitment to increasing corporate value for all stakeholders. We have adopted "GO for VALUE" as the slogan for this action plan, which we have designed to fulfill our long-term vision. Specific targets are set with strategies to establish both improved financial standing and continual growth, while maintaining strong profitability. Details of the New Medium-Term Management Plan are laid out more specifically hereafter, but first, two themes are of particular importance: "strengthening financial standing" and "strategies for growth markets and growth fields."

Strengthening Financial Standing

During the six years while Chairman Asai held the office of President, the SRI Group carried out business reforms that were first and foremost designed to reinvigorate its operating structure. Looking at concrete figures, interest-bearing debt shrank from ¥311.6 billion at the end of fiscal 1998 to ¥201.9 billion at the end

SHAREHOLDERS' EQUITY AND INTEREST-BEARING DEBT
(illios o ye)



Supply of tire Deflation Warning System software to Bosch Automotive begins

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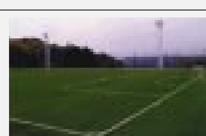


AUG.

Shipments of comfortably fitting Digisole golf shoes tops , pairs

of fiscal 2004. Significant improvements were also made in terms of the debt-to-equity ratio, which dropped from 3.2 times at the end of fiscal 1998 to 1.4 times at the end of fiscal 2004. It is clear that further strengthening of the business platform is indispensable. The Group plans further cuts to the debt-to-equity ratio to under 1.0 times by the end of fiscal 2008, in addition to newly set targets to improve ROA as the axis for the improvement of asset efficiency.

Offensive Management for Growth Markets and Growth Fields

I believe that one of my jobs is to continue the vigorous efforts of former President Asai in improving the Group's financial standing and profitability and to aggressively take steps to accelerate the Group on its growth track.

In our core Tire business, we aim to expand globally through our alliance with Goodyear by focusing on growth in the booming Asian market. We have formulated plans to construct a new tire factory in Thailand and start full production operations there in 2007 with the aim of winning 10% or more of the ASEAN market.

In the domestic Tire business, rebuilding the structure of our domestic replacement market sales network is our primary concern. We merged the sales subsidiaries of our Dunlop and Falken brand tires in January 2005 and we continue to pursue improved customer service, reinvigorated profitability and marketing strength and reform of our distribution structure.

"I believe that one of my jobs is to aggressively take steps to accelerate the Group on its growth track."

In the Sports business, we will continue to accelerate proactive global expansion with our golf business as the pillar of operations. We seek increased recognition of our international SRIXON brand golf gear and aim to expand sales in major world markets.

In the Industrial and Other Products business, while promoting expanded sales of precision rubber parts, Hibrid-Turf and other growth products, we will continue to develop new products that originate from our proprietary technologies. In addition, we will further strengthen the manufacturing structure of our precision rubber parts for office automation equipment in China in response to the continuing trend of Japanese manufacturers moving operations overseas.

As a Member of Society

As a global corporate group, the SRI Group strives to create new value through more comfortable and attractive lifestyles. Our goal is to become a trusted partner, to contribute to society and to fulfill the diverse expectations of regional communities. Guided by this corporate philosophy, the SRI Group is dedicated to increasing corporate value and securing mutual growth and prosperity with all of those connected with us. While continuing these activities as our basic corporate posture, we also aim to increase profitability.

In an effort to realize our corporate philosophy, we strive to attain the highest standards in management and operating transparency by reinforcing corporate governance and expanding business activities which emphasize compliance. In order to clarify the authority and responsibility of each business and to establish a management platform to promptly respond to changes in our working environment, we have introduced

SEP.

Announcement of plans to begin LCD backlight unit production in China

OCT.

umiohtsu and iyaaki factories in educe euse ecycle romotion Council Chairman's Aard

Dunlop CT S for trucks and buses ins second consecutie ood Design Aard

an executive officer system. For the purpose of augmenting the audit function, we have appointed external directors to the Company's Board. Having judged that we can sufficiently realize corporate oversight functions utilizing a Japanese-style corporate governance auditing system, we have appointed four auditors to the Company's Board, including two external auditors.

For the Group's activities to be appreciated by shareholders and to secure their long-term support, Sumitomo Rubber comprehensively assesses standards for dividend payouts on a consolidated basis, performance prospects and retained earnings. As a way of returning gains to shareholders, the Group adheres to a basic policy of steadily rewarding shareholders over the long term. Sumitomo Rubber is pleased to declare an increase of ¥2.00 for a full-year dividend of ¥14.00. This marks the second consecutive year that the Group has increased dividend payouts.

To Our Shareholders

In 2004, violations of the Securities and Exchange Law shook Japan's economy and many discussions arose regarding the public listing of companies and corporate value. The Group continues to enhance information disclosure through IR activities and seeks to maintain an appropriate share price. At the same time, we continue to invigorate our corporate governance and compliance structures and make exhaustive efforts to improve corporate value. We aim to be an attractive corporate group to shareholders and to realize a continually high level of enhancement to our corporate value. Please expect Sumitomo Rubber to further expand and advance.

April 2005

Mitsuaki Asai
Chairman
Mitsuaki Asai

Tetsuji Mino
President
Tetsuji Mino

Supply of all-season runflat tires for Toyota's Lexus SC430 begins

Nov.

Announcement of next-generation anti-ibration structure co-deeloped ith isaa omes hich utilies high damping rubber

Dec.

Dunlop DA tires achiee stellar performance in motor sports

A PLAN FOR ACCELERATED SUCCESS

In fiscal 2000 Sumitomo Rubber designed and has carried out its Medium-Term Five-Year Management Plan for fiscal 2001-2005. Aside from net sales, accomplishment of the plan's goals is in sight and as a result the Group has forged a path to being a profitable and financially sound company. The Group gained the necessary strength to increase production in order to catch up to the strong worldwide demand for tires. Based upon a long-term growth scenario, the Group has conceived a corporate image for the next 10 years, and has formulated a New Medium-Term Management Plan for fiscal 2006-2008 as a course of action to achieve its goals.

Long-Term Image for SRI Group

With the aim of constructing a long-term image, the Group conducted stakeholder surveys and held employee discussions about the corporate image 10 years in the future. The consensus gained from these efforts was a desire for "continued growth" and "increased corporate value." The Group adopted "GO for VALUE" as a motivational slogan to drive efforts to increase corporate value for all stakeholders, including customers, shareholders and employees. In addition, we coined the two catch phrases "Mastering our footing" and "Pursuit of manufacturing" as sub-concepts. With tires as the footing on which our business began, we seek to master our core business. As a manufacturer that believes the greatest value of our existence is the ability to deliver products that satisfy our customers, we aim to further our pursuit of excellence in manufacturing.

New Medium-Term Management Plan Targets

The Group set targets to attain strong profitability and to establish both improved financial standing and continual growth. The Group foresees continued growth in net sales for each of our businesses based upon strategies set forth in the New Medium-Term Management Plan. The net sales target for fiscal 2008 has been set at ¥550 billion. Furthermore, we aim to produce strong operating income results regardless of the external environment, consistently maintaining an operating income ratio of 10% or greater.

We plan to achieve growth exceeding the industry average, while continuing to invest proactively. The Group will quickly reap harvests on investments while simultaneously improving financial structure. With a newly set ROA target guiding reform, the Group plans to improve asset efficiency and slash the interest-bearing debt balance at the end of 2004 by ¥40 billion, to the ¥160 billion range by the end of fiscal 2008. We intend to lift the shareholders' equity ratio to 35%, reduce the debt-to-equity ratio below 1.0 times and construct a more stable corporate foundation.

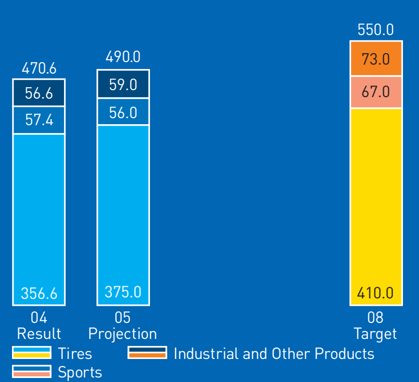
Business Image and Growth Strategy

In order to reach our targets, the Group will apply the growth strategies laid out in the New Medium-Term Management Plan to our Tire, Sports and Industrial and Other Products businesses. We aim to enhance the corporate value of the Group through our collective strength. We will continue to promote our global expansion strategy from the previous Medium-Term Five-Year Management Plan, based on our alliance

NUMERICAL TARGET
(Millions of yen)

	2004 Result	2005 Projection	2008 Target
Net sales	¥470,562	¥490,000	¥550,000
Operating income ratio	9.7%	9.4%	Consistently over 10%
Net income ratio	4.1%	4.1%	5% or greater
Interest-bearing debt	¥201,929	¥200,000	¥160,000 (range)
Shareholders' equity ratio	28.0%	30.0%	35.0%
Debt-to-equity ratio	1.4 times	1.2 times	Under 1.0 times
ROA (operating income base)	9.1%	8.7%	Consistently over 10%
ROE	15.0%	13.0%	Consistently over 10%

SALES TARGET BY INDUSTRY SEGMENT
(Billions of yen)



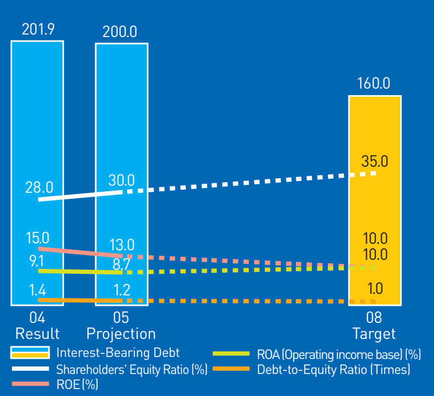
with Goodyear. The strategy of the New Medium-Term Management Plan has growth in the booming Asian market as its central thrust, and while further expanding our core Tire business, we also aim to develop our Sports business and our Industrial and Other Products business. Concerning the technological expertise that supports our goals, we will continue to nurture and evolve our strengths and unique skills.

Tire Business

For the business environment facing our core Tire business, high growth in automobiles is forecast for the global market until 2008, with China, Southeast Asia and South America leading the way and strong growth also expected in Russia and Eastern Europe. Against this backdrop, we believe that the so-called BRICs (Brazil, Russia, India and China) strategy is vital.

While the global tire market is forecast to grow at an annual rate of 3.5%, especially strong growth is expected in China and Southeast Asia. The Group has taken a strategy emphasizing growth in Asia and

IMPROVING FINANCIAL POSITION
(Billions of yen)



GO for VALUE

has made progress in establishing factories and sales operations in Indonesia and China. Demand for our products remains strong and we believe there is still abundant room for sales growth.

Accordingly, Sumitomo Rubber deemed the establishment of a further base in the ASEAN region to be an urgent matter and announced plans to construct a new factory in Thailand, making it the Group's third base in Asia. Combining the production capacity of this new Thailand factory with expanded capacity at our Changshu factory in China will enable us to attain the capacity necessary to reach our fiscal 2008 sales target. Buoyed by the increased production capacity from the new Thailand factory, the Group has set a target of securing over 10% market share in the ASEAN region. By utilizing our revolutionary *Taiyo* cell production system in the new Thailand factory, we can carry out a high quality, efficient production process.

As a result, the Group plans to rapidly expand its overseas production capacity as a percent of total capacity, aiming to boost the current figure of 15% to the level of 28% by fiscal 2008. The increased capacity at overseas factories will primarily be used to supply Japanese automakers with tires for their new vehicles and is part of our reinvigorated efforts to respond to the expanding global market.

Business reforms in our domestic Tire business have been effective in improving profitability. The Group will make efforts to accelerate this momentum and will aim to grow by implementing strategies tailored to the unique features of each business segment. The Group has progressed through sequential steps to revitalize its domestic Tire business, including merging its replacement tire market sales subsidiaries, Dunlop Tyres Ltd. and Falken Tires Ltd., in January 2005. The Group will continue consolidating their sales agents, reorganizing their sales depots and revamping their distribution systems. In order to maximize the effects of consolidation and to improve profitability, the Group is also preparing to make innovations to its sales network structure.

Sports Business

Supported by the continuing popularity of its hit XXIO golf clubs, the domestic Sports business made a strong showing in the midst of an overall shrinking market. However, the Group sees limited growth potential for the current domestic-centered business structure. While continuing to pursue stable growth centered on golf clubs and balls in the domestic market, we aim to further expand business by strengthening our sales in the U.S. and other overseas markets.

Industrial and Other Products Business

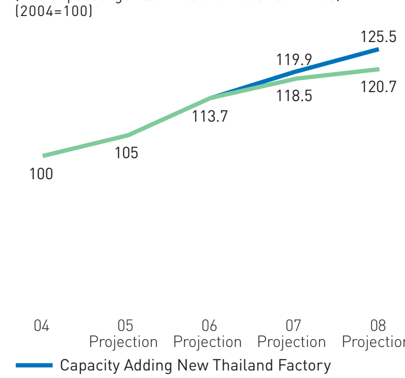
The Industrial and Other Products business will continue to pursue stable growth and secure profits in the key businesses that we have focused on for several years: high-precision rubber parts for office automation equipment, sand- and rubber chip-filled artificial Hibrid-Turf, and rubber gloves. Like the home anti-vibration MGEO structure released in November 2004, the Group plans to continue developing new products born from the synergy of its foremost technologies.

RESTRUCTURING OF DOMESTIC REPLACEMENT TIRE BUSINESS

DUNLOP/FALKEN MERGER

IMPROVE CUSTOMER SERVICE AND REINVIGORATE SALES AND PROFITABILITY

INCREASE IN TIRE PRODUCTION CAPACITY
(Radial passenger car tires and radial SUV tires)
(2004=100)



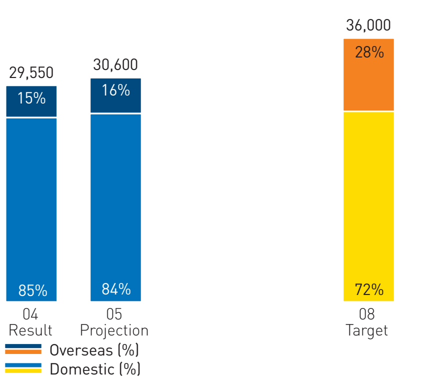
Technological Development

We will manufacture even better products by advancing simulation technology, the base technology for tire design and further utilizing it in design and development efforts. By combining our proprietary run-flat tire technology with our various other technologies, we will continue to promote our "spareless" proposals. The Group is working to develop new technology desired of future tires, exemplified by non-petroleum tires, and we are utilizing project teams in our unceasing drive to develop environmentally friendly products that will please our customers.

The *Taiyo* cell production system will be further developed and more widely implemented, enabling us to increase our supply of high quality tires.

GO for VALUE

DOMESTIC AND OVERSEAS TIRE PRODUCTION CAPACITY
(Tonnes per month)



SPORTMAX

GPR-100F

GPR-100

WRANGLER IP/N

EAGLE REVSPEC RS-02

EAGLE LS2000

GOODYEAR

DIGI-TYRE ECO EC201

DECTES SP062

ECORUT SP628

DUNLOP

TIRE BUSINESS

Fiscal 2004 Results

Sales in the Tire business rose 5.2% to ¥356,646 million for the fiscal year under review and operating income increased 5.4% to ¥32,899 million.

Sharp rises in raw material prices, the appreciation of the yen and other factors made for a severe business environment facing the Tire business. However, as a result of reinforced efforts to cut costs and shift to high-value-added products, sales volume and value topped the previous fiscal year in the domestic replacement market, original equipment market, export market and at overseas subsidiaries.

Domestic Replacement Market

For the Dunlop brand, Sumitomo Rubber actively launched a number of environmentally friendly new products. Examples include the passenger car DIGI-TYRE ECO EC201, which contributes to fuel economy and reduction of CO_2 emissions, the fuel efficient ECORUT SP628 truck and bus tire and the DECTES SP062 studless tire which has excellent traction performance.

The Falken brand enhanced its product lineup by introducing the new ZIEX ZE329 tire and the ESPIA EP-03 studless tire for passenger cars and the new SI-067 studless tire for trucks and buses.

The Goodyear brand introduced the EAGLE REVSPEC RS-02 sports tire and the studless WRANGLER IP/N tire for SUVs. As a result of these efforts, tire sales for the domestic replacement market increased, compared with the previous fiscal year.

Original Equipment and Export Markets

Sales in the original equipment market rose, boosted by efforts to respond meticulously to customer needs, utilizing its three Dunlop, Falken and Goodyear brands and by efforts to promote proposal-style marketing in order to expand sales of new products and technologies such as the Instant Mobility System (IMS) and

SI-067 ESPIA EP-03 ECORUN RI-198

FALKEN

runflat tires.

While the appreciation of the yen caused an erosion of sales figures, the volume and value of sales in export markets nonetheless exceeded figures from the previous fiscal year, due to increased exports to markets such as the Middle East and North America. The Group achieved this by reinvigorating its export structure, merging SRI Tire Trading Ltd. and Falken Tire Trading Ltd. in April 2004, and by implementing precise marketing tailored to each area.

Overseas Subsidiaries

Domestic and overseas sales at our Indonesian subsidiary rose sharply, boosted by a large-scale increase in production capacity. Production grew steadily at our Chinese subsidiary, with operations beginning in April 2004 and sales exceeding targets on the back of strong exports.

Fiscal 2005 Outlook

The Group expects severe operating conditions for the Tire business in fiscal 2005. Negative factors, including the appreciation of the yen and steep price hikes in raw materials such as steel, synthetic rubber and other petroleum-based materials, are expected to worsen, compared with fiscal 2004. Despite these conditions, the Group plans to increase sales and income in the replacement, original equipment and export markets and at its overseas subsidiaries. We will achieve this through efforts to reduce costs, increase sales volume and further advance our shift to high-value-added products.

Topics

Start of Production at Changshu Factory in China

Production operations began from April 2004 at Sumitomo Rubber's tire factory constructed in Changshu City, Jiangsu Province, China. The Changshu factory is positioned as a manufacturing base to supply the Chinese market, which is expected to see phenomenal growth in the future. The Group is also taking positive steps to advance its own sales network, primarily through its sales subsidiary.

Third *Taiyo* Cell Production Unit Begins Operating

Our third *Taiyo* cell production unit began manufacturing SUV tires at our Izumiohtsu factory. Compared with conventional production methods, our landmark *Taiyo* cell production system enables the mutual realization of high investment efficiency and productivity. As of January 31, 2005, our first and second *Taiyo* production units had produced 850,000 tires at our Shirakawa factory. The Group plans to introduce a fourth *Taiyo* production unit for the manufacture of motorcycle tires at our Nagoya factory. We completed development of a *Taiyo* unit integrating the production process from mixing to inspecting and plan to begin production during fiscal 2005.

HI-BRID Everio

SRIXON HR-X

SPORTS BUSINESS

Fiscal 2004 Results

While sales in the SRI Group's Sports business slipped 2.5% to ¥57,363 million, operating income jumped 38.5% to a record ¥11,023 million. The drop in sales figures can be attributed to a change in the recording of license business sales; removing that factor would result in an increase in sales over the previous fiscal year.

In the midst of Japan's slumping sports goods market, the Group's golf products achieved increases in both sales and profits, led by our core brand, third-generation XXIO clubs and new products such as the model-changed HI-BRID Everio balls and SRIXON HR-X balls for advanced players.

In overseas markets, sales rose sharply due to strong sales of our SRIXON brand golf clubs and balls, primarily in the U.S. market.

The Group introduced new tennis products through the ADFORCE and RIM Professional series. Unfortunately, as a result of the exceptionally hot summer, typhoons and other weather factors, sales of tennis products fell.

XXIO Wood

Fiscal 2005 Outlook

While the Group cannot foresee growth in the golf market, we plan to proactively introduce new products and strive to expand sales. However, with the expected drop-off in sales of third-generation XXIO clubs as they reach their second full year on the market, we are forecasting a decrease in sales and profits of our Sports business.

XXIO

Topics
Record Shipments of XXIO Series of Golf Products

Sales remain strong for what has grown to be our core brand, XXIO clubs, with third-generation XXIO woods totaling 220,000 units and irons totaling 88,000 sets. Shipments of the

HI-BRID golfshoes

Dunlop
RIM Professional Z

SRI Group's XXIO clubs have reached record volume and since their release in 2000, they have been one of the driving forces behind rising profits in our Sports business.

Everio golf balls, released in February 2004, and XXIO brand golf balls form a double pillar of high-end products that have been very well received. The XXIO ball received a further upgrade in February 2005 and the Group aims to further expand sales with the launch of the NEW XXIO ball, which utilizes nanotechnology for higher repulsion and a "new aero-power dimple"effect for greater ball speed and distance.

INDUSTRIAL
AND OTHER PRODUCTS BUSINESS

Fiscal 2004 Results

Sales in the Industrial and Other Products business rose 7.3% over the previous fiscal year to ¥56,553 million and the business returned to the black with an operating income of ¥1,652 million. This profit increase was achieved by improved earnings capabilities in domestic operations and effects from restructuring the European bed business.

In the domestic market, sales of industrial floor surfaces and marine-related products were sluggish, impacted by cuts in public spending and weak market conditions. However, sales growth of sand- and rubber chip-filled Hibrid-Turf for use on Japan's J.League soccer fields and other pitches were strong and sales of rubber surfaces for athletic facilities, rubber gloves and precision rubber parts remained solid.

In addition, steady demand for LCD backlights contributed to sales growth. In response to the continued brisk global demand, the Group has established a production and sales subsidiary in China and aims to begin operations there in June 2005. Sales of rubber stoppers and parts for pharmaceutical products remained consistent as a result the Group's effective marketing campaign. The new business of portable wheelchair ramps and the strong growth of the deflation warning system (DWS), for which our royalty business started in Europe on a full scale, further contributed to an increase in sales.

In our overseas operations, natural rubber gloves manufactured by our Malaysian subsidiary saw steady sales growth in both Japan and other overseas markets. The business of precision rubber parts for office automation equipment in China continued to see significant revenue growth due to increased production, boosted by the shift in production from Japan. In the midst of a continually stable market, sales of the bed business in Europe increased and profitability was greatly improved.

Fiscal 2005 Outlook

SRI Group expects revenue increases for all core products in the Industrial and Other Products business, including precision rubber parts, industrial floor surfaces, athletic facility surfaces and rubber gloves. In addition, we expect an increase in the customer base for the European bed business and by introducing new products the Group is forecasting an increase in sales and profits for the overall Industrial and Other Products business.

Topics

Development of high damping rubber for next-generation anti-vibration MGEO structure

Together with Misawa Homes, SRI Hybrid developed a next-generation, durable, anti-vibration MGEO structure. This "anti-vibration panel" utilizes "high damping rubber" developed by SRI Hybrid, which features the qualities of wide damping and superior durability. The Group will continue to develop new products and carry out marketing efforts responsive to customer needs.

Sumitomo Rubber 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. Some of our main activities toward this end are discussed below.

Complete Zero Emissions Achieved at Four Factories

The Group achieved complete zero emissions* at its three tire production factories in Nagoya, Shirakawa and Miyazaki as of December 2004, and at its Izumiohtsu factory as of March 2005. A major issue for the Group has always been how much landfill waste we could recycle; we succeeded in completely eliminating landfill waste after locating disposal service companies throughout the nation. Moreover, our Indonesian subsidiary became the first Japanese tire transplant to achieve zero emissions* overseas.

*"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.

Introduction of Cogeneration Systems

Based upon the Group's medium-term environmental policies, the Miyazaki and Shirakawa factories have been equipped with cogeneration systems utilizing ESCO (Energy Service Company) schemes. The Group aims to reduce consumption of electricity within the factories and to cut CO_2 emissions through energy conservation. The Group plans to implement a natural gas cogeneration system at the Nagoya factory in fiscal 2005.

ISO 14001

Through the participation of all employees, the Group has made continual progress in environmental management since its three tire production factories first acquiring ISO 14001 certification in 1997 for their environmental management in daily operations. In the fiscal year under review, our Chinese subsidiary Zhongshan Sumirubber Precision Rubber Ltd. acquired the certification. The entire Group is making a unified effort to reduce its impact on the environment.

Cogeneration system unit

Power generator

Large Scale Reduction in Use of Organic Solvents in Production Processes at Ichijima Factory

The Ichijima factory of SRI Sports has succeeded in cutting the use of organic solvents in its golf ball production process by 65%, compared with 1997. The same factory became the first domestic golf ball factory to achieve zero emissions in 2001 and is actively making efforts toward environmental preservation.

Positive Efforts Toward Factory Greening

Under the slogan of "Let's leave a large forest in the future," the Group is making progress in its campaign for the greening of factories. In fiscal 2004, we planted 10,000 trees at our six domestic factories.

Development of Non-Petroleum Tires

Sumitomo Rubber has made progress in its efforts to develop an environmentally friendly tire by shifting from synthetic rubber and other petroleum-based substances to natural rubber and other non-petroleum materials. The Group aims to market a tire with 97% tire-weight made from non-petroleum resources in fiscal 2008.

Reception of Reduce, Reuse & Recycle Promotion Council Chairman's Award

In October 2004, the Izumiohtsu and Miyazaki factories were presented this award as facilities that have achieved noteworthy results in their 3R initiatives. The Head Office and factories in Shirakawa, Nagoya, Kakogawa and Ichijima won the same award in 2002, which means that the Head Office and all domestic factories have now received the award.

Results of Soil and Groundwater Survey

SRI Hybrid underwent a voluntary soil and groundwater survey in compliance with the "Survey and Countermeasure Guidelines for Soil and Groundwater Contamination" and the "Soil Contamination Countermeasure Law" implemented in February 2003. Results revealed an amount of volatile organic compounds in excess of environmental standards in the soil and the groundwater of its Kakogawa factory. A report has been made to Kakogawa City and countermeasures are being implemented.

The SRI Group has been promoting two important subject matters related to intellectual property rights in order to support the business of each Group company. First, it responds to changes in the intellectual property environment surrounding the Group: the compensation system for employee inventions; conditions in Asia, primarily China; and relationships with competitors. Second, it works on establishment of intellectual property rights infrastructure and strengthening of intellectual property management within the Group, and also promotion of utilization of rights at each Group company. Further details of certain items are discussed below.

Revision of Compensation System for Employee Inventions

After reviewing several recent decisions in court cases concerning compensation for employee inventions, the SRI Group revised its own system regarding such compensation. Revisions incorporated the procedures required by the amendment of Patent Law, which will go into effect in 2005. Our new system eliminates upper limits on compensation. Compensation is paid after the appraisal of the "exclusive profit gained by the company due to the patent"and the"degree of contribution from the inventor" for each individual patent. More precise evaluation of each patent lifts morale among engineers and fosters development of superior technology. The new system thereby aims to bring about better results for both the corporate side and the employee side. Revisions to Patent Law went into effect in April 2005, but the SRI Group implemented new standards a year earlier, so that 2004 results will be compensated for in the summer of 2005.

Reinforcing Intellectual Property Rights in China

The number of patent applications filed in China during 2004 increased 60% from a year earlier. From this time onward, the Group aims in principle to secure vital technology rights for tires and other global products in Japan, the U.S., Europe and China, plus other necessary regions. Since the relaxation of laws in China concerning the acceptance of patent applications filed by overseas companies, the number of patent offices has been dramatically increasing with the busy moves of lawyers. The SRI Group has selected a patent office in Beijing and another in Shanghai, and is in regular contact regarding application, authorization and other issues surrounding the strengthening of patents in China.

In addition, due to the sharp rise in the number of patent applications to SIPO (State Intellectual Property Office of The People's Republic of China), we plan to create a Chinese patent survey structure by forming an alliance between specialized Chinese institutes and a Japanese survey company.

Moreover, the Group is seeing some progress with regards to imitation products. We are making further requests to Chinese customs for increased cooperation in halting the flow of counterfeit products and measures are being taken to uncover storage facilities and shops dealing in such products. We have thus far limited our response to specific products but we will build upon this experience to take countermeasures against the imitation of all SRI Group products.

Intellectual Property Rights Infrastructure

Information about intellectual property rights, especially patent information, contributes to the development of technology. The SRI Group made a complete overhaul of the patent management system at the end of 2004 and is implementing a new system from 2005. Utilizing our new system, we will advance further in intranet postings and sharing of information regarding intellectual property rights.

Amid recent progress by automakers in the pursuit of both safety and environmental responsibility, the tire industry has made advances in the development of runflat tires, which allow a vehicle to be driven a certain distance even on a flat. Runflat tires enable safe driving should a puncture occur and contribute to resource conservation by rendering spare tires unnecessary, which saves fuel and helps to reduce vehicle weight.

Sumitomo Rubber offers the following four runflat/spareless technologies to respond to a wide array of car models.

1. Lightweight DSST-CTT Runflat

The DSST-CTT Runflat stands out among runflat tires with reinforced sidewalls. Thanks to the Company's proprietary technologies, the lightweight DSST-CTT Runflat provides a smooth ride and achieves superior performance even on snow. In 2004, we began shipments of DSST-CTT Runflat tires for Toyota's Lexus SC430 North American models.

In addition, the DSST Runflat, a conventional runflat tire with reinforced sidewalls, is now fitted on over 70% of BMW group cars under both the Dunlop and Goodyear brand names.

2. PAX System

The PAX System comprises four unified elements: the tire, the wheel, an air pressure sensing device and a support ring that supports the tire in the event of a puncture. Based upon a licensing agreement with Michelin, Sumitomo Rubber is promoting the development and widespread use of these tires under the Dunlop brand name.

3. Deflation Warning System (DWS)

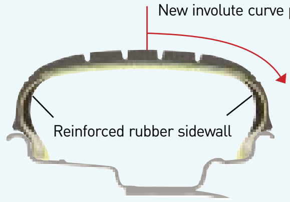
The DWS warns of decreases in air pressure due to punctures or other damage of tires, based upon changes in tire revolutions detected through ABS and other similar systems. Sumitomo Rubber's DWS, superior in terms of its low cost and high durability, was being utilized on approximately 1.57 million passenger cars by the end of 2004. The Group also began supplying Germany's Bosch Automotive with DWS software in 2004. In addition, the installation of tire pressure monitoring systems will become mandatory if tire safety regulations are strengthened through passage of the TREAD Act in the United States.

Sumitomo Rubber will continue its proactive marketing and step up service and support efforts appropriate to different vehicle models.

4. Instant Mobility System (IMS)

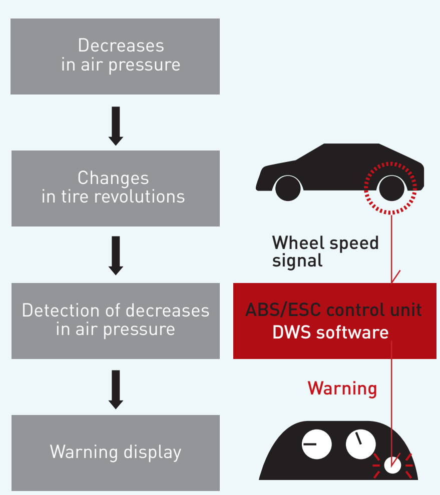
The IMS is an emergency repair kit for punctures that works in approximately 10 minutes of driving after injecting a sealant into the flat tire.

DSST-CTT Runflat (Self support type)



DSST-CTT Runflat is a reinforced sidewall tire that can be mounted on a standard wheel. DSST-CTT Runflat offers a smoother ride due to a rounder designed tread profile, as well as lighter weight and lateral stiffness due to shorter sidewalls.

Principle of Sumitomo Rubber's Deflation Warning System (DWS)



11-YEAR SUMMARY OF CONSOLIDATED FINANCIAL DATA

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Millions of yen / Thousands of U.S. dollars (Note 1)

Years ended December 31	**2004**	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥470,562**	¥450,491	¥447,893	¥434,463	¥423,247	**$4,524,635**
Cost of sales	**288,684**	281,392	286,755	279,074	273,451	**2,775,808**
Selling, general and administrative expenses	**136,352**	131,333	129,394	132,813	124,355	**1,311,077**
Operating income	**45,526**	37,766	31,744	22,576	25,441	**437,750**
Net income (loss)	**19,169**	13,095	8,239	(7,207)	5,335	**184,317**
Depreciation and amortization	**25,098**	24,313	25,163	24,645	25,275	**241,327**
Capital expenditures	**36,881**	29,171	30,557	25,372	19,944	**354,615**
Cash flows from operating activities	**32,056**	44,225	50,700	42,359	36,086	**308,231**
Cash flows from investing activities	**(37,622)**	(28,545)	(31,269)	(25,284)	(21,685)	**(361,750)**
Cash flows from financing activities	**7,609**	(20,821)	(19,628)	(15,172)	(25,690)	**73,163**
At year-end:						
Total assets	**¥520,157**	¥481,553	¥477,293	¥514,415	¥523,560	**$5,001,509**
Shareholders' equity	**145,492**	110,395	101,633	107,391	109,995	**1,398,961**
Interest-bearing debt	**201,929**	210,681	220,085	241,600	252,143	**1,941,625**
			Yen			U.S. dollars (Note 1)
Per share amounts:						
Net income (loss)	**¥78.64**	¥55.07	¥33.97	¥(29.71)	¥23.24	**$0.756**
Net income-diluted	**—**	—	—	—	—	**—**
Cash dividends paid	**14.00**	12.00	10.00	10.00	10.00	**0.135**
			Percent			
Key ratios:						
Operating income ratio	**9.7%**	8.4%	7.1%	5.2%	6.0%	
ROE	**15.0**	12.4	7.9	—	5.1	
ROA (operating income base)	**9.1**	7.9	6.4	4.4	5.3	
Shareholders' equity ratio	**28.0**	22.9	21.3	20.9	21.0	

Millions of yen

Years ended December 31	1999	1998	1997	1996	1995	1994
For the year:						
Net sales	¥509,215	¥653,525	¥613,753	¥582,360	¥533,307	¥487,761
Cost of sales	351,492	456,705	433,573	411,237	377,997	343,804
Selling, general and administrative expenses	133,971	169,032	160,973	151,855	139,101	129,062
Operating income	23,752	27,770	19,207	19,268	16,209	14,895
Net income	4,929	5,034	5,850	4,683	458	1,038
Depreciation and amortization	32,911	40,218	38,366	35,564	31,739	36,272
Capital expenditures	41,634	46,754	46,527	52,003	36,223	30,714
Cash flows from operating activities	20,327	58,814	47,024	36,411	37,404	35,947
Cash flows from investing activities	43,403	(43,213)	(40,310)	(47,120)	(38,651)	(28,854)
Cash flows from financing activities	(64,559)	(4,871)	(9,385)	12,489	2,743	(3,236)
At year-end:						
Total assets	¥441,707	¥614,197	¥644,631	¥629,828	¥594,090	¥545,336
Shareholders' equity	97,475	96,091	93,855	89,962	75,289	75,021
Interest-bearing debt	223,727	311,574	324,327	313,069	300,332	286,934
			Yen			
Per share amounts:						
Net income	¥22.57	¥23.06	¥26.79	¥22.46	¥2.28	¥5.44
Net income-diluted	20.63	—	—	—	—	—
Cash dividends paid	9.00	9.00	9.00	9.00	9.00	9.00
			Percent			
Key ratios:						
Operating income ratio	4.7%	4.2%	3.1%	3.3%	3.0%	3.1%
ROE	5.1	5.3	6.4	5.7	0.6	1.4
ROA (operating income base)	4.5	4.4	3.0	3.1	2.8	2.7
Shareholders' equity ratio	22.1	15.6	14.6	14.3	12.7	13.8

Notes:
1. U.S. dollar amounts are converted solely for convenience at the rate of ¥104 per US$1, the approximate exchange rate prevailing at December 31, 2004.
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.

Scope of Consolidation

In fiscal 2004 (ended December 31, 2004), five subsidiary companies and one equity-method affiliate were newly included in the SRI Group's scope of consolidation, while three subsidiaries and two companies accounted for under the equity method were excluded. One subsidiary company was newly included in the Group's scope of consolidation after the increase in its material significance. The remaining four subsidiary companies newly included in the Group's scope of consolidation began operations during the fiscal year under review as sales subsidiaries in China. Three subsidiaries were excluded from the Group's scope of consolidation as a result of the merger in the tire export division and other factors. These changes had little impact on the Group's consolidated results for the fiscal year under review.

Net Sales

In fiscal 2004, consolidated net sales rose 4.5% to ¥470,562 million. In its core Tire business, Sumitomo Rubber recorded steady sales growth in replacement, original equipment, and export markets. As a result, sales increased 5.2% to ¥356,646 million. Because licensing sales were deducted, sales in the Sports business declined 2.5% to ¥57,363 million. Sales in the Industrial and Other Products business rose 7.3% to ¥56,553 million, boosted by strong sales of Hibrid-Turf artificial turf and other products.

Overseas sales jumped 11.3% to ¥148,239 million, and the overseas sales ratio gained 1.9 percentage points to 31.5%. Particularly noteworthy was the 25.8% jump in sales in Asia, which contributed significantly to overall sales growth, reflecting the beginning of sales operations at our Chinese production subsidiary and the increase in sales at our Indonesian subsidiary.

Earnings

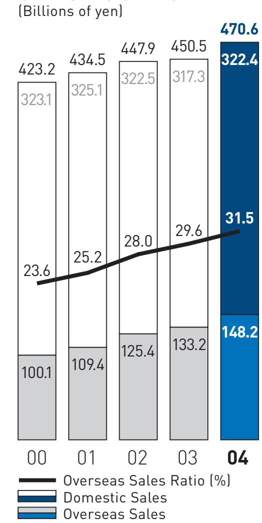
In the fiscal year under review, consolidated operating income increased 20.6% to ¥45,526 million, and the operating income ratio gained 1.3 percentage points to 9.7%. Despite the severe environment encompassing the Tire business, with escalating raw material prices and the appreciation of the yen, the Group expanded profits through cost-cutting measures, sales volume increases from effective marketing initiatives, and the continued shift to high-value-added products. In addition, a portion of the increase in raw material costs was passed on to our customers, as the Group implemented an increase in product prices for the first time in 13 years. We have gained general understanding regarding this price increase. As a result, operating income in the Tire business rose 5.4% to ¥32,899 million. Operating income in the Sports business also surged 38.5% to ¥11,023 million, propelled by new product releases. Improved profitability of domestic operations and effects from restructuring the European bed business supported the return to the black of the Industrial and Other Products business, which finished fiscal 2004 with operating income of ¥1,652 million after an operating loss of ¥1,198 million the previous fiscal year.

Net other expenses rose 50% to ¥8,938 million. Principal components were the transitional loss into the defined contribution pension plan, totaling ¥1,848 million, and interest expenses of ¥1,786 million. At the same time, equity in earnings of unconsolidated subsidiaries and affiliates went from a loss of ¥2,261 million in the previous fiscal year to a profit of ¥717 million in fiscal 2004, reflecting a recovery in the results of our U.S. and European joint ventures with Goodyear.

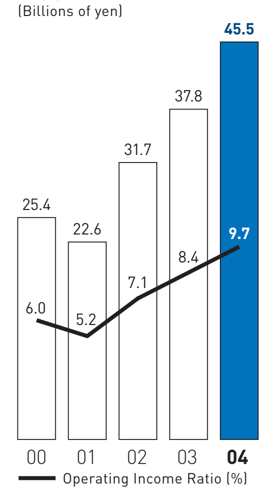
As a result of the above factors, income before income taxes climbed 15.0% to ¥36,588 million for a significant gain. Income taxes fell 3.0% to ¥16,158 million, representing an effective tax rate of 44.2%, down 8.2 percentage points. Minority interest in consolidated subsidiaries decreased 38.7% to ¥1,261 million. Net income surged 46.4% to ¥19,169 million, marking the third consecutive year of record profit.

Net income per share was ¥78.64, and ROE (net income base) improved 2.6 percentage points to 15.0%.

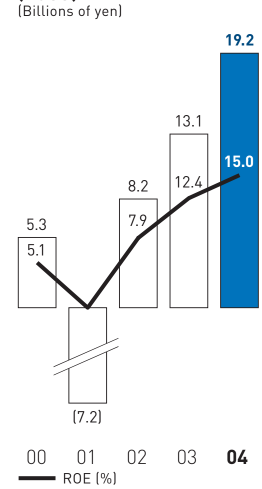
DOMESTIC AND OVERSEAS SALES
(Billions of yen)

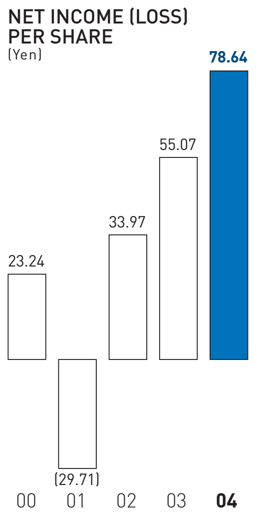


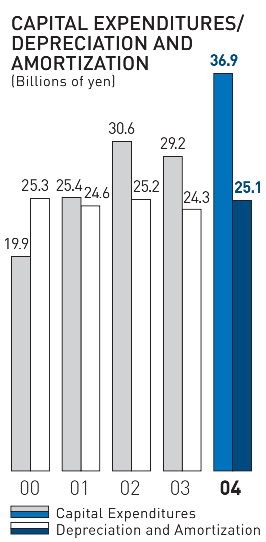
OPERATING INCOME
(Billions of yen)

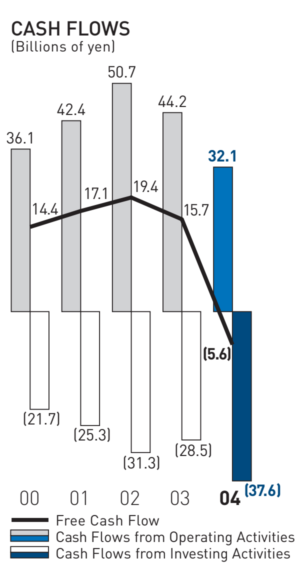


NET INCOME (LOSS)
(Billions of yen)









Dividends

Sumitomo Rubber recognizes return of gains to shareholders to be a priority issue. While comprehensively assessing standards for dividend payout ratio on a consolidated base, 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 priorities on capital investments for both increased and streamlined production, as well as R&D.

The full-year dividend for fiscal 2004 is ¥14.00 per share, an increase of ¥2.00 over the previous fiscal year.

Cash Flows

Net cash provided by operating activities dropped 27.5% in comparison with the previous fiscal year, to ¥32,056 million. In addition to increases in both notes and accounts receivable and inventories, other primary factors included payments related to the establishment of the defined contribution pension plan system, and a significant increase in income taxes paid due to last fiscal year's large profit gains.

Net cash used in investing activities surged 31.8% over the previous fiscal year for a payment of ¥37,622 million. Cash was primarily used in acquiring property, plant and equipment to actively expand production capabilities.

Free cash flow (net cash provided by operating activities minus net cash used in investing activities) ended with a negative balance of ¥5,566 million.

Net cash provided by financing activities improved from being a payout of ¥20,821 million in the previous fiscal year to a revenue source of ¥7,609 million at the end of fiscal 2004. While procurement activities such as the issuing of bonds and common stocks and the retirement of treasury stock were carried out, the Group also made repayments on short-term borrowings and dividend payments.

As a result of these activities, plus the effects of changes in exchange rates and the scope of consolidation, cash and cash equivalents at the end of the year increased 17% to ¥19,246 million.

Financial Position

Total assets as of December 31, 2004, stood at ¥520,157 million, up 8.0%. Total current assets increased 10.1% to ¥207,415 million, primarily as a result of increased net sales.

Investments and other assets increased 6.6% from the previous fiscal year to ¥128,555 million, mainly resulting from an increase in prepaid pension cost in accordance with the implementation of the defined contribution pension plan system.

Property, plant and equipment rose 6.8% to ¥184,187 million owing 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 were down 5.1% to ¥214,164 million, while long-term liabilities rose 10.1% to ¥151,912 million. Despite an overall increase in total liabilities, the balance of interest-bearing debt as of December 31, 2004, was ¥201,929 million, down ¥8,752 million from a year earlier.

Total shareholders' equity jumped 31.8% to ¥145,492 million. In addition to a rise in retained earnings due to profit increases, the Group also raised ¥17,507 million through an issuance of shares on November 18, 2004, and retired treasury stock worth ¥2,989 million.

As a result of these factors, the shareholders' equity ratio gained 5.1 percentage points to 28.0%. ROA (operating income base) increased 1.2 percentage points to 9.1%, and the debt-to-equity ratio improved by 0.5 percentage points to 1.4 times.

R&D Expenses
Research and development expenses were ¥15,730 million, representing 3.3% of consolidated net sales. The Tire business accounted for ¥12,841 million, the Sports business ¥1,371 million, and the Industrial and Other Products business ¥1,518 million. R&D activities consisted of technology exchanges, principally in the Tire business, in accordance with the Group's global alliance with Goodyear, as well as the formation of targeted project teams for joint survey research of products such as runflat tires.

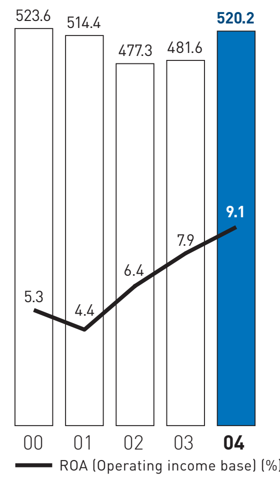
Number of Employees
The total number of employees increased 1,164 from the end of the previous fiscal year to 16,737.

Risk Information
Sumitomo Rubber is exposed to risk in changes in foreign currency markets, interest rates and material prices. Sumitomo Rubber engages in forward-exchange contracts and balancing of imports and exports according to currency in order to hedge against the risk of changes in foreign currency markets.

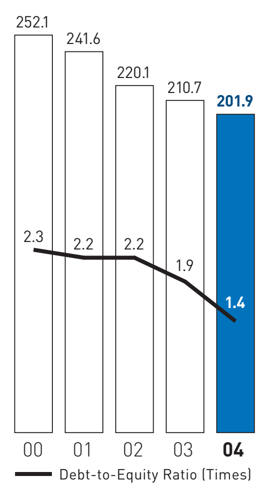
Outlook
Net sales for fiscal 2005, ending December 31, 2005, are forecast to rise 4.1% to ¥490,000 million, while net income is forecast to climb 4.3% to ¥20,000 million. Assumed exchange rates are JPY100=USD1.00 and JPY130=EUR1.00.

The economic environment facing businesses of the SRI Group is expected to remain severe. As the trend toward globalization progresses and marketing competition intensifies, escalating raw material prices and worsening of export profitability due to the appreciation of the yen are also expected to continue. In response to these circumstances, the entire Group will make efforts to promote cost reduction and strive to supply high quality, high-value-added products that meet customers' expectations. We will advance in constructing a corporate structure invulnerable to external operating conditions.

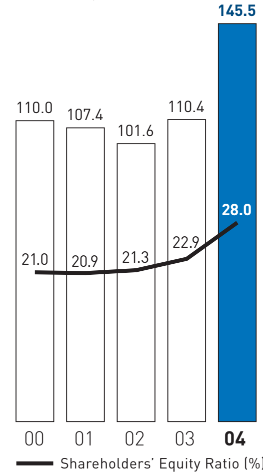
TOTAL ASSETS
(Billions of yen)



INTEREST-BEARING DEBT
(Billions of yen)



SHAREHOLDERS' EQUITY
(Billions of yen)



CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2004**	2003	**2004**
Assets			
Current assets:			
Cash and time deposits	**¥ 19,309**	¥ 16,534	**$ 185,663**
Notes and accounts receivable (Note 14)—			
Trade	**109,751**	107,744	**1,055,298**
Other	**10,656**	9,760	**102,462**
Allowance for doubtful accounts	**(2,450)**	(2,650)	**(23,558)**
Inventories (Note 4)	**48,953**	40,741	**470,702**
Short-term loans (Note 14)	**3,858**	3,096	**37,096**
Deferred tax assets (Note 10)	**10,353**	8,316	**99,548**
Other	**6,985**	4,922	**67,163**
Total current assets	**207,415**	188,463	**1,994,374**
Investments and other assets:			
Investments in securities (Note 5)	**17,620**	15,393	**169,423**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 14)	**66,623**	68,810	**640,606**
Long-term loans	**1,296**	1,449	**12,462**
Deferred tax assets (Note 10)	**2,610**	2,555	**25,096**
Long-term prepaid expenses	**3,330**	3,063	**32,019**
Trademarks (Note 8)	**5,351**	6,231	**51,452**
Goodwill and other intangible assets	**6,977**	7,199	**67,087**
Prepaid pension cost (Note 11)	**17,043**	7,707	**163,875**
Other	**9,705**	10,755	**93,317**
Allowance for doubtful accounts	**(2,000)**	(2,600)	**(19,231)**
Total investments and other assets	**128,555**	120,562	**1,236,106**
Property, plant and equipment (Notes 7 and 9)**:**			
Land	**41,060**	41,091	**394,808**
Buildings and structures	**120,905**	115,374	**1,162,548**
Machinery and equipment	**348,801**	325,680	**3,353,856**
Construction in progress	**6,231**	12,429	**59,913**
Accumulated depreciation	**(332,810)**	(322,046)	**(3,200,096)**
Total property, plant and equipment	**184,187**	172,528	**1,771,029**
Total assets	**¥ 520,157**	¥ 481,553	**$ 5,001,509**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 56,178**	¥ 78,517	**$ 540,173**
Current portion of long-term debt (Note 9)	**25,694**	20,416	**247,058**
Notes and accounts payable—			
Trade (Note 14)	**69,035**	68,576	**663,798**
Construction	**9,003**	7,101	**86,567**
Other	**23,514**	21,603	**226,096**
Accrued expenses	**15,812**	13,180	**152,039**
Accrued income taxes (Note 10)	**11,023**	10,873	**105,990**
Other	**3,905**	5,468	**37,548**
Total current liabilities	**214,164**	225,734	**2,059,269**
Long-term liabilities:			
Long-term debt (Note 9)	**120,057**	111,747	**1,154,394**
Deferred tax liabilities (Note 10)	**8,031**	5,619	**77,221**
Accrued retirement benefits (Note 11)	**12,670**	14,513	**121,827**
Other	**11,154**	6,122	**107,250**
Total long-term liabilities	**151,912**	138,001	**1,460,692**
Minority interest in consolidated subsidiaries	**8,589**	7,423	**82,587**
Shareholders' equity (Note 17)**:**			
Common stock—			
Authorized: 800,000,000 shares in 2004 and 2003			
Issued: 263,043,057 and 242,543,057 shares in 2004 and 2003	**42,658**	33,905	**410,173**
Capital surplus	**38,656**	28,657	**371,692**
Retained earnings	**53,046**	41,084	**510,058**
Net unrealized gains on available-for-sale securities	**4,960**	3,603	**47,692**
Translation adjustments	**6,416**	4,970	**61,692**
	145,736	112,219	**1,401,307**
Less treasury stock, at cost—			
2004—467,371 shares	**(244)**	—	**(2,346)**
2003—3,782,837 shares	**—**	(1,824)	**—**
Total shareholders' equity	**145,492**	110,395	**1,398,961**
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	**¥ 520,157**	¥ 481,553	**$ 5,001,509**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2004**	2003	**2004**
Net sales (Note 14)	**¥ 470,562**	¥ 450,491	**$ 4,524,635**
Cost of sales (Note 14)	**288,684**	281,392	**2,775,808**
Gross profit	**181,878**	169,099	**1,748,827**
Selling, general and administrative expenses	**136,352**	131,333	**1,311,077**
Operating income	**45,526**	37,766	**437,750**
Other income (expenses):			
Interest and dividend income	**384**	453	**3,693**
Interest expenses	**(1,786)**	(2,123)	**(17,173)**
Loss on sales or disposal of property, plant, and equipment, net	**(1,470)**	(1,151)	**(14,135)**
Exchange gain (loss), net	**(783)**	657	**(7,529)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**717**	(2,261)	**6,894**
Loss on transition to defined contribution plans from defined benefit plans (Note 11)	**(1,848)**	—	**(17,769)**
Start-up costs in foreign subsidiaries	**(580)**	—	**(5,577)**
Amortization of initial transition cost of pension and severance plans (Note 11)	**(532)**	(733)	**(5,115)**
Expenses relating to product liabilities	**(1,215)**	(884)	**(11,683)**
Gain on return of substituted portion of employee pension fund (Note 11)	**—**	1,851	**—**
Write-down of trademarks (Note 8)	**—**	(2,442)	**—**
Other, net	**(1,825)**	672	**(17,548)**
	(8,938)	(5,961)	**(85,942)**
Income before income taxes and minority interest in consolidated subsidiaries	**36,588**	31,805	**351,808**
Income taxes (Note 10)**:**			
Current	**17,038**	14,200	**163,827**
Deferred	**(880)**	2,455	**(8,461)**
	16,158	16,655	**155,366**
Income before minority interest in consolidated subsidiaries	**20,430**	15,150	**196,442**
Minority interest in consolidated subsidiaries	**(1,261)**	(2,055)	**(12,125)**
Net income	**¥ 19,169**	¥ 13,095	**$ 184,317**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥78.64**	¥55.07	**$0.756**
Cash dividends paid	**14.00**	12.00	**0.135**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2004**	2003	**2004**
Common stock:			
Balance at beginning of year	**¥ 33,905**	¥ 33,905	**$ 326,010**
Issuance of capital stock	**8,753**	—	**84,163**
Balance at end of year	**¥ 42,658**	¥ 33,905	**$ 410,173**
Capital surplus:			
Balance at beginning of year	**¥ 28,657**	¥ 28,657	**$ 275,548**
Issuance of capital stock	**8,753**	—	**84,163**
Gain on sales of treasury stock	**1,246**	—	**11,981**
Balance at end of year	**¥ 38,656**	¥ 28,657	**$ 371,692**
Retained earnings:			
Balance at beginning of year	**¥ 41,084**	¥ 31,268	**$ 395,038**
Net income	**19,169**	13,095	**184,317**
Cash dividends	**(3,103)**	(2,343)	**(29,836)**
Bonuses to directors and statutory auditors	**(95)**	(100)	**(913)**
Other comprehensive income of foreign subsidiaries and affiliates	**(4,209)**	(713)	**(40,471)**
Effect of change in reporting entities	**200**	(123)	**1,923**
Balance at end of year	**¥ 53,046**	¥ 41,084	**$ 510,058**
Net unrealized gains on available-for-sale securities at end of year	**¥ 4,960**	¥ 3,603	**$ 47,692**
Translation adjustments at end of year	**¥ 6,416**	¥ 4,970	**$ 61,692**
Less treasury stock, at cost at end of year	**¥ (244)**	¥ (1,824)	**$ (2,346)**
Total shareholders' equity at end of year	**¥ 145,492**	¥ 110,395	**$ 1,398,961**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2004**	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interest in consolidated subsidiaries	**¥ 36,588**	¥ 31,805	**$ 351,808**
Adjustments to reconcile income before income taxes and minority interest in consolidated subsidiaries to net cash provided by operating activities—			
Depreciation and amortization	**25,098**	24,313	**241,327**
Loss on sales or disposal of property, plant and equipment, net	**1,470**	1,151	**14,135**
Gain on return of substituted portion of employee pension fund	**—**	(1,851)	**—**
Amortization of initial transition cost of pension and severance plans	**532**	733	**5,115**
Write-down of trademarks	**—**	2,442	**—**
Increase in prepaid pension costs, net of payment	**(9,336)**	(7,707)	**(89,769)**
Increase in pension premium payable for transition to defined contribution plan	**4,986**	—	**47,942**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(717)**	2,261	**(6,894)**
Reversal of allowance for doubtful accounts	**(29)**	(1,216)	**(279)**
Provision for (reversal of) accrued retirement benefits, net of payment	**(3,011)**	3,703	**(28,952)**
Interest and dividend income	**(384)**	(453)	**(3,692)**
Interest expenses	**1,786**	2,123	**17,173**
Increase in notes and accounts receivable	**(2,052)**	(4,119)	**(19,731)**
(Increase) decrease in inventories	**(8,301)**	1,332	**(79,817)**
Increase (decrease) in notes and accounts payable	**280**	(1,430)	**2,692**
Other	**2,761**	(1,707)	**26,548**
Subtotal	**49,671**	51,380	**477,606**
Interest and dividends received	**1,790**	2,160	**17,212**
Interest paid	**(1,818)**	(2,180)	**(17,481)**
Income taxes paid	**(17,587)**	(7,135)	**(169,106)**
Net cash provided by operating activities	**32,056**	44,225	**308,231**
Cash flows from investing activities:			
Capital expenditures	**(36,881)**	(29,171)	**(354,625)**
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	**1,034**	373	**9,942**
Acquisition of investments in securities	**(66)**	(613)	**(635)**
Proceeds from sales of investments in securities	**150**	123	**1,442**
Payment for purchase of consolidated subsidiaries, net of cash acquired	**—**	(544)	**—**
Additional acquisition of shares in unconsolidated subsidiaries and affiliates	**(1,310)**	—	**(12,596)**
Net (increase) decrease in short-term loans receivable	**(724)**	1,001	**(6,961)**
Increase in long-term loans receivable	**(3,294)**	(275)	**(31,673)**
Decrease in long-term loans receivable	**3,424**	349	**32,923**
Other	**45**	212	**433**
Net cash used in investing activities	**(37,622)**	(28,545)	**(361,750)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**(22,300)**	(5,108)	**(214,423)**
Proceeds from long-term debt and newly issued bonds	**33,674**	25,244	**323,788**
Repayments of long-term debt and redemption of bonds	**(19,940)**	(28,596)	**(191,731)**
Dividends paid	**(3,103)**	(2,343)	**(29,836)**
Dividends on minority interest	**(364)**	(451)	**(3,500)**
Proceeds from issuance of capital stock	**17,507**	—	**168,337**
Proceeds from sales (payments for purchases) of treasury stock, net	**2,826**	(9,828)	**27,173**
Payments relating to issuance of common stock and sales of treasury stock	**(872)**	—	**(8,385)**
Subscription by minority shareholders for issuance of common stock of consolidated subsidiaries	**186**	254	**1,788**
Other	**(5)**	7	**(48)**
Net cash provided by (used in) financing activities	**7,609**	(20,821)	**73,163**
Effect of exchange rate changes on cash and cash equivalents	**(1)**	(425)	**(9)**
Net increase (decrease) in cash and cash equivalents	**2,042**	(5,566)	**19,635**
Cash and cash equivalents at beginning of year	**16,453**	20,785	**158,202**
Increase in cash and cash equivalent due to change in reporting entities	**751**	1,234	**7,221**
Cash and cash equivalents at end of year	**¥ 19,246**	¥ 16,453	**$ 185,058**

The accompanying notes are an integral part of these statements.

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 ¥104=U.S.$1, the approximate rate prevailing at December 31, 2004, 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.

Dunlop Tyres Ltd., Falken Tires Ltd., SRI Tire Trading Ltd., Falken Tire Trading Ltd., SRI Sports Ltd., SRI Hybrid Ltd., SRI Engineering Ltd. and SRI Research & Development Ltd., which were established during fiscal 2003, are included in the 2004 and 2003 consolidation. Subsidiaries whose operations became materially significant in 2003, including Sumitomo Rubber (Changshu) Co., Ltd., Sumitomo Rubber (Suzhou) Co., Ltd. and Srixon Sports Europe Ltd., and subsidiaries that launched their businesses in 2003, including Srixon Sports Australasia Pty. Ltd. and SRI Automotive Technology, Inc., are also included in the 2004 and 2003 consolidation. Sakurambo Country Club Co., Ltd. was excluded from consolidation in 2003 due to reduction of shareholding that year.

SRITP LIMITED, whose operations became materially 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.

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.

Amortized using the straight-line method over a 5-year period are the differences between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis incurred when those companies are initially included in consolidation or accounted for under the equity method.

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 declining-balance method, except for assets held at the Shirakawa factory, the Miyazaki factory and the Izumiohtsu factory of the Company, assets held at foreign subsidiaries and assets held under capitalized leases, which are depreciated using the straight-line method, at rates 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 shall be effective for fiscal years beginning on January 1, 2006. However, an early adoption is permitted for the fiscal year beginning January 1, 2005.

The Company has not determined the effect of applying the new standard in the Company's consolidated financial statements.

(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 at 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) 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 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.

(13) 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.

(14) 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, 2004 and 2003.

(15) 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.

(16) 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
	2004	2003	**2004**
Cash and time deposits	**¥19,309**	¥16,534	**$185,663**
Time deposits with a maturity of over three months	**(39)**	(52)	**(375)**
Bank overdraft	**(24)**	(29)	**(230)**
Cash and cash equivalents	**¥19,246**	¥16,453	**$185,058**

4. INVENTORIES

Inventories as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥32,822**	¥27,868	**$315,596**
Work in process	**4,096**	3,628	**39,385**
Raw materials	**8,147**	6,107	**78,336**
Supplies	**3,888**	3,138	**37,385**
	¥48,953	¥40,741	**$470,702**

5. INVESTMENTS IN SECURITIES

As of December 31, 2004 and 2003, 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
	2004	2003	**2004**
Available-for-sale securities:			
Cost	**¥ 7,344**	¥ 6,872	**$ 70,615**
Book value	**15,668**	12,896	**150,654**
Unrealized gains	**8,410**	6,261	**80,866**
Unrealized losses	**(86)**	(237)	**(827)**

Available-for-sale securities sold during the years ended December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Proceeds	**¥150**	¥182	**$1,442**
Realized gains	**97**	66	**933**
Realized losses	**(0)**	(9)	**(0)**

6. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value information regarding derivative financial instruments as of December 31, 2004 and 2003 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain
Currency related contracts:									
Foreign exchange contracts									
To purchase	**¥257**	**¥258**	**¥1**	¥224	¥227	¥3	**$2,471**	**$2,481**	**$10**

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss
Interest rate related contracts:									
Interest rate swap contracts									
Receive variable rate, give fixed rate	**¥1,000**	**¥(32)**	**¥(32)**	—	—	—	**$9,615**	**$(308)**	**$(308)**

7. PROPERTY, PLANT AND EQUIPMENT

The depreciation charges for the years ended December 31, 2004 and 2003 were ¥20,684 million ($198,885 thousand) and ¥19,702 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, 2004 and 2003, amortization charges for capitalized trademarks were ¥885 million ($8,510 thousand) and ¥1,586 million, respectively.

The write-down of trademarks in the 2003 consolidated statements of income was related to a foreign subsidiary whose 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 ¥36,678 million ($352,673 thousand) and ¥56,517 million as of December 31, 2004 and 2003 bore interest ranging from 0.100% to 7.250%, and from 0.310% to 5.280% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥19,500 million ($187,500 thousand) and ¥22,000 million as of December 31, 2004 and 2003 bore interest ranging from 0.011% to 0.014%, and from 0.014% to 0.0196% per annum, respectively.

Long-term debt as of December 31, 2004 and 2003 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
1.900% unsecured bonds due 2006 payable in Japanese yen	**¥ 10,000**	¥ 10,000	**$ 96,154**
0.570% unsecured bonds due 2005 payable in Japanese yen	**10,000**	10,000	**96,154**
0.910% unsecured bonds due 2007 payable in Japanese yen	**10,000**	10,000	**96,154**
0.840% unsecured bonds due 2008 payable in Japanese yen	**10,000**	10,000	**96,154**
1.150% unsecured bonds due 2009 payable in Japanese yen	**20,000**	20,000	**192,307**
0.670% unsecured bonds due 2008 payable in Japanese yen	**5,000**	—	**48,077**
1.080% unsecured bonds due 2010 payable in Japanese yen	**10,000**	—	**96,154**
2.150% unsecured bonds due 2004 payable in Japanese yen	**—**	5,000	**—**
Loans payable to banks and other financial institutions due 2005-2019, with interest of 0.414%-4.95% for 2004 and 2003			
Secured	**25,585**	26,379	**246,010**
Unsecured	**45,166**	40,784	**434,288**
	145,751	132,163	**1,401,452**
Less portion due within one year	**25,694**	20,416	**247,058**
	¥120,057	¥111,747	**$1,154,394**

The aggregate annual maturities of long-term debt as of December 31, 2004 are as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 25,694	$ 247,058
2006	18,364	176,577
2007	16,495	158,606
2008	25,404	244,269
2009	38,763	372,721
2010 and thereafter	21,031	202,221
	¥145,751	$1,401,452

Substantially all loans from banks and other financial institutions are borrowed under agreements which provide that, under certain conditions, the 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, 2004, property, plant and equipment amounting to ¥30,075 million ($289,183 thousand), net of accumulated depreciation, were pledged as collateral for long-term debt and short-term borrowings amounting to ¥25,834 million ($248,404 thousand).

10. INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate a normal cumulative statutory tax rate of approximately 41.7% in Japan for the years ended December 31, 2004 and 2003.

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 and 2003 were as follows:

	2004	2003
Normal cumulative statutory tax rate	**41.7%**	41.7%
Dividends, eliminated for consolidation, from foreign subsidiaries and affiliates	**0.5**	2.6
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(0.8)**	2.3
Current operating losses of foreign subsidiaries	**2.3**	2.4
Expenses not deductible for tax purposes	**1.1**	1.2
Change in valuation allowance for deferred tax assets	**0.6**	4.9
Other	**(1.2)**	(2.7)
Effective tax rates per consolidated statements of income	**44.2%**	52.4%

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

As of December 31, 2003, based on the change of income tax rates, for the calculation of deferred tax assets and liabilities, the Company and certain of its domestic consolidated subsidiaries used the statutory tax rates of 41.7% and 40.4% for current items and non-current items, respectively. The effect of this change was immaterial.

Significant components of the deferred tax assets and liabilities as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets—current:			
Provision for doubtful accounts	**¥ 608**	¥ 779	**$ 5,846**
Accrued business enterprise tax	**997**	857	**9,587**
Unrealized intercompany profits on inventories	**3,342**	3,043	**32,135**
Tax loss carryforward	**1,049**	836	**10,086**
Other	**4,357**	2,801	**41,894**
Total	**¥10,353**	¥ 8,316	**$ 99,548**
Deferred tax assets—non-current:			
Unrealized intercompany profits on fixed assets	**1,002**	1,141	**9,635**
Provision for accrued retirement benefits	**875**	373	**8,413**
Other	**733**	1,041	**7,048**
Total	**¥ 2,610**	¥ 2,555	**$ 25,096**
Deferred tax liabilities—current:	**¥ (80)**	¥ (81)	**$ (769)**
Deferred tax liabilities—non-current:			
Deferred gain on sales of property, plant and equipment	**(2,283)**	(2,359)	**(21,952)**
Unrealized gain on land of a consolidated subsidiary	**(1,586)**	(1,586)	**(15,250)**
Provision for accrued retirement benefits	**(1,580)**	869	**(15,192)**
Unrealized gains on available-for-sale securities	**(3,271)**	(2,368)	**(31,452)**
Other	**689**	(175)	**6,625**
Total	**¥(8,031)**	¥ (5,619)	**$(77,221)**

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 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.

Accompanying the newly enacted "Defined Benefit Corporate Pension Law," in January 2003 the Company and these subsidiaries obtained approval of the Ministry of Health, Labour and Welfare for an exemption from the future benefit obligation related to the substituted government's portion of pension benefits provided by social welfare pension funds.

In accordance with the transitional measures prescribed in Article 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants, the Company and these subsidiaries, on the approval date, recognized the relinquishment of the substituted portion of benefit obligation of welfare pension funds and the corresponding portion of plan assets. The effect of adopting the Guidelines was ¥1,851 million, which was recorded as a gain on return of substituted portion of employee pension funds in the consolidated statement of income for the year ended December 31, 2003.

The amount of plan assets to be transferred back to the government was approximately ¥19,090 million as of December 31, 2003.

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 ($17,769 thousand) 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 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	**2004**
Decrease in benefit obligation	**¥11,519**	**$110,760**
Decrease in unrecognized initial transition cost at date of adoption of pension accounting	**(467)**	**(4,490)**
Decrease in unrecognized actuarial losses	**(2,375)**	**(22,837)**
Decrease in unrecognized prior service cost	**372**	**3,577**
	¥ 9,049	**$ 87,010**

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, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Benefit obligation at end of year	**¥(46,725)**	¥(60,989)	**$(449,279)**
Fair value of plan assets at end of year	**50,108**	44,898	**481,808**
Funded status:			
Benefit obligation in excess of plan assets	**3,383**	(16,091)	**32,529**
Unrecognized initial transition cost at date of adoption	**466**	1,465	**4,481**
Unrecognized actuarial losses	**5,428**	9,849	**52,192**
Unrecognized prior service cost	**(3,937)**	(1,514)	**(37,856)**
Subtotal	**5,340**	(6,291)	**51,346**
Prepaid pension cost	**17,043**	7,707	**163,875**
Accrued retirement benefits	**¥(11,703)**	¥(13,998)	**$(112,529)**

The accrued retirement benefits for directors and statutory auditors as of December 31, 2004 and 2003, amounting to ¥967 million ($9,298 thousand) and ¥515 million, respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 2,070**	¥ 2,268	**$ 19,904**
Interest cost	**1,031**	1,266	**9,913**
Expected return on plan assets	**(951)**	(745)	**(9,144)**
Amortization of transition obligation at date of adoption	**532**	733	**5,115**
Amortization of actuarial loss	**616**	968	**5,923**
Amortization of prior service cost	**(253)**	(9)	**(2,433)**
Severance and retirement benefit expenses	**¥ 3,045**	¥ 4,481	**$ 29,278**
Transitional loss into the defined contribution pension plan	**1,848**	—	**17,769**
Contributions to the defined contribution pension plan	**324**	—	**3,115**
Gain on return of substituted portion of the employee pension fund	**—**	(1,851)	**—**
Net periodic benefit costs	**¥ 5,217**	¥ 2,630	**$ 50,162**

In 2004 and 2003, the discount rate and a range of the rates of expected return on plan assets used by the Company and the domestic consolidated subsidiaries were 2.5% and from 0.84% to 2.5%, respectively. 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 the 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, 2004 and 2003 were ¥15,730 million ($151,250 thousand) and ¥14,058 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 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥356,646**	¥338,915	**$3,429,288**
Intersegment sales and transfers	**144**	93	**1,385**
	356,790	339,008	**3,430,673**
Sports—			
Sales to unaffiliated customers	**57,363**	58,856	**551,567**
Intersegment sales and transfers	**464**	360	**4,462**
	57,827	59,216	**556,029**
Industrial and Other Products—			
Sales to unaffiliated customers	**56,553**	52,720	**543,779**
Intersegment sales and transfers	**2,866**	1,453	**27,558**
	59,419	54,173	**571,337**
Adjustment and eliminations	**(3,474)**	(1,906)	**(33,404)**
	¥470,562	¥450,491	**$4,524,635**
Operating income:			
Tires	**¥ 32,899**	¥ 31,208	**$ 316,337**
Sports	**11,023**	7,958	**105,990**
Industrial and Other Products	**1,652**	(1,198)	**15,885**
	45,574	37,968	**438,212**
Adjustment and eliminations	**(48)**	(202)	**(462)**
	¥ 45,526	¥ 37,766	**$ 437,750**
Identifiable assets:			
Tires	**¥428,311**	¥398,806	**$4,118,375**
Sports	**40,935**	36,723	**393,606**
Industrial and Other Products	**41,079**	38,794	**394,990**
	510,325	474,323	**4,906,971**
Corporate assets and eliminations	**9,832**	7,230	**94,538**
	¥520,157	¥481,553	**$5,001,509**
Capital expenditures:			
Tires	**¥ 36,091**	¥ 29,094	**$ 347,029**
Sports	**1,255**	1,228	**12,067**
Industrial and Other Products	**1,416**	1,167	**13,615**
	38,762	31,489	**372,711**
Corporate assets and eliminations	**45**	1	**433**
	¥ 38,807	¥ 31,490	**$ 373,144**
Depreciation and amortization:			
Tires	**¥ 20,947**	¥ 19,172	**$ 201,413**
Sports	**1,636**	1,899	**15,731**
Industrial and Other Products	**2,511**	3,231	**24,144**
	25,094	24,302	**241,288**
Corporate assets and eliminations	**4**	11	**39**
	¥ 25,098	¥ 24,313	**$ 241,327**

(2) Information by geographic area

Years ended December 31	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥409,505**	¥397,544	**$3,937,548**
Sales between geographic areas	**17,273**	14,594	**166,087**
	426,778	412,138	**4,103,635**
Other—			
Sales to unaffiliated customers	**61,057**	52,947	**587,086**
Sales between geographic areas	**9,613**	6,493	**92,433**
	70,670	59,440	**679,519**
	497,448	471,578	**4,783,154**
Adjustment and eliminations	**(26,886)**	(21,087)	**(258,519)**
	¥470,562	¥450,491	**$4,524,635**
Operating income:			
Japan	**¥ 43,176**	¥ 37,765	**$ 415,154**
Other	**1,942**	125	**18,673**
	45,118	37,890	**433,827**
Adjustment and eliminations	**408**	(124)	**3,923**
	¥ 45,526	¥ 37,766	**$ 437,750**
Identifiable assets:			
Japan	**¥439,237**	¥400,139	**$4,223,432**
Other	**71,649**	65,197	**688,933**
	510,886	465,336	**4,912,365**
Corporate assets and eliminations	**9,271**	16,217	**89,144**
	¥520,157	¥481,553	**$5,001,509**

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

Years ended December 31	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Net sales:			
North America	**¥ 47,279**	¥ 41,623	**$ 454,606**
Europe	**42,369**	36,680	**407,394**
Asia	**21,449**	17,048	**206,240**
Other areas	**37,142**	37,888	**357,135**
Total	**¥148,239**	¥133,239	**$1,425,375**

	Percentage 2004	Percentage 2003
Percentage of such sales in consolidated net sales	**31.5%**	29.6%

14. RELATED PARTY TRANSACTIONS

Significant balances and transactions with a principal shareholder, unconsolidated subsidiaries and affiliates as of December 31, 2004 and 2003, and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Notes and accounts receivable:			
Trade	**¥ 3,009**	¥ 2,978	**$ 28,933**
Other	**662**	510	**6,365**
	¥ 3,671	¥ 3,488	**$ 35,298**
Short-term loans	**¥ 2,641**	¥ 1,634	**$ 25,394**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**¥ 3,170**	¥ 3,170	**$ 30,481**
Notes and accounts payable, trade	**¥ 4,928**	¥ 4,743	**$ 47,385**
Sales	**¥10,532**	¥10,183	**$101,269**
Purchases	**¥11,262**	¥ 9,634	**$108,288**

15. CONTINGENT LIABILITIES

As of December 31, 2004, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	**¥3,139**	**$30,183**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**86**	**827**

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, 2004 and 2003 were as follows:

As of December 31, 2004

	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	**¥6,283**	**¥3,519**	**¥2,764**	**$60,413**	**$33,836**	**$26,577**
Other	**91**	**53**	**38**	**875**	**510**	**365**
Total	**¥6,374**	**¥3,572**	**¥2,802**	**$61,288**	**$34,346**	**$26,942**

As of December 31, 2003

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥8,051	¥4,744	¥3,307
Other	777	726	51
Total	¥8,828	¥5,470	¥3,358

Lease payments under non-capitalized finance leases for the years ended December 31, 2004 and 2003 amounted to ¥1,361 million ($13,087 thousand) and ¥1,460 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2003**
Due within one year	**¥ 1,073**	¥ 1,464	**$ 10,317**
Due later	**1,729**	1,894	**16,625**
	¥ 2,802	¥ 3,358	**$ 26,942**

The balances of future lease payments under noncancelable operating leases, including interest, as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 222**	¥ 235	**$ 2,135**
Due later	**1,435**	1,485	**13,798**
	¥ 1,657	¥ 1,720	**$ 15,933**

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, 2005:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2004	**¥68,735**	**$660,913**
Appropriations—		
Cash dividends (¥9 per share outstanding at December 31, 2004)	**(2,363)**	**(22,721)**
Bonuses to directors and statutory auditors	**(100)**	**(961)**
Balance after appropriations	**¥66,272**	**$637,231**

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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, 2004 and 2003, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The 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 accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

March 30, 2005

Domestic Offices and Facilities

Head Office
3-6-9, Wakinohama-cho
Chuo-ku, Kobe,
Hyogo 651-0072, Japan
Tel: (078) 265-3004
Fax: (078) 265-3113

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

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

Zhongshan Sumirubber Precision Rubber Ltd.
Zhongshan, Guangdong, 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, Holland

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

Directors
Norio Okayama
Robert J. Keegan

*Representative Directors

Auditors

Hiroo Jikihara
Masashi Mine
Kimio Toma
Hiroshi Izumitani

Executive Officers

Hiroshi Okuno
Yoshinori Yamada
Takayuki Saimen
Susumu Shiotani
Hiroaki Tanaka
Yasushi Nojiri
Ikuji Ikeda
Hironobu Nakamura
Kaoru Taniguchi
Masanori Ichihara
Kenji Onga

(As of March 30, 2005)

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
13,356

Major Shareholders

Sumitomo Electric Industries, Ltd.	26.7%
Japan Trustee Services Bank, Ltd. (Trust Account)	12.8%
The Master Trust Bank of Japan, Ltd. (Trust Account)	9.0%
Sumitomo Corporation	3.7%
Sumitomo Mitsui Banking Corporation	2.0%
Trust & Custody Services Bank, Ltd. (Trust Account A)	1.6%
The Goodyear Tire & Rubber Company	1.3%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	1.1%
Bank of New York for Goldman Sachs International (Equity)	1.1%
Japan Trustee Services Bank, Ltd. (Re-Entrustment of Portion Toyota Motor Corporation Retirement Benefit Trust Account held by The Sumitomo Trust & Banking Co., Ltd.)	1.1%

Stock Exchange Listings
Tokyo, Osaka

Ticker Symbol
5110

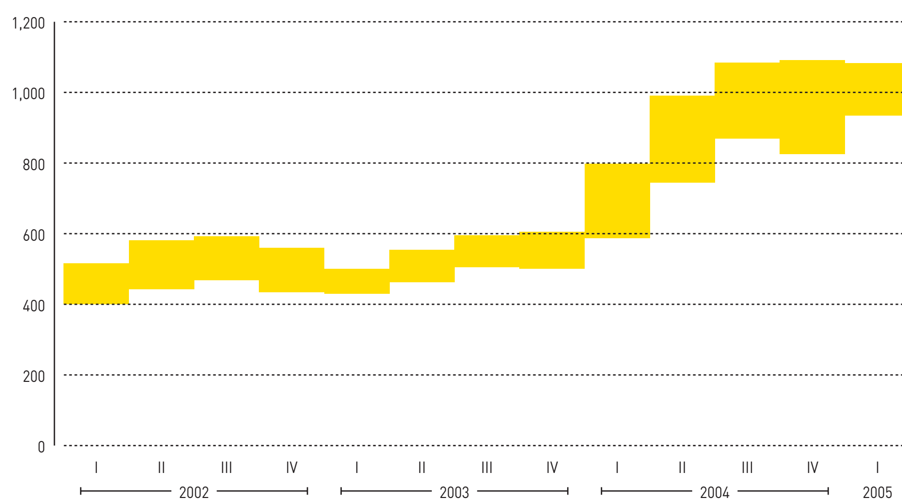
Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.
5-33, 4-chome, Kitahama, Chuo-ku,
Osaka 541-0041, Japan

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, Wakinohama-cho, Chuo-ku, Kobe,
Hyogo 651-0072, Japan
Tel: (078) 265-3004
Fax: (078) 265-3113

(As of December 31, 2004)

STOCK PRICE (Yen)



Zhongshan Sumirubber Precision Rubber Ltd. (China)

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

SUMITOMO RUBBER INDUSTRIES, LTD.

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SRI Group

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