SUMITOMO
RUBBER INDUSTRIES

ANNUAL REPORT 2002

Driving Force for the Future

Sumitomo Rubber Industries, Ltd. is one of Japan's major manufacturers of tires, golf balls, golf clubs, tennis balls, tennis rackets, other sporting goods and a variety of industrial products. In its Tire business, the Company aims to achieve sustainable growth in worldwide markets based on its innovative technology and strategic marketing. In its Sports and Industrial and Other Products businesses, Sumitomo Rubber is striving to increase its corporate value by concentrating management resources on even-higher-profit products.

TIRE BUSINESS

In its Tire business, Sumitomo Rubber manufactures and markets automotive tires under the Dunlop, Goodyear, Falken and Sumitomo brands at home and abroad, together with its subsidiaries and joint ventures with The Goodyear Tire & Rubber Company. Several tire products are imported and exported among Group companies around the world. The Company is constructing a factory in China, and aims to launch production there in 2004.

Net Sales
¥330,365 million

73.8%

GOODYEAR

DUNLOP

FALKEN

SUMITOMO TIRES

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.

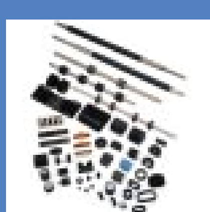
Net Sales
¥64,015 million
14.3%

SPORTS BUSINESS

In its Sports business, Sumitomo Rubber manufactures Dunlop-brand golf and tennis goods in Japan. Golf goods including balls and clubs are also produced under the SRIXON international brand name in Japan and Indonesia.

Net Sales
¥53,513 million
11.9%

INDUSTRIAL AND OTHER PRODUCTS BUSINESS



In the Industrial and Other Products business, Sumitomo Rubber produces several leading-edge products based on its rubber technologies both at home and overseas. In Japan, the Company manufactures marine fenders, blankets for offset printing presses, artificial turf, liquid crystal display (LCD) backlights and other products. Overseas, Sumitomo Rubber produces natural rubber gloves in Malaysia, precision rubber parts for office automation (OA) equipment in China, and bed-related products in France and Germany.

Fiscal 2002, ended December 31, 2002, was a milestone for Sumitomo Rubber Industries, Ltd.

The Sumitomo Rubber Group achieved the V-shaped recovery forecast in last year's annual report, rebounding from a record consolidated net loss to achieve record net income for the fiscal year under review. I am convinced that the measures outlined in our Medium-Term Five-Year Management Plan have allowed us to overcome adverse operating conditions, and placed us on track for sustained growth and profitability. We continue to channel our management resources to develop products that contribute strongly to earnings. We are also pursuing maximum profit from our alliance in the tire business with The Goodyear Tire & Rubber Company and the integration of various functions with The Ohtsu Tire & Rubber Co., Ltd.

We achieved the V-shaped recovery forecast in last year's annual report, rebounding from a record consolidated net loss to achieve record net income for the fiscal year under review.

Sumitomo Rubber remains committed to the original targets of its Medium-Term Five-Year Management Plan. Under this plan, in fiscal 2005, we are aiming for annual consolidated net sales surpassing ¥500 billion, an operating income ratio in the 8% range, and a shareholders' equity ratio of 30%. In addition, the Company intends to steadily raise its ROE to more than 10% and reduce its interest-bearing debt to around ¥220 billion. Based on the business strategies we have implemented to date, I believe steps have been taken toward achieving these objectives.

Performance in Fiscal 2002—Year of Record Profit

In the fiscal year under review, Sumitomo Rubber felt the continuing effects of deterioration in the economy. Overseas, prospects remained clouded, reflecting growing uncertainty over global economic trends while domestically, ongoing deflationary pressure, sluggish capital investment, and weak private-sector consumption continued to undermine the economy.

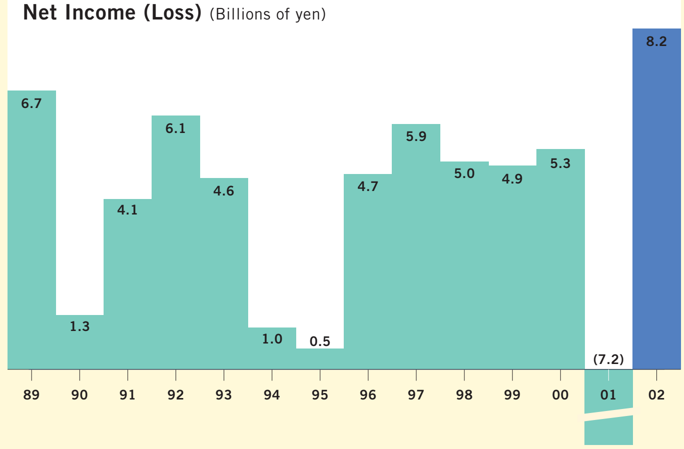
Despite these difficult operating conditions, Sumitomo Rubber undertook Group-wide structural reforms to reverse the negative trend of the previous fiscal year and achieve a V-shaped recovery. Structural reforms comprised "Urgent Measures for Increasing Profits" and "Extensive Structural Reforms," through which we strengthened our corporate structure and raised the level of profitability. At the same time, we developed and actively promoted new technologies and products in tune with market needs. As a result, Sumitomo Rubber recorded consolidated net sales of ¥447,893 million, a year-on-year increase of 3.1%. Operating income surged 40.6% to ¥31,744 million, and the operating income ratio improved 1.9 percentage points to 7.1%. Net income rebounded from a loss of ¥7,207 million in the previous fiscal year to a profit of ¥8,239 million, a turnaround of ¥15,446 million. This surpassed the Company's previous high, recorded in fiscal 1989. ROE for the period under review was 7.9%.

Sumitomo Rubber will maintain annual cash dividends of ¥10 per share, the same level as in the previous fiscal year.

Fiscal 2002 Results—V-Shaped Recovery

After worsening business results slowed Sumitomo Rubber's pace of reform in fiscal 2001, we implemented corrective measures to get back on track toward attaining our goals. These measures included "Urgent Structural Reforms," and Group-wide efforts that focus on new mainstay products. Our "Urgent Structural Reforms" consisted of two platforms outlined as follows.

Net Income (Loss) (Billions of yen)



Years ended December 31	Millions of yen, except per share figures 2002	2001	2000	1999	1998	1997	Thousands of U.S. dollars, except per share figures 2002
Operations:							
Net sales	**¥447,893**	¥434,463	¥423,247	¥509,215	¥653,525	¥613,753	**$3,732,442**
Operating income	**31,744**	22,576	25,441	23,752	27,770	19,205	**264,533**
Net income (loss)	**8,239**	(7,207)	5,335	4,929	5,034	5,850	**68,658**
Financial position:							
Total assets	**477,293**	514,415	523,560	441,707	614,197	644,631	**3,977,442**
Interest-bearing debt	**220,085**	241,600	252,143	223,727	311,574	324,327	**1,834,042**
Shareholders' equity	**101,633**	107,391	109,995	97,475	96,091	93,855	**846,942**
Per share data:							
Net income (loss)	**¥ 33.97**	¥ (29.71)	¥ 23.24	¥ 22.57	¥ 23.06	¥ 26.79	**$ 0.283**
Net income—diluted	**—**	—	—	20.63	—	—	**—**
Cash dividends paid	**10.00**	10.00	10.00	9.00	9.00	9.00	**0.083**
Common stock prices:							
High	**593**	680	725	930	806	865	**4.94**
Low	**400**	438	415	446	437	510	**3.33**
Key ratios:							
Return on shareholders' equity	**7.9%**	(6.6)%	5.1%	5.1%	5.3%	6.4%	**—**
Shareholders' equity ratio	**21.3%**	20.9%	21.0%	22.1%	15.6%	14.6%	**—**

Notes:
1. U.S. dollar amounts are converted solely for convenience at the rate of ¥120 per US$1, the approximate exchange rate prevailing at December 31, 2002.
2. In 1999 the Company changed its reporting entity due to the global alliance in the tire business with Goodyear. The change reduced its net sales, operating income, total assets and interest-bearing debt but the effect to net income and shareholders' equity was immaterial. The Company changed its amortization method for past service liability of the contributory defined pension plan in preparing the accompanying consolidated financial statements. This change reduced net income by ¥3,545 million.
3. In 2000 the Company changed the accounting policy for technical aid income and expense. As a result of these changes, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million, however, there were no effects on net income.

Urgent Measures for Increasing Profits

The first platform of our "Urgent Structural Reforms" comprised "Urgent Measures for Increasing Profits." As a strategy for strengthening Group-wide cost competitiveness, Sumitomo Rubber reviewed expenses across every facet of its operations, with the specific goal of achieving comprehensive cost reductions across the board. During fiscal 2002, we front-loaded capital expenditures planned for fiscal 2003 in response to an increase in demand. As a result, depreciation for fiscal 2002 was on par with that of the previous year. We did, however, make considerable inroads in reducing manufacturing and personnel costs and achieved overall cost cuts of ¥10.2 billion, surpassing our original target of ¥7 billion.

Extensive Structural Reforms

The second platform of our "Urgent Structural Reforms" comprised "Extensive Structural Reforms," and focused on strengthening and stabilizing the Company's profit structure from a medium- to long-term perspective. The Company adopted a number of initiatives to effect a turnaround in operating performance. The deterioration in operating income in fiscal 2001 was attributable largely to the worsening performances of subsidiaries engaged in non-tire businesses in Europe. Our most urgent task was to rebuild our peripheral businesses by such means as channeling management resources into our bed business, closing our car-seat operations and selling our floor surfaces business. As a further part of these efforts, the bed

Highlights of the Year

Feb.

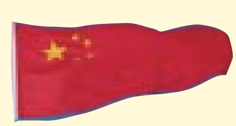
Digi-Tyre ECO SP65e and SP70e win Energy Conservation Center, Japan Chairman's Prize

May

Announcement of four runflat/spareless technologies for safer driving and environmental preservation, comprising DSST-CTT Runflat, PAX System, Deflation Warning System and Instant Mobility System

July

Establishment of tire production and marketing subsidiaries in China



Oct.

Dunslope Light portable wheelchair ramp wins Good Design Award

Oct.

Goodyear EAGLE LS2000 wins Good Design Award

business of Dunlop TECH GmbH in Germany was transferred to a subsidiary of Oniris S.A.S. in France and plans call for the sale of our mud wings business, the final step in this reorganization. In Japan, we have adopted a strategy of licensing, changing operations, liquidating, or withdrawing from unprofitable segments such as our golf course and sportswear operations in the Sports business, and floor surfaces operations in our Industrial and Other Products business.

Sumitomo Rubber also reduced costs across the entire Group by reforming its business structure. Our efforts to integrate administrative functions with Ohtsu Tire, to optimize production and supply at four domestic tire production factories, and to consolidate distribution functions were rewarded with a cutback in overall costs of ¥3.4 billion over the past two years. We will continue to simplify our organizational structure and maximize the benefits from integration with Ohtsu Tire.

Alliance with Goodyear

Our alliance with Goodyear, which began in 1999, is generating significant Group-wide results. The alliance, which includes the joint purchase of materials, the enhancement of productivity and other exchanges, has since 2000, yielded cumulative cost savings of ¥18 billion. In addition, regarding synergies on capital investments, the Company forecasts savings of ¥9 billion from 2001 to 2005, when compared with its original plan. Thus, Sumitomo Rubber is expanding its alliance synergies and improving its cost structure.

Creating High-Value-Added Products

While implementing the previously mentioned structural reforms, Sumitomo Rubber is making the utmost effort to develop and sell high-value-added products. In an environment of prolonged deflation, the development of high-value-added products based on the Company's unrivalled proprietary technologies is playing a key role in elevating the Company's brand image and strengthening its earnings base.

In the Tire business, we introduced the premium comfort tire VEURO VE301 for luxury vehicles, which was developed using our Digi-Tyre DRS II technology, which enables the more rapid development of higher-performance tires. In the Sports business, Sumitomo Rubber's proprietary Digital Impact technology uses digital simulations to design golf balls and clubs. This technology has enabled us to develop a steady stream of new golf products. The XXIO (zéksio) golf club, the HI-BRID everio golf ball, and the XXIO Digisole golf shoe have all become best-sellers in the market, enhancing our brand image and distinguishing our products from competitors.

After worsening business results slowed Sumitomo Rubber's pace of reform in fiscal 2001, we implemented corrective measures to get back on track toward attaining our goals.

Positioning for Future Growth—Strengthening Our Management Platform

As full-fledged global competition within the tire industry continues to heat up, Sumitomo Rubber is looking to establish a business structure that best matches the global manufacturing systems of automakers. In the Sports and Industrial and Other Products business segments, we are also confronted with increased competition in the development of new technologies, and a market characterized by rapidly changing customer needs. Against this backdrop, the Group is developing innovative technology, enhancing its brand position, and expanding its manufacturing and sales capabilities, in an effort to remain one step ahead of global competition. To this end, Sumitomo Rubber has identified the following three business strategies.

Building a New Business Structure

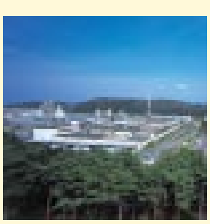
In order to strengthen our operating platform, we have positioned continual business reform and the creation of a new business structure as one underlying theme for future strategies.

Dec.

Launch of world's first fuel cell automobiles that apply Dunlop's GRANDTREK TG32M tires and/or Instant Mobility System

Dec.

First tire maker in Japan to achieve zero emissions at Head Office and all factories



Dec.

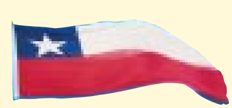
Announcement of integration with The Ohtsu Tire & Rubber Co., Ltd. and structural reforms including spin-off of Sports and Industrial Products businesses

Dec.

Ohtsu Tire announces "Search Eye" function, which indicates time for tire rotation

Dec.

Opening of Santiago Representative Office in Chile, South America



Sumitomo Rubber will spin off its Sports and Industrial Products businesses and merge with Ohtsu Tire on July 1, 2003, to establish an optimal operating structure that maximizes each business scale and prioritizes its unique features. In the Tire business, we will create additional synergies through the elimination of overlapping functions and the integration of organizations with Ohtsu Tire to further enhance efficiencies and strengthen our operating base. Conversely, in the replacement and export markets, where Sumitomo Rubber, Goodyear Japan and Ohtsu Tire compete head to head, we will establish separate sales companies by brands and markets to promote healthy competition and increase sales. For the Sports and Industrial Products businesses, Sumitomo Rubber will establish an operating structure in tune with the market, one that responds swiftly and flexibly to changing customer needs by spinning off these businesses, including factories, to consolidate their manufacturing and sales functions, and identify and clarify profit targets and responsibilities.

Providing "Best-Fit" Products through Innovative Technology

A second theme that underpins Sumitomo Rubber's future business strategies is the supply of in-demand products through the effective development of innovative technologies.

In the Tire business, we are applying the latest in computer simulation technology in the design and supply of high-quality tires. Sumitomo Rubber is also working earnestly on runflat/spareless technologies with driver safety and environmental preservation in mind. We have introduced four variations of these technologies to address a variety of society's needs: a lightweight self-support-type runflat Combined Technology Tire (DSST-CTT Runflat); the PAX System, a runflat tire system based on an unprecedented concept composed of four elements: the tire, the wheel, an air-pressure sensing device and a support ring that supports the tires in the case of a puncture; the Deflation Warning System (DWS), a proprietary system to detect drops in tire pressure while the vehicle is moving; and the Instant Mobility System (IMS), an emergency quick-repair kit for flat tires.

In the Sports business, we are focusing on the development of high-value-added products using digital simulation technology. Our aim is to provide superior products that fully satisfy customer requirements.

> **In order to strengthen our operating platform, we have positioned continual business reform and the creation of a new business structure as one underlying theme for future strategies.**

Asia Business Strategy

A third theme integral to the Group's global strategy is the establishment of production and sales bases in Asia.

At our Indonesian subsidiary, P.T. Sumi Rubber Indonesia, we completed construction of Factory #2 to further increase and strengthen our production capacity. By the end of fiscal 2003, we are targeting an aggregate monthly production from Factories #1 and #2 of 2,950 tonnes, approximately 11% of the Group's total.

In China, we established a manufacturing and marketing base for radial passenger-car tires to meet the sharp acceleration in market demand. Sumitomo Rubber will invest approximately ¥7.2 billion in the establishment of two companies: Sumitomo Rubber (Changshu) Co., Ltd., to cover the China market, and Sumitomo Rubber (Suzhou) Co., Ltd., to handle exports. The factory is scheduled to commence production in 2004.

In the Sports business, Sumitomo Rubber has been building an overseas sales structure since 1997, commencing with Srixon Sports Asia Ltd. in Malaysia. Under the international brand name SRIXON, Sumitomo Rubber has continued to strengthen its sales network throughout Asia's growth markets. We have also established SRIXON subsidiaries in the U.S. and U.K., and opened a new base in Australia in January 2003. Sumitomo Rubber has built a sales network structure for the SRIXON brand that covers the principal regions of the world.

In the Industrial and Other Products business, in order to respond to the shift to overseas production, in particular China, by Japan's OA equipment manufacturers, Sumitomo Rubber established Zhongshan Sumirubber Precision Rubber Ltd., a production base for precision rubber parts in 2000. Production in China has risen steadily, mirroring increased local manufacturing by Japanese OA equipment makers.

A Closing Word to Our Shareholders

Sumitomo Rubber will continue to accelerate structural reforms and to implement the business strategies mentioned earlier. We are aiming to maximize our global corporate value by engendering trust and satisfying the expectations of shareholders and all stakeholders.

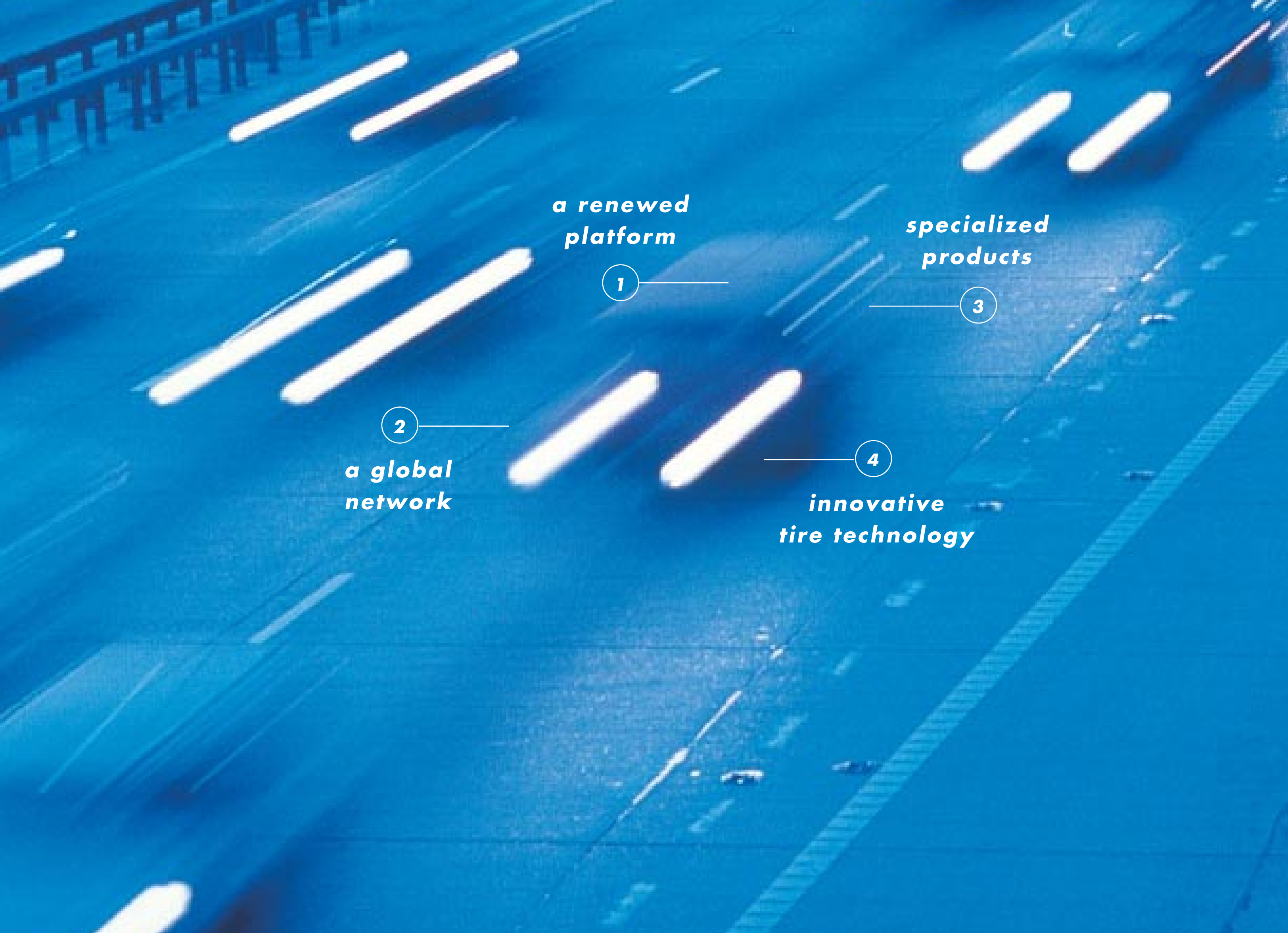
We ask for your continued support and understanding.

Mitsuaki Asai

Mitsuaki Asai
President

DRIVING FORCE FOR THE FUTURE

After the pace of its growth toward the objectives set under its Medium-Term Five-Year Management Plan slowed in the previous fiscal year, Sumitomo Rubber began addressing a number of key issues in fiscal 2002 to get back on track toward achieving its goals. The Company introduced initiatives to transform its profit structure, and by optimizing the collective efforts of the Group, achieved a rapid V-shaped recovery, registering record net income for the fiscal year under review. Looking at our achievements as only the first step of an ongoing process, we are striving to accelerate reforms even further, focusing on the creation of higher value and laying the foundation for a brilliant future. In an effort to achieve its goals, Sumitomo Rubber is reorganizing its business base while establishing new platforms as the basis for future growth. The special features that follow highlight the driving force that will push forward Sumitomo Rubber's growth strategy.



driven by a renewed

Sumitomo Rubber has positioned urgent and extensive structural reform as a crucial task in ensuring future growth. In July 2003, the Company will merge with Ohtsu Tire, a consolidated subsidiary, while at the same time spinning off its Sports and Industrial Products businesses. These measures are in line with efforts to enhance Group management efficiency, and to pursue an optimum structure that best fits the scale and features of each business unit. With the onus on creating autonomous businesses capable of bolstering the earnings structure, we are continuing to enhance the Group's competitiveness and strengthen our profit base.

A Renewed Group Platform

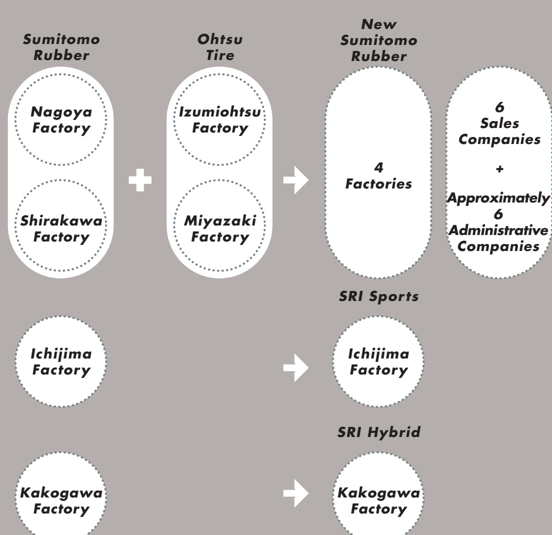
Following the implementation of structural reforms, decision making for matters pertaining to the Group is vested in Sumitomo Rubber, in its capacity as the core Group company. The core Group company is also responsible for management of the Group's Tire business, the Industrial Products business of Ohtsu Tire, and the bed business in France and Germany.

In its Tire business, Sumitomo Rubber will strengthen its marketing capabilities while encouraging competition among brands in replacement and export markets. The Company aims to strategically market its products by leveraging the unique qualities of its brands. For the Dunlop and Falken brands, the establishment of Dunlop Tyres Limited and Falken Tires Limited as sales companies in replacement markets, as well as the establishment of SRI Tire Trading Limited and Falken Tire Trading Limited as tire sales companies for the export market, in addition to Goodyear Japan Ltd., are also solid steps in this direction.

The Sports and Industrial Products businesses will be spun off into two new companies, SRI Sports Limited and SRI Hybrid Limited, to manage operations. Both of these businesses will be managed along an integrated production and sales structure, allowing for a swifter response to market needs as well as more nimble and spontaneous management. As a result, Sumitomo Rubber aims to create an independent, autonomous management structure that flexibly adapts to the scale and attributes of each business.

Sumitomo Rubber will transfer more of its Group staff division work, such as personnel, general affairs, accounting, finance and distribution to subsidiaries. The Company also plans to turn research and development as well as tire production facility and mold development functions into subsidiaries.

In addition, Sumitomo Rubber plans to introduce an executive officer system to improve management responsiveness to changes in the operating environment. The Company aims to strengthen Group management through the clarification of responsibilities and authority in each business unit under the new structure.

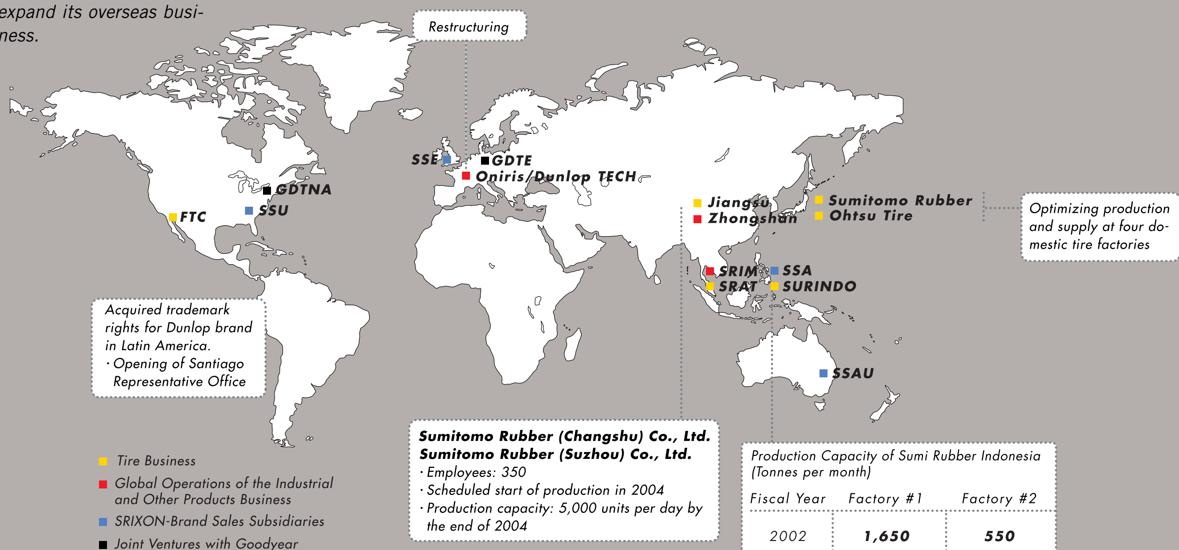


Following the implementation of structural reforms, decision making for the Group is vested in Sumitomo Rubber, in its capacity as the core Group company. The core Group company is also responsible for managing the Group's Tire business. In the Tire business, Sumitomo Rubber will establish sales companies for each brand, and will also establish separate companies to oversee R&D and administrative functions. The Sports and Industrial Products businesses will be spun off with their respective factories. Both of these businesses will be managed along an integrated production and sales structure under separate companies, SRI Sports Limited and SRI Hybrid Limited.

platform

driven by a global

Sumitomo Rubber is building an optimum global production and sales structure in an effort to expand its overseas business.



Production Capacity of Sumi Rubber Indonesia (Tonnes per month)

Fiscal Year	Factory #1	Factory #2
2002	1,650	550
2003	1,800	1,150

Sumitomo Rubber is strengthening its production and sales structure on a global basis to create a new foundation for growth. Overseas, the Company has joint ventures in tires with Goodyear in Europe and the United States, a tire and golf ball factory in Indonesia, a glove factory in Malaysia, a factory for precision rubber parts for OA equipment in China, and factories for bed-related products in France and Germany. In addition, Sumitomo Rubber plans to start operations of a tire factory in China in 2004. Further, we will pioneer new markets and aim to expand our tire and golf goods sales bases in Asia, South America and Australia.

Establishment of Manufacturing and Marketing Subsidiary in China for Radial Passenger-Car Tires

The Company expects tire demand to grow considerably in accordance with the fast pace of motorization in China. Recognizing China as its largest growth market, Sumitomo Rubber established Sumitomo Rubber (Changshu) Co., Ltd. and Sumitomo Rubber (Suzhou) Co., Ltd. as production and marketing companies for radial passenger-car tires. Construction of the ¥7.2 billion factory, situated on 270,000 square meters of land, is progressing steadily toward the scheduled start of production in April 2004. Production capacity is to be 5,000 units per day by the end of 2004, with plans for increasing it to 10,000 units per day by the end of 2006. Sumitomo Rubber is looking to acquire a 10% share of the passenger-car tire market in China and to further boost the pace of expansion thereafter.

Reinforcing Production Capacity at an Indonesian Subsidiary

P.T. Sumi Rubber Indonesia is increasing its production capacity as a tire supply base to Southeast Asia. The new production line at its Factory #2 went online in October 2001, and Sumi Rubber Indonesia plans to ramp up production to 10,000 units per day in the second half of 2003. The combined production capacity of Factories #1 and #2 is expected to reach 2,950 tonnes per month by the end of fiscal 2003, accounting for approximately 11% of the Group's total manufacturing capacity. Sumi Rubber Indonesia aims to further improve both quality and cost competitiveness and begin exporting to Japan, where tires for original equipment markets are subject to stringent quality specifications.

network

Singaporean Subsidiary Begins Marketing Activities

Established in December 2001, the Singaporean subsidiary Sumitomo Rubber Asia (Tyre) Pte. Ltd. has begun full-fledged marketing activities and is contributing to export growth from Japan and Indonesia. Motorization is proliferating rapidly in tandem with economic growth in ASEAN countries, making it a crucial market where tire demand is expected to significantly increase. In addition, customs duties are scheduled for a reduction within the ASEAN region in fiscal 2003. In response, Sumitomo Rubber Asia aims to aggressively expand sales in the region.

Boosting of Tire Sales in Latin America

Sumitomo Rubber is bolstering its tire sales activities in Latin America. In July 2002, the Company acquired trademark rights for the Dunlop brand in each country in Latin America, except Mexico, and opened a representative office in Santiago, Chile, in South America. Sumitomo Rubber plans to establish its own sales network and improve awareness of the Dunlop brand through marketing and advertising. The Company aims to sell 1.5 million tires annually by 2007, which is about six times the amount sold in fiscal 2001.

International Expansion of the SRIXON Brand

To increase sales of golf balls and golf clubs under the strategic SRIXON international brand name, Sumitomo Rubber has built a worldwide sales structure by establishing a sales subsidiary in Malaysia in 1997, and local sales subsidiaries in the United States in 1998, in the United Kingdom in 2001 and in Australia in 2003. The Company has established a solid foundation in prime regions throughout the world to promote the SRIXON-brand business.

Fine Rubber Production in China

Zhongshan Sumirubber Precision Rubber Ltd., a manufacturer of precision rubber parts for OA equipment, was established in November 2000 in Zhongshan, Guangdong, China. As our first manufacturing base in China, the factory was constructed in response to Japanese OA equipment makers making inroads into China, and began production in September 2001. Customers and production volume are steadily increasing as production is shifted from Japan.

One of Sumitomo Rubber's most prized strategic assets is its specialized products made with proprietary technology. The Company aims to fortify its earnings base by building a robust, competitive brand that customers implicitly trust. To this end, Companywide efforts are concentrated on the development and marketing of high-value-added products featuring high quality and performance based on proprietary technologies.

Tire Business

In replacement markets, Sumitomo Rubber aims to expand sales while fostering competition through the development of innovative technologies for the Dunlop, Goodyear and Falken brands.

Digi-Tyre technology, which has continuously evolved since its launch in 1998, is behind the development of high-grade products under the Dunlop brand name. Customers associate Digi-Tyre with high performance and best-of-breed product specifications. Cumulative shipments of the Digi-Tyre series exceeded 30 million units as of March 31, 2003. Digi-Tyre simulates the performance of a rolling tire on a supercomputer using a virtual tire model that mirrors the real thing. In 2001, Digi-Tyre was upgraded from a single-tire emulator to a system that simulates four rolling tires installed on a vehicle on a variety of road-surface conditions. In 2002, an ice and snow road-surface simulation was added, making possible the year-round development of a studless tire. This achievement marks a considerable breakthrough in the development of a studless tire for harsh winter road conditions.

A broad product lineup employs Digi-Tyre technology, including the energy conservation award-winning SP65e/SP70e, LE MANS LM702, VEURO VE301, DIREZZA DZ101 and GRASPIC DS-2 tires. Sumitomo Rubber aims to further increase the value added and profitability of its product mix.

The Company developed a new technology for truck and bus tires called DECTES (DUNLOP Energy Control Technologies), and launched the ECORUT SP668. DECTES is a highly economical and environmentally friendly engineering technology that provides low maintenance, improved life and longer mileage by controlling friction and thermal energy generated by tires.

Under the Goodyear brand, new Hybrid Technology is incorporated in the EAGLE LS2000 and other products. This Hybrid Technology comprises BIO TREAD, a new

driven by specialized

tread containing material developed from natural resources; G-TAMS, a computer modeling system that reduces pattern noise; and Hybrid Design, which blends tire performance and style.

For the Falken brand, the S-Magic technology is employed in the SINCERA SN828 tire, a new product that is economical and delivers superior stability and was launched in January 2003. S-Magic technology is a concept for product development based on the creation of innovative ideas and materials to achieve less noise, improved drivability, increased safety, better fuel efficiency and attractive aesthetic qualities—all of which are important themes in tire development.

Sports Business

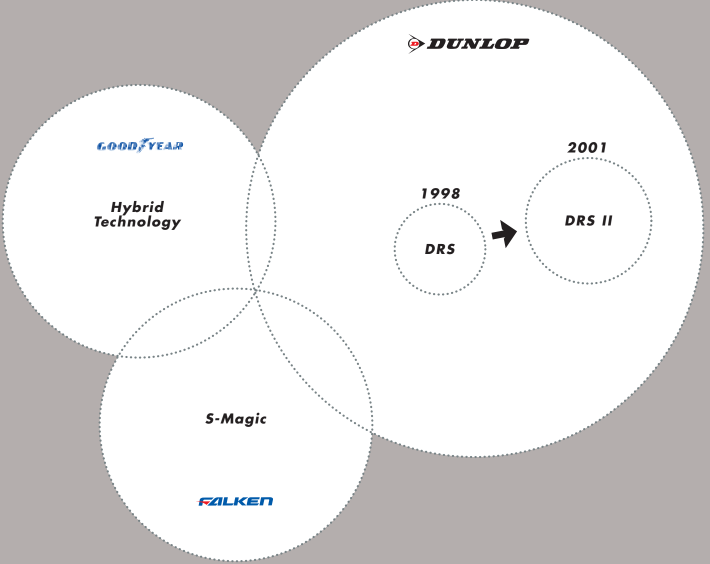
Sumitomo Rubber's Digital Impact is another proprietary technology that uses digital simulations to design and commercialize high-quality golf and tennis gear.

Digital Impact technology for golf goods uses a cutting-edge supercomputer to digitally simulate and precisely analyze the moment of impact in units of 1/100,000,000 of a second. As a flagship technology similar to Digi-Tyre, Digital Impact distinguishes Sumitomo Rubber from the competition by creating high-performance golf gear.

Our products that feature Digital Impact technology have become bestsellers, thanks to their superior performance and marketing efforts that take full advantage of our brand power. The XXIO golf clubs have become our all-time best-selling series of golf clubs with sales of 200,000 woods and 80,000 iron sets from January 2002 to the end of the fiscal year under review. Our HI-BRID everio golf ball has sold more than one million dozen units, the largest of our lineup, and our XXIO Digisole golf shoe has been bought by 80,000 customers—more than three times higher than our initial expectation of 25,000 customers.

We are applying our Digital Impact technology to the development of tennis rackets and tennis shoes. Many tennis players are die-hard fans of our ADFORCE series of rackets that were developed using Digital Power Simulation, which maximizes the speed of tennis balls; Digital Control Simulation, which stabilizes ball direction with solid racket contact; and Digital Feeling Simulation, which increases feel on impact.

Sumitomo Rubber aims to aggressively expand sales of strategic and other products.



Digi-Tyre, a cutting-edge technology that has underpinned the development of Dunlop-brand tires, has continuously evolved since its launch in 1998. In 2001, the Company introduced a number of new products based on its second-generation Digi-Tyre DRS II technology. In 2002, Sumitomo Rubber developed new tires based on an ice and snow road-surface simulation technology. Under the Goodyear and Falken brands, new quality products have been developed based on Hybrid and S-Magic technologies, respectively.

products

Sumitomo Rubber is constantly on the threshold of technological innovation to provide high-quality and high-performance tires, and to strengthen earnings capabilities and competitiveness. Prime examples of our technological innovation include four runflat/spareless tire technologies that enhance driving safety, and the development and introduction of a cell production system that revamps the conventional line-production system.

Runflat/Spareless Technologies

Sumitomo Rubber offers DSST-CTT Runflat and the PAX System, two runflat tire technologies that allow a car to be driven a certain distance even when a tire becomes flat. Combined with the Deflation Warning System (DWS) and the Instant Mobility System (IMS), these technologies are available on a variety of car models.

1. DSST-CTT Runflat

DSST-CTT Runflat is a reinforced sidewall tire, which can be mounted on a standard wheel. Previous runflat tires were heavy and produced a bumpy ride, but DSST-CTT Runflat offers a smoother ride as the shoulders of the tire are rounder, and allows for lighter weight and horizontal sturdiness due to shorter sidewalls. The technology is expected to be widely used in broad-shouldered tires installed on luxury vehicles and sports cars. DSST-CTT Runflat is already equipped on Toyota's Lexus SC430 (Soarer in Japan) and Siena in the North American market.

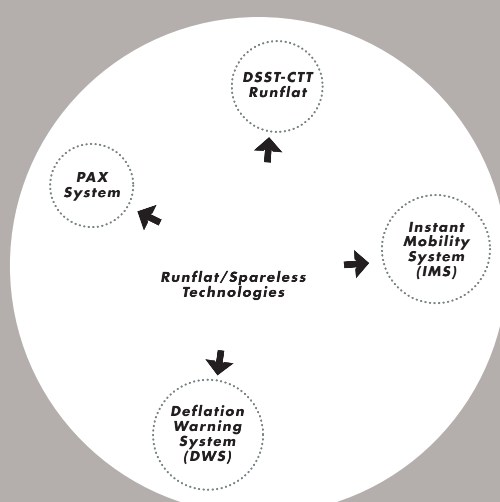
2. PAX System

Based on a licensing agreement with Michelin, Sumitomo Rubber develops, manufactures and markets the PAX System under the Dunlop brand name. Four tire manufacturers in Japan, the United States and Europe, including Pirelli and Goodyear, work closely together to promote increased use of the system.

The PAX System comprises four elements: the tire, wheel, air pressure sensing device and a support ring that supports the tire in the event of a puncture. Aiming to install the system on new vehicles to be launched in the next few years, Sumitomo Rubber is advancing development mainly for luxury passenger cars and sport utility vehicles (SUVs) with an emphasis on fuel economy, quiet driving and a comfortable ride.

3. Deflation Warning System (DWS)

The DWS, characterized by its low cost and durability, warns of decreases in air pressure due to punctures or other damage, based on changes in tire revolutions detected through ABS and other similar systems. By the end of fiscal 2002, the DWS was deployed in more than half a million vehicles produced by Mitsubishi, BMW, Toyota and other leading



Sumitomo Rubber is constantly on the threshold of technological innovation to improve driving safety and performance. Prime examples are its four runflat/spareless technologies, comprising DSST-CTT Runflat and the PAX System, which allow a car to be driven a certain distance even when the tire becomes flat; and the Deflation Warning System (DWS) and Instant Mobility System (IMS), which are available on a variety of car models.

driven by innovative tire

carmakers for the United States and other markets. The Company expects demand for the DWS to increase worldwide, including the United States, where installation of an air pressure monitoring system will be mandatory from November 2003.

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. It is easy to use and comes in a lightweight and compact package. The sealant uses composite natural materials, and does not contain flammable gas, making it remarkably safe and easy on the environment. The IMS does not require a spare tire and is already equipped in thousands of vehicles including next-generation fuel cell cars made by Toyota and Honda. The Company expects to sell approximately 300,000 units in fiscal 2005.

Development of New Automated Tire Production System *Taiyo*

Sumitomo Rubber has developed and is implementing a next-generation cell production system called *Taiyo*, a revamp of its conventional line production system. *Taiyo*, meaning the sun in English, is a cell production system that vertically integrates all of the production processes from mixing to curing into an automated and compact manufacturing process. As a result, high-performance, high-quality tires can be produced with less energy than used by previous production facilities, making it a system that is easier on the environment.

Taiyo Features

The application of the *Taiyo* cell production system increases high-speed uniformity and balance by 50% compared with tires manufactured by the conventional method. The use of a new material employing sidewall rubber compounded with micro-fibers, together with control techniques, also contributes to higher rigidity and lighter weight.

In addition, the *Taiyo* system allows for flexibility in the use of new materials and construction, expanding freedom in the area of tire design. The system is capable of producing tires of higher performance and safety, from conventional tires to new construction tires.

The *Taiyo* system also boasts high productivity and investment efficiency. Capable of producing 1,000 tires of eight different sizes daily, the system allows for reduced inventory of intermediate components and energy consumption. With a competitive advantage in quality and flexibility, the capital payback period is shorter than that of conventional methods.

technology

Fiscal 2002 Results

During the fiscal year under review, sales in the Tire business increased 4.6% to ¥330,365 million. Operating income rose 16.0% to ¥28,124 million.

In the domestic replacement market, sales fell slightly below the previous fiscal year's level amid severe business conditions and a drop in overall market demand. The volume and value of sales from original equipment and export markets, however, increased significantly, spurred by strong performance in North America. Sales by overseas subsidiaries grew steadily, reflecting an increase in production at Sumitomo Rubber's Indonesian subsidiary.

Domestic Replacement Markets

In its Tire business in Japan, Sumitomo Rubber actively launched new Dunlop-, Goodyear- and Falken-brand tires, adopting measures to strengthen its marketing structure and to expand sales. Despite these efforts, sales fell slightly compared with the previous fiscal year, buffeted by the lengthy recession in Japan, a drop in demand for trucks and buses, and falling prices.

Results in Dunlop-brand tire sales were mixed, falling below the previous fiscal year's level. The Company introduced a number of new products based on its second-generation Digi-Tyre DRS II technology, such as the superior-handling tire LE MANS LM702 and the premium tire VEURO VE301. Of particular note was the launch of a new studless tire, GRASPIC DS-2, the product of ice and snow road-surface simulation. Summer tire sales, however, fell slightly due to inactive demand.

Under the Falken brand, year-on-year sales decreased slightly. The Company's efforts to increase sales through the introduction of such new passenger car tires as ZIEX ZE512 and AZENIS RT215 were insufficient to offset the drop in demand for truck and bus tires.

Sumitomo Rubber posted a sharp double-digit increase in Goodyear-brand tires compared with the previous fiscal year. This was the result of aggressive marketing efforts and strong summer tire sales of the EAGLE LS2000 tires, incorporating new Hybrid Technology, and the FLEXSTEEL G223 radial light-truck tires.

TIRE BUSINESS

From left:
LE MANS LM702
VEURO VE301
GRASPIC DS-2
D773
K300GP

Original Equipment and Export Markets

Sales from original equipment markets rose significantly, boosted by strong automobile production and demand in export markets, particularly in North America, and the benefits from integration of marketing and sales of all three brands. Notably, a substantial increase in Falken- and Goodyear-brand tires for original equipment markets contributed significantly to the improvement in overall performance.

In export markets, the volume and value of sales jumped year on year due to strong sales in such overseas markets as Asia, the Middle East and particularly North America, and the positive effects of a weak yen.

Overseas Subsidiaries

Despite political instability, our Indonesian subsidiary Sumi Rubber Indonesia recorded a large increase in sales and profits due to efforts to expand production and exports as a proportion of sales.

Established in December 2001, Sumitomo Rubber Asia (Tyre) Pte. Ltd. has begun sales, contributing to export growth from Japan and Indonesia, and strengthening Sumitomo Rubber's marketing activities in the ASEAN region.

Sumitomo Rubber established production and sales companies for radial passenger-car tires in Changshu, Jiangsu, China, in July 2002. Construction of a manufacturing factory is progressing steadily toward the scheduled start of production in April 2004.

Recommencement of Motor Sports Activities

Sumitomo Rubber had curtailed most of its motor sports activities following the great Hanshin-Awaji Earthquake. Based on the active participation both at home and overseas by leading automobile manufacturers, and in line with efforts to raise technical capabilities, however, Sumitomo Rubber has recommenced motor sports activities in the All-Japan Grand Touring Car Championship. The Company has also recently supplied tires to numerous champions, including the 2002 All Japan Kart Championship. Sumitomo Rubber will continue to actively participate in motor sports in an effort to hone its technical expertise and demonstrate its performance capabilities.

From left:
EAGLE LS2000
FLEXSTEEL G223
AZENIS RT215
ZIEX ZE512

Digisole GGS-1014

SPORTS

Fiscal 2002 Results

Sales in the Sports business edged up 1.5% to ¥64,015 million, while operating income surged 153.7% to ¥6,393 million. This was due to the strong performance in highly profitable value-added products, their mass production and increasing proportion to total Sports business sales.

Despite a decline in the number of golf course users and the subsequent drop in overall market demand, Sumitomo Rubber continued to release a series of products based on its proprietary Digital Impact technology. These products, which included the XXIO golf clubs, HI-BRID everio golf balls and XXIO Digisole golf shoes, have become the Company's best-selling series and have contributed substantially to the increase in profits. Overall sales in golf-related products were also up year on year, boosted by sales of golf balls and clubs under the strategic SRIXON international brand name, and the surge in exports.

In tennis products, sales of new rackets increased significantly, despite the general stagnation in the tennis gear market.

As a part of extensive structural reforms to strengthen the Company's profit structure, Sumitomo Rubber pressed forward with the rationalization of unprofitable golf course and sportswear businesses.

Best-Selling Products Based on Digital Impact Technology

Sumitomo Rubber's proprietary Digital Impact technology has spawned a series of best-selling golf gear and sports brands.

In a survey of golf products, conducted by Japanese golfing magazine *Par Golf*, Sumitomo Rubber's XXIO golf clubs, HI-BRID everio golf balls and XXIO Digisole golf shoes were awarded the "Golf Gear Prize 2002" for woods, irons, balls and shoes, respectively. The XXIO wood was also awarded "2003 Club of the Year" by *Golf Digest* magazine.

Sumitomo Rubber will continue to strengthen its earnings platform by enhancing

From left:
XXIO UTILITY
XXIO S100
XXIO IRON
SRIXON I-201
SRIXON W-201
XXIO

From left:
HI-BRID everio
SRIXON HB-TOUR
XXIO

ADFORCE Racket

BUSINESS

its lineup of strategic Digital Impact products, focusing on a higher profit margin and added value.

Establishing a SRIXON-Brand Sales Subsidiary in Australia

In tune with the Company's efforts to spin off its Sports business, Sumitomo Rubber established Srixon Sports Australasia Pty Ltd. in January 2003 to strengthen its sales network in Oceania. To enhance the profile of the international strategic brand SRIXON, Sumitomo Rubber has also contracted with leading professional golfers such as Thomas Bjorn and Laura Davies to use and promote SRIXON golf balls, clubs and other gear.

INDUSTRIAL

AND OTHER PRODUCTS BUSINESS

Fiscal 2002 Results

During fiscal 2002, sales in the Industrial and Other Products business declined 3.5% to ¥53,513 million. The operating loss narrowed ¥1,322 million, compared with the previous fiscal year, to ¥2,852 million.

In the domestic market, sales of Hibrid-Turf, an artificial turf filled with sand and fine rubber chips, increased significantly, as did export sales of printer blankets to China and Southeast Asia. Overall, however, sales fell well below the previous fiscal year due to the poor performances in industrial floor surfaces and marine products, affected by the prolonged recession.

Regarding Ohtsu Tire's non-tire products, sales of mainstay LCD backlights and rubber plugs exceeded results for the previous fiscal year.

Overseas, precision rubber parts production for OA equipment at Sumitomo Rubber's manufacturing base in China expanded steadily, boosted by a shift in production from Japan.

In Malaysia, sales of natural rubber gloves were on par with the previous fiscal year. A drop in sales to Japan due to the weak economy was balanced by steady sales to other overseas markets.

In Sumitomo Rubber's European non-tire business, the Company continued to focus management resources on its bed business, while closing its car-seat operations and selling its floor surface business. Despite these efforts, sales fell compared with the previous fiscal year owing to the weak European economy and a drop in demand.

Favorable Performance of Hibrid-Turf

Sales of Hibrid-Turf have continued to increase significantly since summer 2000, boosted by strong demand from soccer and baseball grounds, Japan's soccer J. League and schools. This artificial turf is made up of sand and fine rubber chips and compares favorably to natural turf, surpassing conventional products in terms of cushioning and playing feel. In October 2002, Sumitomo Rubber's Hibrid-Turf was laid at the rugby training field of Kobe Steel, Ltd.—an industry first for rugby. In cooperation with the Steelers, one of the strongest rugby teams in Japan, the Company is undertaking research to improve the safety and durability of its Hibrid-Turf and to increase sales.

From left:
Backlight for LCD
Hibrid-Turf

Sumitomo Rubber has made environmental preservation one of its top priorities in all its business activities, and the entire Sumitomo Rubber Group is consistently maintaining its emphasis on environmental management. In fiscal 2000, the Company implemented an environmental accounting system, which gives us a grasp of the costs and effects of our environmental preservation activities. In December 2002, the parent company, including Head Office, four domestic production factories, and its research and development center, became the first Japanese tire manufacturer to achieve zero emissions.* The Group's six domestic production factories, including subsidiary Ohtsu Tire, had previously acquired ISO 14001 certification of their environmental management systems.

Numerical Targets and Achievements—Zero Emissions Achieved

Sumitomo Rubber has set and is striving to achieve medium- and long-term "environmental action targets" for addressing global warming, conserving energy, reducing waste generation and curtailing its use of organic-solvents.

In response to global warming, we have established the objective of maintaining CO_2 emissions at or below their 1990 level through 2010. In fiscal 2002, CO_2 emissions were at 94% of their volume in 1990.

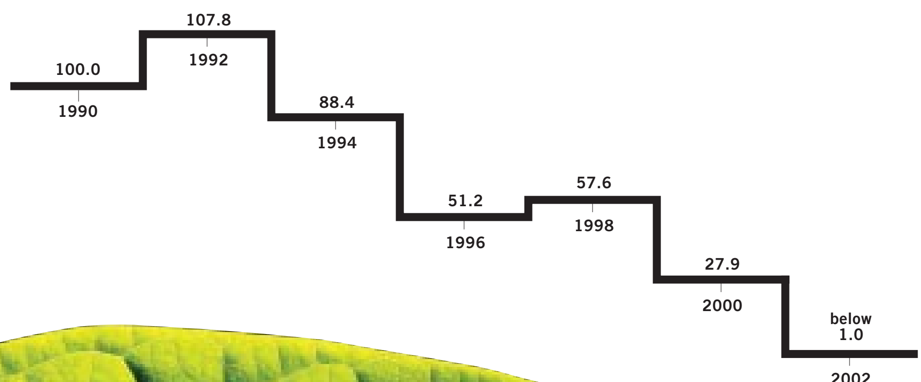
To conserve energy, we have established the target of reducing heavy oil consumption by 20% below its fiscal 2000 level, and electricity consumption by 11% below the fiscal 2000 mark, both by 2010. As of December 2002, heavy oil and electricity consumption were down 15% and 7%, respectively, from their fiscal 2000 levels.

In waste reduction, we achieved our goal to reduce total waste (industrial waste from our factories added to the worn tires collected by the Company) disposed of in landfills to less than 1% by the end of fiscal 2002. We will continue to work for further reductions.

With 2000 as the baseline, we have set the goals of achieving more than 10% reduction in the volume of waste generated by 2005 and more than 20% reduction by 2010. At fiscal year-end 2002, waste was down by 6%.

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

Reduction of Industrial Waste
(1990=100)



Net Sales

In fiscal 2002, ended December 31, 2002, consolidated net sales increased 3.1% to ¥447,893 million. In our core Tire business, we recorded significant sales growth in sales of original equipment and in export markets. Sales in the Sports business were also boosted by the launch of best-selling products, which compensated for declines in the Industrial and Other Products business. Despite the effects of a sluggish domestic economy, the Company achieved an overall increase in sales.

By business segment, sales in the Tire business rose 4.6% to ¥330,365 million, accounting for 73.8% of net sales. Sales in the Sports business edged up 1.5% to ¥64,015 million, or 14.3% of the Company's net sales, while sales in the Industrial and Other Products business fell 3.5% to ¥53,513 million, making up 11.9% of net sales.

Sumitomo Rubber Asia (Tyre) Pte. Ltd., which commenced tire sales in Singapore in the fiscal year under review, has been included in the Company's scope of consolidation.

Operating Income

Consolidated operating income surged 40.6% to ¥31,744 million. The operating income ratio also edged up 1.9 percentage points to 7.1%.

This dramatic increase in operating income is due, first to increases in sales volume and market share realized by strong performance of our highly profitable value-added products, such as the Digi-Tyre series, one of our mainstay products, and golf products incorporating Digital Impact technologies. The second factor was the success in cutting costs across the Group as part of the "Urgent Measures for Increasing Profits," and the pushing through of the "Extensive Structural Reforms" program aimed at less profitable businesses such as the European bed business. Finally, the alliance with The Goodyear Tire & Rubber Company continued to bolster synergistic effects such as lowering the price of raw materials through joint purchasing and boosting productivity, and contributed to reduced costs and improved productivity in the Tire business without substantial capital investment outlay.

By business segment, operating income in the Tire business rose 16.0% to ¥28,124 million, the Sports business leaped 153.7% to ¥6,393 million, and the Industrial and Other Products business recorded a loss of ¥2,852 million, an improvement of ¥1,322 million from the previous fiscal year.

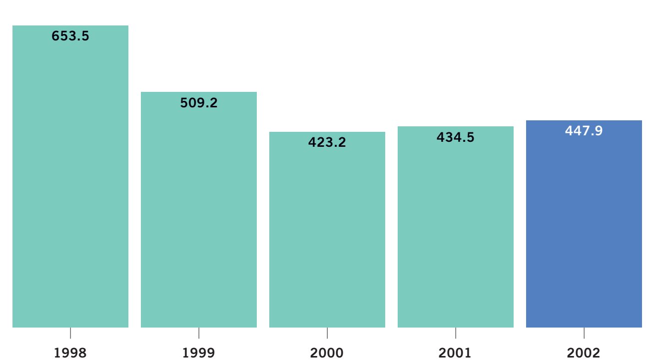
Net Income

Net other expenses improved greatly from the previous fiscal year, declining ¥10,818 million, yet the Company still recorded large net other expense of ¥14,101 million. The four main reasons for this are as follows.

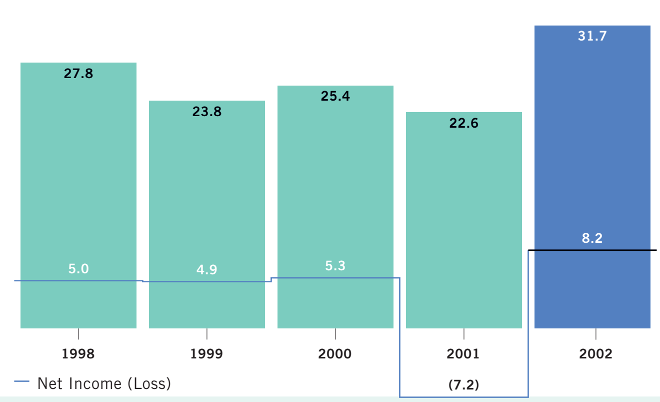
First, a write-down of investment in securities of ¥5,609 million was recorded. A revaluation loss on shares of Goodyear accounted for ¥5,299 million of this. Second, equity in losses of unconsolidated subsidiaries and affiliates of ¥79 million was recorded, though this represented an improvement of ¥2,787 million from the previous fiscal year. Despite substantial restructuring expenses incurred by our European joint venture with Goodyear during fiscal 2001, the main reason for this improvement was the significant positive impact from a series of initiatives implemented in the previous fiscal year. Third, amortization and write-off of initial transition cost of pension and severance plans amounted to ¥1,203 million. Finally, loss on sales or disposal of property, plant and equipment, net, was ¥1,081 million.

As a result, income before income taxes was ¥17,643 million, a vast improvement over the loss of ¥2,343 million the previous fiscal year. Income taxes increased 75.5% to ¥7,960 million, an

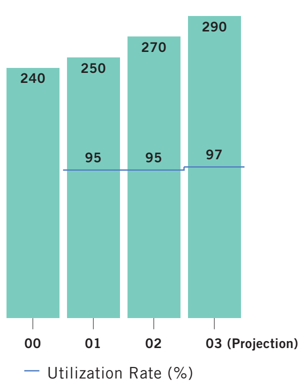
Net Sales (Billions of yen)



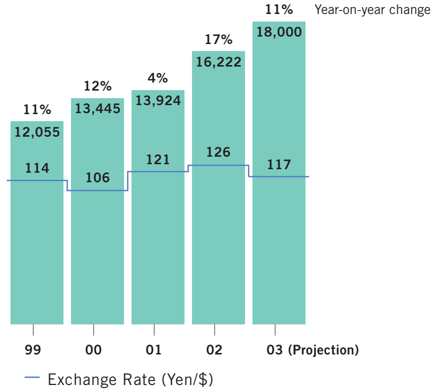
Operating Income/Net Income (Loss) (Billions of yen)



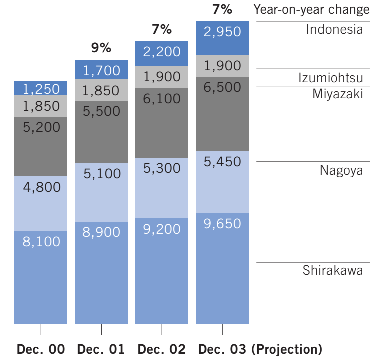
Tire Production Volume
(Thousands of tonnes)



Volume of Tire Exports from Japan
(Thousands of units)



Tire Production Capacity (Tonnes per month)



effective tax rate of 45.1%. Minority interest in consolidated subsidiaries, owing mainly to the increased profit at Ohtsu Tire, increased from ¥355 million in 2001 to ¥1,444 million. Net income was ¥8,239 million, a dramatic improvement of ¥15,446 million over a loss of ¥7,207 million the previous fiscal year. This surpasses the previous record posted in fiscal 1989.

Net income per share was ¥33.97, and return on shareholders' equity was 7.9%.

Dividends

Sumitomo Rubber recognizes return of gains to shareholders to be a priority issue, and as such, while comprehensively assessing standards for performance prospects, dividend payouts and retained earnings, has adopted a basic policy of steadily rewarding shareholders. Regarding retained earnings, in order to successfully expand the Company's revenue base in the future, Sumitomo Rubber is making priority capital investments for increased and consolidated production, as well as R&D.

Cash dividends paid remained at ¥10.00 per share, the same amount as in fiscal 2001.

Cash Flows

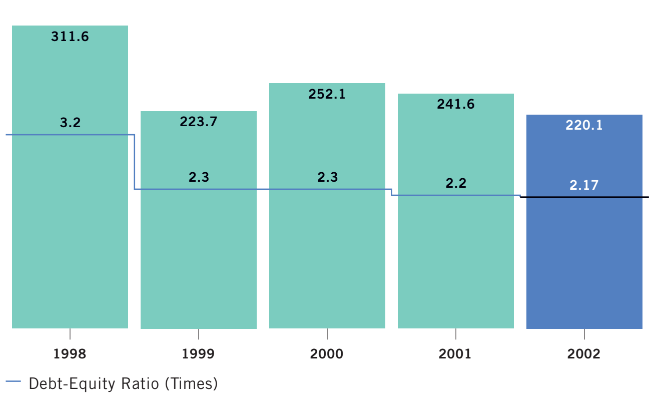
Net cash provided by operating activities rose 19.7% from the previous fiscal year to ¥50,700 million. This was mainly due to income before income taxes jumping to ¥17,643 million, compared with a loss of ¥2,343 million the previous fiscal year, and positive benefits from increased efficiency of working capital, resulting from such measures as stepped-up collection of accounts receivable and a contraction of inventories.

Net cash used in investing activities increased 23.7% from the previous fiscal year to ¥31,269 million. This was due mainly to an increase in capital expenditures from ¥25,372 million to ¥30,557 million, resulting from a portion of the expenses for increased production undertaken during the previous period being shifted to the fiscal year under review.

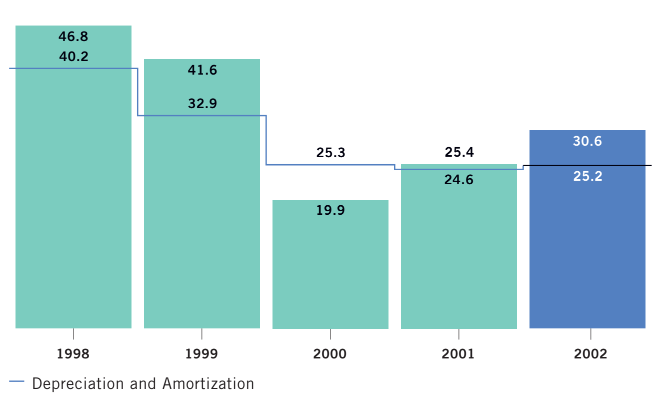
Free cash flow, the subtraction of cash flow from investing activities from cash flow from operating activities, rose 13.8% from the previous fiscal year to ¥19,431 million. The source of this free cash flow was ¥19,628 million used in financing activities, including a contraction of debt, and dividends paid.

As a result of the above, and including the effects from exchange rate changes and changes in the scope of consolidation, cash and cash equivalents at the end of the year fell 1.8% to ¥20,785 million.

Interest-Bearing Debt (Billions of yen)



Capital Expenditure (Billions of yen)



Financial Position

Total assets at the end of the fiscal year under review declined ¥37,122 million to ¥477,293 million, with ROA of 1.7%. The total asset turnover ratio was 0.90, compared with 0.84 the previous fiscal year.

Total current assets declined 6.2% from the previous fiscal year to ¥190,460 million. This was due mainly to increased management efficiency regarding notes and accounts receivable, inventories and short-term loans. Total investments and other assets fell 9.3% to ¥119,631 million, due mainly to write-downs on investments in securities due to market pricing. Total property, plant and equipment, owing to a loss incurred by revaluation of assets in a golf course management company, fell 6.8% from the previous fiscal year to ¥167,202 million.

Total current and long-term liabilities declined 8.2% from the previous fiscal year to ¥360,370 million. Current liabilities fell 5.9% to ¥229,183 million, and long-term liabilities dropped 11.9% to ¥131,187 million. The main reason for the decline in liabilities was a reduction in total debt following contraction of assets, as noted above. Interest-bearing debt declined ¥21,515 million from the previous fiscal year to ¥220,085 million.

Total shareholders' equity declined 5.4% from the previous fiscal year to ¥101,633 million. Retained earnings fell sharply as a result of increases in the minimum pension liability included in other comprehensive income at foreign-based affiliates that use U.S. accounting standards, declining ¥5,097 million from the previous fiscal year. Shareholders' equity also suffered from a decline in translation adjustments, resulting from yen appreciation as of the fiscal year-end. The benefit from asset contraction was significant, however, and the shareholders' equity ratio rose 0.4 of a percentage point to 21.3%.

R&D Expenses

Research and development expenses were ¥13,596 million, representing 3.0% of consolidated sales. The Tire business accounted for ¥10,176 million, the Sports business ¥1,470 million, and the Industrial and Other Products business ¥1,958 million. R&D activities consisted of technology exchanges, principally in the Tire business, in accordance with the Company'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 189 from the previous fiscal year to 15,312.

Outlook

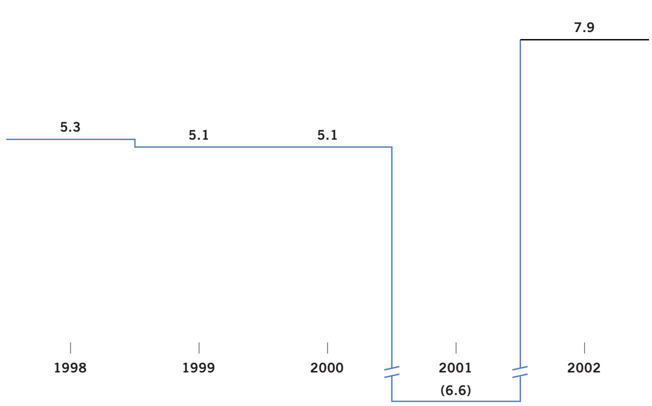
During fiscal 2003, ending December 31, 2003, net sales are forecast to rise 0.5% to ¥450,000 million, and net income is expected to increase 33.5% to ¥11,000 million. The assumed exchange rate is ¥117=US$1.00.

The economic outlook is expected to remain cloudy. A rapid recovery of individual consumption and capital investment cannot be expected, with movement in the stagnant securities and exchange markets, the price of raw materials such as natural rubber, and the future of the U.S. and world economies continuing to be unclear.

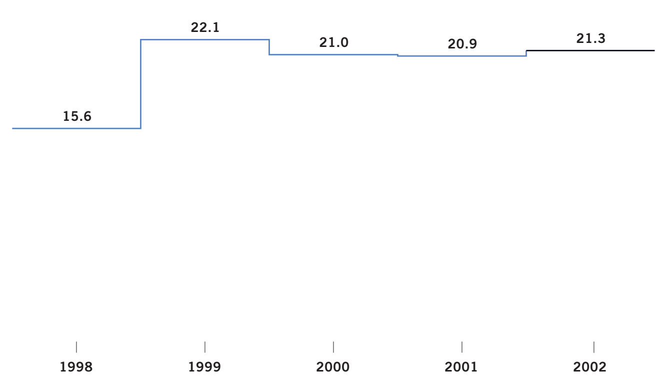
Sumitomo Rubber, in response to these circumstances, will pursue R&D aimed at improving technology to generate new products with high degrees of customer satisfaction, conduct aggressive sales and marketing, cut costs and improve efficiency throughout the Group, and work to improve profitability and financial standing.

The Company also considers the early establishment of a sound business structure to be one of the key elements of reform, and in July 2003 plans to merge with consolidated subsidiary Ohtsu Tire, while at the same time spinning off the Sports and Industrial Products businesses into separate companies in an effort to bolster the earnings structure. This restructuring will further improve the management efficiency of the Sumitomo Rubber Group, create a suitable management structure responsive to the scale and features of each business and prompt them to seek profitability independently, as well as increase the competitiveness and profitability of the entire Group.

Return on Shareholders' Equity (%)



Shareholders' Equity Ratio (%)



CONSOLIDATED BALANCE SHEETS
Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2002**	2001	**2002**
Assets			
Current assets:			
Cash and time deposits	**¥ 20,862**	¥ 22,033	**$ 173,850**
Notes and accounts receivable (Note 16)—			
Trade	**103,735**	110,830	**864,458**
Other	**8,682**	6,202	**72,350**
Allowance for doubtful accounts	**(3,650)**	(3,500)	**(30,417)**
Inventories (Note 4)	**42,440**	46,223	**353,667**
Short-term loans (Note 16)	**3,458**	7,491	**28,817**
Deferred tax assets (Note 10)	**11,034**	9,538	**91,950**
Other	**3,899**	4,338	**32,492**
Total current assets	**190,460**	203,155	**1,587,167**
Investments and other assets:			
Investments in securities (Note 5)	**12,389**	18,063	**103,242**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 16)	**74,504**	81,210	**620,867**
Long-term loans	**1,603**	2,558	**13,358**
Long-term prepaid expenses	**2,521**	2,565	**21,008**
Trademarks (Note 8)	**10,305**	9,529	**85,875**
Goodwill and other intangible assets	**7,321**	6,681	**61,008**
Other	**13,838**	14,156	**115,317**
Allowance for doubtful accounts	**(2,850)**	(2,895)	**(23,750)**
Total investments and other assets	**119,631**	131,867	**996,925**
Property, plant and equipment (Notes 7 and 9)**:**			
Land	**40,445**	47,136	**337,042**
Buildings and structures	**118,294**	101,289	**985,783**
Machinery and equipment	**319,917**	313,667	**2,665,975**
Construction in progress	**5,154**	6,589	**42,950**
Accumulated depreciation	**(316,608)**	(289,288)	**(2,638,400)**
Total property, plant and equipment	**167,202**	179,393	**1,393,350**
Total assets	**¥ 477,293**	¥ 514,415	**$ 3,977,442**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 84,304**	¥ 87,651	**$ 702,533**
Current portion of long-term debt (Note 9)	**26,478**	33,967	**220,650**
Notes and accounts payable—			
Trade (Note 16)	**69,751**	68,895	**581,258**
Construction	**4,798**	9,077	**39,983**
Other	**16,228**	13,581	**135,233**
Accrued expenses	**16,216**	16,873	**135,133**
Accrued income taxes (Note 10)	**4,373**	6,473	**36,442**
Other	**7,035**	7,085	**58,626**
Total current liabilities	**229,183**	243,602	**1,909,858**
Long-term liabilities:			
Long-term debt (Note 9)	**109,303**	119,982	**910,858**
Accrued retirement benefits (Note 11)	**11,965**	11,790	**99,708**
Other	**9,919**	17,109	**82,659**
Total long-term liabilities	**131,187**	148,881	**1,093,225**
Minority interest in consolidated subsidiaries	**15,290**	14,541	**127,417**
Shareholders' equity (Notes 14 and 19):			
Common stock—			
Authorized: 800,000,000 shares			
Issued: 242,543,057 shares	**33,905**	33,905	**282,542**
Capital surplus	**28,657**	28,657	**238,808**
Retained earnings	**31,268**	36,365	**260,567**
Net unrealized gains on available-for-sale securities	**2,034**	1,822	**16,950**
Translation adjustments	**5,839**	6,647	**48,658**
	101,703	107,396	**847,525**
Less treasury stock, at cost—			
2002—135,780 shares	**(70)**	—	**(583)**
2001—8,719 shares	**—**	(5)	**—**
Total shareholders' equity	**101,633**	107,391	**846,942**
Contingent liabilities (Note 17)			
Total liabilities and shareholders' equity	**¥477,293**	¥514,415	**$3,977,442**

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	**2002**	2001	**2002**
Net sales (Note 16)	**¥447,893**	¥434,463	**$3,732,442**
Cost of sales (Note 16)	**286,755**	279,074	**2,389,625**
Gross profit	**161,138**	155,389	**1,342,817**
Selling, general and administrative expenses	**129,394**	132,813	**1,078,284**
Operating income	**31,744**	22,576	**264,533**
Other income (expenses):			
Interest and dividend income	**581**	848	**4,842**
Interest expenses	**(2,761)**	(3,739)	**(23,008)**
Loss on sales or disposal of property, plant, and equipment, net	**(1,081)**	(456)	**(9,008)**
Exchange (loss) gain, net	**(131)**	0	**(1,092)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(79)**	(2,866)	**(658)**
Write-down of investments in securities	**(5,609)**	(2,885)	**(46,742)**
Gain on transfer of securities to the employees' retirement benefit trust (Note 11)	**—**	11,063	**—**
Amortization of initial transition cost of pension and severance plans (Note 11)	**(1,203)**	(12,664)	**(10,025)**
Impairment loss in assets of a domestic subsidiary (Note 13)	**—**	(6,898)	**—**
Write-down of golf club memberships	**—**	(3,070)	**—**
Other, net	**(3,818)**	(4,252)	**(31,817)**
	(14,101)	(24,919)	**(117,508)**
Income (loss) before income taxes	**17,643**	(2,343)	**147,025**
Income taxes (Note 10)**:**			
Current	**8,380**	10,023	**69,833**
Deferred	**(420)**	(5,514)	**(3,500)**
	7,960	4,509	**66,333**
Income (loss) before minority interest in consolidated subsidiaries	**9,683**	(6,852)	**80,692**
Minority interest in consolidated subsidiaries	**(1,444)**	(355)	**(12,034)**
Net income (loss)	**¥ 8,239**	¥ (7,207)	**$ 68,658**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income (loss)	**¥33.97**	¥(29.71)	**$0.283**
Cash dividends paid	**10.00**	10.00	**0.083**

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	**2002**	2001	**2002**
Common stock:			
Balance at beginning of year	**¥33,905**	¥33,905	**$282,542**
Balance at end of year	**¥33,905**	¥33,905	**$282,542**
Capital surplus:			
Balance at beginning of year	**¥28,657**	¥28,657	**$238,808**
Balance at end of year	**¥28,657**	¥28,657	**$238,808**
Retained earnings:			
Balance at beginning of year	**¥36,365**	¥47,434	**$303,042**
Net income (loss)	**8,239**	(7,207)	**68,658**
Cash dividends	**(2,425)**	(2,425)	**(20,208)**
Bonuses to directors and statutory auditors	**(11)**	(103)	**(92)**
Other comprehensive income of a foreign affiliate	**(10,850)**	(1,444)	**(90,416)**
Effect of change in reporting entities	**(50)**	110	**(417)**
Balance at end of year	**¥31,268**	¥36,365	**$260,567**

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	**2002**	2001	**2002**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 17,643**	¥ (2,343)	**$ 147,025**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities—			
Depreciation and amortization	**25,163**	24,645	**209,692**
Loss on sales or disposal of property, plant and equipment, net	**1,081**	456	**9,008**
Gain on transfer of securities to the employees' retirement benefit trust	**—**	(11,063)	**—**
Amortization of initial transition cost of pension and severance plans	**1,203**	12,664	**10,025**
Impairment loss in assets of a domestic subsidiary	**—**	6,898	**—**
Write-down of investments in securities	**5,609**	2,885	**46,742**
Write-down of golf club memberships	**—**	3,070	**—**
Equity in losses of unconsolidated subsidiaries and affiliates	**79**	2,866	**658**
Provision for allowance for doubtful accounts	**847**	741	**7,058**
Reversal of accrued pension and severance costs, net of payment	**(967)**	(895)	**(8,058)**
Interest and dividend income	**(581)**	(848)	**(4,842)**
Interest expenses	**2,761**	3,739	**23,008**
Decrease in notes and accounts receivable	**6,810**	7,982	**56,750**
Decrease in inventories	**3,401**	2,538	**28,342**
Increase (decrease) in notes and accounts payable	**791**	(4,327)	**6,592**
Other	**(104)**	2,889	**(867)**
Subtotal	**63,736**	51,897	**531,133**
Interest and dividend received	**1,361**	2,489	**11,342**
Interest paid	**(3,104)**	(3,718)	**(25,867)**
Income taxes paid	**(11,293)**	(8,309)	**(94,108)**
Net cash provided by operating activities	**50,700**	42,359	**422,500**
Cash flows from investing activities:			
Capital expenditures	**(30,557)**	(25,372)	**(254,642)**
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	**673**	659	**5,608**
Acquisition of investments in securities	**(145)**	(215)	**(1,208)**
Proceeds from sales of investments in securities	**161**	29	**1,342**
Acquisition of a consolidated subsidiary, net	**(1,859)**	(1,152)	**(15,492)**
Proceeds from sales of investments in affiliates	**1,000**	—	**8,333**
Acquisition of unconsolidated subsidiaries and affiliates	**(301)**	(1,077)	**(2,508)**
Net increase in short-term loans receivable	**4,169**	820	**34,742**
Decrease in long-term loans receivable	**(3,644)**	(364)	**(30,367)**
Increase in long-term loans receivable	**521**	571	**4,342**
Other	**(1,287)**	817	**(10,725)**
Net cash used in investing activities	**(31,269)**	(25,284)	**(260,575)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**(930)**	(14,013)	**(7,750)**
Proceeds from issuance of long-term debt	**18,298**	32,999	**152,483**
Repayments of long-term debt, including redemption of bonds	**(34,268)**	(28,782)	**(285,567)**
Decrease in lease obligation	**—**	(2,545)	**—**
Dividends paid	**(2,425)**	(2,425)	**(20,208)**
Dividends paid to minority interest	**(243)**	(473)	**(2,025)**
Other	**(60)**	67	**(500)**
Net cash used in financing activities	**(19,628)**	(15,172)	**(163,567)**
Effect of exchange rate changes on cash and cash equivalents	**(195)**	494	**(1,625)**
Net increase (decrease) in cash and cash equivalents	**(392)**	2,397	**(3,267)**
Cash and cash equivalents at beginning of year	**21,167**	17,519	**176,392**
Increase of cash and cash equivalent due to change in reporting entities	**10**	1,251	**83**
Cash and cash equivalents at end of year	**¥ 20,785**	¥ 21,167	**$ 173,208**

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 to the application and disclosure requirements of International Accounting 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 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. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥120=US$1, the approximate current rate prevailing at December 31, 2002, 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 inter-company transactions and accounts are eliminated. 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 inter-company profits.

Zhongshan Sumirubber Precision Rubber Ltd. and a domestic subsidiary previously accounted for under the cost method and a domestic subsidiary previously accounted for under the equity method are included in the consolidation effective from January 1, 2001, as their effects on the financial position and the results of operations became material. In addition, three foreign subsidiaries established in 2001 and a domestic subsidiary acquired in 2001 have been included in the consolidation.

Sumitomo Rubber Asia (Tyre) PTE. LTD., which launched its business from 2002, and a domestic subsidiary are included in the 2002 consolidation.

In the case of a change in the reporting entity, the consolidated financial statements are not restated. The effect of the change at the beginning of the period is directly debited or credited to retained earnings during the period.

The difference between the cost and the underlying net equity in investments in consolidated subsidiaries and companies accounted for on an equity basis at the time of first inclusion in consolidation or adoption of an equity basis is deferred and amortized using the straight line method over a 5-year period. Exceptions to this policy are the difference related to Goodyear Dunlop Tires Europe B.V., which is being amortized over a 10-year period, Falken Tire Corporation, which is being amortized over a 40-year period, and minor differences that are charged or credited to income in the period of acquisition.

(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 maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

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

(3) Translation of foreign currencies

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 rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at average rates of exchange prevailing during the year. The resulting translation differences are shown as a separate component of shareholders' equity.

Effective January 1, 2001, the Company adopted the revised accounting standard for foreign currency translation ("Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999). Due to the adoption of the revised accounting standard, foreign currency translation adjustments are included in shareholders' equity.

All assets and liabilities denominated in foreign currencies are translated into Japanese yen at year-end exchange rates. Prior to January 1, 2001, long-term assets and liabilities denominated in foreign currencies were translated at historical rates. Income and expenses denominated in foreign currencies are translated at the rates prevailing at the time of the transactions. Resulting exchange gains or losses are credited or charged to income as incurred. The effect of adopting the revised accounting standard was immaterial on the consolidated financial statements.

(4) Marketable securities and investments in securities

Prior to January 1, 2001, current and non-current marketable securities were stated at the lower of cost or market. Other securities and investments in non-marketable securities were stated at cost except for those that had been written down as a result of significant impairment in their underlying equity.

Effective January 1, 2001, the Company and its domestic consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments, "Opinion Concerning Establishment of Accounting Standard for Financial Instruments," issued by the Business Accounting Deliberation Council on January 22, 1999. Upon applying the new accounting standard, securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrecognized gains or losses included as a component of shareholders' equity, net of applicable taxes. Securities whose fair values are not readily determinable are carried at cost. Loss from significant decline of the fair values of securities that is not temporary is charged to income. The effect of the adoption of the new accounting standard was to increase loss before income taxes by ¥2,916 million for the year ended December 31, 2001.

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

Derivative financial instruments, which include foreign exchange forward contracts, interest rate swap contracts, and interest rate option (cap) contracts, are used to offset the Company and its consolidated subsidiaries' risk of exposure to fluctuation in interest and currency exchange rates in respect of their financial assets and liabilities in accordance with the Company and its consolidated subsidiaries' internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives that are designated as "hedging instruments."

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 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
Interest rate option (cap) contracts	Short-term borrowings

c. Hedging policy

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

d. Assessment method of hedging effectiveness

The Company and its consolidated subsidiaries evaluate effectiveness of their hedging activities by comparing the cumulative changes in fair value or the cumulative changes in cash flows 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 a certain reference period 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 of the Company, at foreign subsidiaries and held under capitalized leases being depreciated using the straight line method, at rates based on estimated useful lives of the assets. Significant impairment of assets held by a subsidiary is accounted for as a write-down to fair values as further discussed in Note 13.

(9) Accounting for leases

Finance leases which are not subject to transfer of ownership of property to the lessee at the end of the lease term are principally accounted for as operating leases.

(10) Goodwill

Goodwill related to the foreign subsidiaries is stated at cost less accumulated amortization. Goodwill is amortized using the straight line method over the periods of 20 and 40 years. However, the value of goodwill held by a foreign subsidiary is reassessed annually as of December 31.

(11) Trademarks

Trademarks are stated at cost less accumulated amortization. Amortization is computed using the straight line method principally over 10 years.

(12) 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.

(13) Accrued retirement benefits

Effective January 1, 2001, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998. Under the new accounting standard for pensions, 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.

The net effect of adoption of the standard was to increase loss before income taxes for the year ended December 31, 2001 by ¥2,927 million.

Effective from January 1, 2002, the Company has changed its method of accounting for retirement benefits for directors and statutory auditors to provide for the accrued retirement benefits payable to directors and statutory auditors at an amount equivalent to 100% of such benefits for which the Company would be required to pay based on the internal rule. Prior to January 1, 2002, the Company charged retirement benefits for directors and statutory auditors to income when paid.

This change was made in order to reflect more appropriately the allocation of service costs and to reflect more accurately its financial position to its financial statements.

As a result of this change, operating income increased by ¥100 million ($833 thousand), and income before income taxes decreased by ¥220 million ($1,833 thousand) for the year ended December 31, 2002.

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

(14) Income taxes

The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes which, in the case of costs and expenses, are not currently deductible and, in the case of income, are not currently taxable. The Company and its consolidated subsidiaries adopt interperiod income tax allocation accounting with respect to all such temporary differences using the asset and liability method.

(15) Per share amounts

Net income per share is computed based on the average number of shares outstanding during each period. Diluted net income per share is not presented because there were no outstanding common stock equivalents as of December 31, 2002 and 2001.

(16) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accompanying consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(17) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

3. CASH FLOW INFORMATION:

Reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Cash and time deposits	**¥20,862**	¥22,033	**$173,850**
Time deposits with a maturity of over three months	**(53)**	(57)	**(442)**
Short-term loans	**—**	56	**—**
Bank overdraft	**(24)**	(865)	**(200)**
Cash and cash equivalents	**¥20,785**	¥21,167	**$173,208**

4. INVENTORIES:

Inventories at December 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Finished goods	**¥30,694**	¥34,879	**$255,783**
Work in process	**3,461**	3,295	**28,842**
Raw materials	**5,465**	5,407	**45,542**
Supplies	**2,820**	2,642	**23,500**
	¥42,440	¥46,223	**$353,667**

5. INVESTMENTS IN SECURITIES:

At December 31, 2002 and 2001, 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
	2002	2001	**2002**
Available-for-sale securities:			
Cost	**¥ 6,722**	¥12,177	**$56,017**
Book value	**10,276**	15,436	**85,633**
Unrealized gains	**3,888**	3,520	**32,400**
Unrealized losses	**(334)**	(261)	**(2,784)**

Available-for-sale securities sold during the years ended December 31, 2002 and 2001, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Proceeds	**¥1,207**	¥57	**$10,058**
Realized gains	**59**	28	**492**
Realized losses	**(3)**	(0)	**(25)**

6. DERIVATIVE FINANCIAL INSTRUMENTS:

Fair value information of derivative financial instruments at December 31, 2002 and 2001, was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	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	**¥249**	**¥251**	**¥2**	—	—	—	**$2,075**	**$2,092**	**$17**

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	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**	**¥(61)**	**¥ (61)**	¥ 6,000	¥(99)	¥ (99)	**$ 8,333**	**$(508)**	**$ (508)**
Interest rate option (cap) contracts	**6,300**	**55**	**(148)**	9,700	94	(185)	**52,500**	**458**	**(1,234)**
	¥7,300	**¥ (6)**	**¥(209)**	¥15,700	¥ (5)	¥(284)	**$60,833**	**$ (50)**	**$(1,742)**

7. PROPERTY, PLANT AND EQUIPMENT:

The depreciation charges for the years ended December 31, 2002 and 2001 were ¥20,335 million ($169,458 thousand) and ¥20,084 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, 2002 and 2001, amortization charges for capitalized trademarks were ¥1,493 million ($12,442 thousand) and ¥1,445 million, respectively.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings, other than commercial paper, of ¥63,304 million ($527,533 thousand) at December 31, 2002 and ¥73,651 million at December 31, 2001 bore interest ranging from 0.280% to 4.800%, and from 0.300% to 4.700% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥21,000 million ($175,000 thousand) at December 31, 2002 and ¥14,000 million at December 31, 2001 bore interest ranging from 0.045% to 0.089%, and from 0.065% to 0.198% per annum, respectively.

Long-term debt at December 31, 2002 and 2001 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
2.625% unsecured bonds due 2003 payable in Japanese yen	**¥ 5,000**	¥ 5,000	**$ 41,667**
1.800% unsecured bonds due 2002 payable in Japanese yen	**—**	5,000	**—**
2.150% unsecured bonds due 2004 payable in Japanese yen	**5,000**	5,000	**41,667**
2.100% unsecured bonds due 2003 payable in Japanese yen	**10,000**	10,000	**83,333**
1.900% unsecured bonds due 2006 payable in Japanese yen	**10,000**	10,000	**83,333**
0.570% unsecured bonds due 2005 payable in Japanese yen	**10,000**	10,000	**83,333**
0.910% unsecured bonds due 2007 payable in Japanese yen	**10,000**	10,000	**83,333**
0.550% unsecured bonds due 2002 payable in Japanese yen	**—**	6,574	**—**
0.840% unsecured bonds due 2008 payable in Japanese yen	**10,000**	—	**83,333**
Loans payable to banks and other financial institutions due 2003–2033, with interest of 0.56%–4.95% for 2002 and 0.134%–6.85% for 2001			
Secured	**33,101**	35,638	**275,842**
Unsecured	**42,680**	56,737	**355,667**
	135,781	153,949	**1,131,508**
Less portion due within one year	**26,478**	33,967	**220,650**
	¥109,303	¥119,982	**$ 910,858**

The aggregate annual maturities of long-term debt at December 31, 2002 are as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2003	¥ 26,478	$ 220,650
2004	20,098	167,483
2005	25,742	214,517
2006	18,063	150,525
2007	14,954	124,617
2008 and thereafter	30,446	253,716
	¥135,781	$1,131,508

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.

At December 31, 2002 property, plant and equipment amounting to ¥67,102 million ($559,183 thousand), net of accumulated depreciation, were pledged as collateral for long-term debt and short-term borrowings.

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, 2002 and 2001.

Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statements of income for the year ended December 31, 2002 were as follows:

	2002
Normal cumulative statutory tax rate	41.7%
Foreign tax credit in relation to dividends received from foreign subsidiaries and affiliates	(1.8)
Special tax treatment for import promotion	(1.3)
Current operating losses of foreign subsidiaries	4.3
Expenses not deductible for tax purposes	2.3
Change in valuation allowance for deferred tax assets	1.5
Other	(1.6)
Effective tax rate per consolidated statements of income	45.1%

As the Company recorded loss before income taxes for the year ended December 31, 2001, such reconciliation is not required to be presented for 2001.

Significant components of the deferred tax assets and liabilities at December 31 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets—current:			
Provision for doubtful accounts	**¥ 1,505**	¥ 750	**$ 12,542**
Accrued business enterprise tax	**352**	623	**2,933**
Unrealized inter-company profits on inventories	**3,115**	3,035	**25,958**
Impairment in assets of a domestic subsidiary	**2,924**	2,877	**24,367**
Other	**3,138**	2,253	**26,150**
Total	**¥11,034**	¥ 9,538	**$ 91,950**
Deferred tax assets—non-current:			
Unrealized inter-company profits on fixed assets	**393**	443	**3,275**
Provision for accrued pension and severance costs	**1,878**	1,014	**15,650**
Other	**(345)**	730	**(2,875)**
Total	**¥ 1,926**	¥ 2,187	**$ 16,050**
Deferred tax liabilities—current:	**¥ (72)**	¥ (65)	**$ (600)**
Deferred tax liabilities—non-current:			
Deferred gain on sales of property, plant and equipment	**(2,986)**	(3,207)	**(24,883)**
Unrealized gain on land of a consolidated subsidiary	**(1,645)**	(1,645)	**(13,708)**
Provision for accrued pension and severance costs	**939**	1,337	**7,825**
Impairment of investments in subsidiaries	**1,699**	1,069	**14,158**
Unrealized gains on available-for-sale securities	**(1,314)**	(1,090)	**(10,950)**
Other	**(671)**	425	**(5,592)**
Total	**¥(3,978)**	¥(3,111)	**$(33,150)**

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 as described below. 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 has a contributory defined benefit pension plan, which is pursuant to the Japanese Welfare Pension Insurance Law. The pension plan covers a portion of the benefits provided by a government welfare pension program, under which contributions are made by the Company and its employees. The other portion of the pension plan represents a non-contributory pension plan. Under the pension plan, the non-contributory portion covers (i) payments to those employees who have served with the Company for more than 20 years and retire at the age limit and (ii) a 25% portion of the lump-sum retirement indemnities for the employees who are not qualified to receive the annuity payments. Contributions to the plan are deposited with and managed by several financial institutions in accordance with the applicable laws and regulations.

Most of the domestic consolidated subsidiaries have established their own defined benefit pension plans.

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans which 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.

As discussed in Note 2 (13), Significant Accounting Policies, Accrued retirement benefits, effective January 1, 2001, the Company and its domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

Under the new accounting standard for pensions, the excess of the projected benefit obligation over the total of the fair value of pension assets and the liabilities for severance and retirement benefits amounted to ¥17,477 million as of January 1, 2001. Of the excess, ¥11,460 million was charged to income for the year ended December 31, 2001 as a result of the transfer of investment securities to the employees' retirement benefit trust. The remaining initial transition cost amounting to ¥6,016 million is being amortized over a 5-year period from the year ended December 31, 2001.

In the meantime, a gain of ¥11,063 million on the transfer of securities was included in other income in 2001.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of December 31 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Benefit obligation at end of year	**¥(100,434)**	¥(94,725)	**$(836,950)**
Fair value of plan assets at end of year	**61,407**	64,794	**511,725**
Funded status:			
Benefit obligation in excess of plan assets	**(39,027)**	(29,481)	**(325,225)**
Unrecognized initial transition cost at date of adoption	**3,610**	4,813	**30,083**
Unrecognized actuarial losses	**25,085**	14,630	**209,042**
Unrecognized prior service cost	**(1,633)**	(1,752)	**(13,608)**
Accrued retirement benefits	**¥ (11,965)**	¥(11,790)	**$ (99,708)**

The accrued retirement benefits for directors and statutory auditors amounting to ¥444 million ($3,700 thousand) as of December 31, 2002 was excluded from the above schedule.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Service cost	**¥ 4,580**	¥ 3,909	**$ 38,167**
Interest cost	**2,475**	2,572	**20,625**
Expected return on plan assets	**(1,535)**	(1,541)	**(12,792)**
Amortization of transition obligation at date of adoption	**1,203**	12,664	**10,025**
Amortization of actuarial loss	**975**	—	**8,125**
Amortization of prior service cost	**(119)**	(30)	**(992)**
Net periodic benefit costs	**¥ 7,579**	¥17,574	**$ 63,158**

In 2002, 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 3.0%, and from 3.0% to 3.5%, respectively. The discount rate for calculation of benefit obligation as of December 31, 2002 was 2.5%. In 2001, the discount rate and the rate of expected return on plan assets used by the Company and the domestic consolidated subsidiaries were 3.0% and 3.5%, 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 date of adoption 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, 2002 and 2001, were ¥13,596 million ($113,300 thousand) and ¥14,027 million, respectively.

13. IMPAIRMENT LOSS IN ASSETS OF A DOMESTIC SUBSIDIARY:

Impairment loss in assets of a domestic subsidiary are related to the tangible assets of Sakurambo Country Club, Co., Ltd., which operates a golf course, and filed for court-led civil rehabilitation procedures on March 15, 2002.

14. SHAREHOLDERS' EQUITY:

The Company is subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective on October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares with a minimum of the par value thereof to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital were credited to capital surplus. Effective October 1, 2001, the Code was revised to eliminate common stock par value resulting in all shares being recorded with no par value. And the Code required at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital were credited to capital surplus.

The Code provides that all appropriations of retained earnings, except interim cash dividends, must be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, appropriations of retained earnings are not accrued in the financial statements for the year to which they relate but are recorded in the subsequent accounting year after shareholders' approval has been obtained.

The Code provides that an amount equal to at least 10% of cash dividends and directors' bonuses, etc., to be paid should be appropriated as a legal reserve. Before September 30, 2001, no further appropriation was required when the legal reserve equals 25% or more of common stock. Pursuant to the amendments to the Code, no further appropriation is required when the sum of capital surplus and legal reserve equals 25% or more of common stock. If the amount of accumulated capital surplus and legal reserve exceeds the required amount, the excess amount is allowed to be appropriated by a resolution at an ordinary general meeting of shareholders. Legal reserve might be used to reduce a deficit or it might be transferred to common stock by appropriate legal procedures.

15. 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 wear and tennis balls.

Operations in the Industrial and Other Products segment involve the production and sales of a variety of rubbers 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 2002	2001	Thousands of U.S. dollars 2002
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥330,365**	¥315,944	**$2,753,042**
Intersegment sales and transfers	**9**	8	**75**
	330,374	315,952	**2,753,117**
Sports—			
Sales to unaffiliated customers	**64,015**	63,080	**533,458**
Intersegment sales and transfers	**458**	555	**3,817**
	64,473	63,635	**537,275**
Industrial and Other Products—			
Sales to unaffiliated customers	**53,513**	55,439	**445,942**
Intersegment sales and transfers	**33**	33	**275**
	53,546	55,472	**446,217**
Adjustment and eliminations	**(500)**	(596)	**(4,167)**
	¥447,893	¥434,463	**$3,732,442**
Operating income:			
Tires	**¥ 28,124**	¥ 24,247	**$ 234,367**
Sports	**6,393**	2,520	**53,275**
Industrial and Other Products	**(2,852)**	(4,174)	**(23,767)**
	31,665	22,593	**263,875**
Adjustment and eliminations	**79**	(17)	**658**
	¥ 31,744	¥ 22,576	**$ 264,533**
Identifiable assets:			
Tires	**¥373,539**	¥380,192	**$3,112,825**
Sports	**43,376**	65,107	**361,467**
Industrial and Other Products	**42,255**	49,154	**352,125**
	459,170	494,453	**3,826,417**
Corporate assets and eliminations	**18,123**	19,962	**151,025**
	¥477,293	¥514,415	**$3,977,442**
Capital expenditures:			
Tires	**¥ 24,149**	¥ 22,895	**$ 201,242**
Sports	**781**	2,100	**6,508**
Industrial and Other Products	**1,359**	2,275	**11,325**
	26,289	27,270	**219,075**
Corporate assets and eliminations	**7**	1,497	**58**
	¥ 26,296	¥ 28,767	**$ 219,133**
Depreciation and amortization:			
Tires	**¥ 19,513**	¥ 18,584	**$ 162,608**
Sports	**2,292**	2,459	**19,100**
Industrial and Other Products	**3,327**	3,547	**27,725**
	25,132	24,590	**209,433**
Corporate assets and eliminations	**31**	55	**259**
	¥ 25,163	¥ 24,645	**$ 209,692**

(2) Information by geographic area

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2002**	2001	**2002**
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥396,772**	¥391,849	**$3,306,433**
Sales between geographic areas	**14,313**	7,828	**119,275**
	411,085	399,677	**3,425,708**
Other—			
Sales to unaffiliated customers	**51,121**	42,614	**426,009**
Sales between geographic areas	**4,517**	4,072	**37,642**
	55,638	46,686	**463,651**
	466,723	446,363	**3,889,359**
Adjustment and eliminations	**(18,830)**	(11,900)	**(156,917)**
	¥447,893	¥434,463	**$3,732,442**
Operating income:			
Japan	**¥ 32,393**	¥ 25,494	**$ 269,942**
Other	**(919)**	(2,748)	**(7,659)**
	31,474	22,746	**262,283**
Adjustment and eliminations	**270**	(170)	**2,250**
	¥ 31,744	¥ 22,576	**$ 264,533**
Identifiable assets:			
Japan	**¥395,313**	¥439,566	**$3,294,275**
Other	**62,163**	61,475	**518,025**
	457,476	501,041	**3,812,300**
Corporate assets and eliminations	**19,817**	13,374	**165,142**
	¥477,293	¥514,415	**$3,977,442**

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2002**	2001	**2002**
Net sales:			
North America	**¥ 36,379**	¥ 23,747	**$ 303,158**
Europe	**37,594**	38,996	**313,283**
Asia	**29,776**	28,424	**248,133**
Other areas	**21,664**	18,193	**180,534**
Total	**¥125,413**	¥109,360	**$1,045,108**
	Percentage		
Percentage of such sales in consolidated net sales	**28.0%**	25.2%	

16. RELATED PARTY TRANSACTIONS:

Significant balances and transactions with unconsolidated subsidiaries and affiliates at December 31, 2002 and 2001 and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Notes and accounts receivables:			
Trade	**¥ 2,871**	¥ 3,390	**$ 23,925**
Other	**145**	257	**1,208**
	¥ 3,016	¥ 3,647	**$ 25,133**
Short-term loans	**¥ 2,711**	¥ 6,588	**$ 22,592**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**¥ 3,170**	¥ 160	**$ 26,417**
Notes and accounts payable, trade	**¥ 4,087**	¥ 4,752	**$ 34,058**
Sales	**¥14,229**	¥21,048	**$118,575**
Purchases	**¥10,450**	¥11,453	**$ 87,083**

17. CONTINGENT LIABILITIES:

At December 31, 2002 the Company and its consolidated subsidiaries were contingently liable for:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	**¥1,646**	**$13,717**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**803**	**6,692**

18. 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, for December 31, 2002 and 2001 were as follows:

As of December 31, 2002:

	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	**¥7,596**	**¥4,119**	**¥3,477**	**$63,300**	**$34,325**	**$28,975**
Other	**728**	**611**	**117**	**6,067**	**5,092**	**975**
Total	**¥8,324**	**¥4,730**	**¥3,594**	**$69,367**	**$39,417**	**$29,950**

As of December 31, 2001:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥7,725	¥4,059	¥3,666
Other	671	497	174
Total	¥8,396	¥4,556	¥3,840

Lease payments under non-capitalized finance leases for the years ended December 31, 2002 and 2001, amounted to ¥1,702 million ($14,183 thousand) and ¥1,797 million, respectively.

The balances of future finance lease payments, including interest, at December 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	**¥1,460**	¥1,543	**$12,167**
Due later	**2,134**	2,297	**17,783**
	¥3,594	¥3,840	**$29,950**

The future lease payments under noncancelable operating leases, including interest, at December 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	**¥ 258**	¥ 256	**$ 2,150**
Due later	**877**	1,747	**7,308**
	¥1,135	¥2,003	**$ 9,458**

19. SUBSEQUENT EVENTS:

(1) Return of the substituted portion of the employee pension fund to the government

In conjunction with the enforcement of the Defined Benefit Enterprise Pension Law, the Company and major domestic consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare for exemption from the obligation of the future benefit payment regarding the entrusted government's portion of the employee welfare pension funds, which is referred to in Note 11, on January 30, 2003.

The Company and major domestic consolidated subsidiaries applied the transitional treatment specified in paragraph 47-2 of Accounting Committee Report No. 13, "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)," issued by the Japanese Institute of Certified Public Accountants, and recognized an extinguishment of retirement benefit obligation with respect to such entrusted government's portion as of the date of the approval.

As a result, the Company anticipates to record a gain on the extinguishment of ¥1,704 million ($14,200 thousand) in the consolidated statements of income for the fiscal year ending December 31, 2003.

(2) Appropriations of retained earnings

The following appropriations of retained earnings of the Company were proposed and approved at the general meeting of shareholders held on March 28, 2003:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2002	**¥56,661**	**$472,175**
Appropriations—		
Cash dividends (¥6 per share outstanding at December 31, 2002)	**(1,454)**	**(12,117)**
Bonuses to directors and statutory auditors	**(80)**	**(667)**
Balance after appropriations	**¥55,127**	**$459,391**

(3) Merger plan

At the Board of Directors meeting held on February 24, 2003, it was resolved that the Company will merge with The Ohtsu Tire & Rubber Co., Ltd. ("Ohtsu"), which is a 51%-owned consolidated subsidiary of the Company, effective on July 1, 2003. The Company will allot its treasury stock to Ohtsu's shareholders other than the Company as of June 30, 2003, to exchange one ordinary share of Ohtsu with 0.4 ordinary share of the Company. When the balance of treasury stock is not enough to allot to Ohtsu's shareholders at that date, additional stock will be newly issued. The merger plan was approved at the shareholders meeting held on March 28, 2003.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

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

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 2 (13) to the financial statements, the Company changed accounting policy for retirement benefits for directors and statutory auditors during the year ended December 31, 2002.

As discussed in Notes 2 (3), (4), (5), (13) and 11 to the financial statements, the Company and its consolidated subsidiaries have changed their accounting method for employees' retirement benefits, foreign currency translation and financial instruments including hedges and valuation of securities as they have adopted the new relevant Japanese accounting standards during the year ended December 31, 2001.

The amounts expressed in U.S. dollars have been provided solely for the convenience of readers and have been translated on the basis set forth in Note 1 to the financial statements.

PricewaterhouseCoopers

March 28, 2003

* *

(Notice to readers)

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accordingly, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows and their utilization are not designed for those who are not informed about Japanese accounting principles, procedures and practices.

The standards, procedures and practices utilized in Japan to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than Japan.

DIRECTORY

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

Overseas Offices

Los Angeles Office
438 Amapola Avenue
Suite 100
Torrance, CA 90501, U.S.A.

Toronto Office
c/o Goodyear Canada Inc.
450 Kipling Ave., Toronto,
Ontario M8Z 5E1, Canada

Atlanta Office
1850 Beaver Ridge Circle,
Suite D
Norcross, GA 30071, U.S.A.

Brussels Office
Park Lane
Cullinganlaan 2A
B-1831 Diegem, Belgium

Melbourne Office
c/o SPT Distribution Centre
O'Herns Road, Somerton,
Victoria 3062, Australia

Dubai Office
c/o EASA SALEH AL GURG
P.O. Box 325, Dubai, UAE

Jeddah Office
c/o BINZAGR COMPANY
P.O. Box 54, Jeddah 21411
Saudi Arabia

Singapore Office
1 Maritime Square
#09-58 World Trade Center
Singapore 099253, Singapore

Beijing Office
No. 905 Beijing Fortune Building
No. 5 Dong San Huan Bei Lu,
Chao Yang District
Beijing 100004, China

Santiago Office
Henyada 60, Oficina 802,
Las Condes, Santiago, Chile

Major Subsidiaries

The Ohtsu Tire & Rubber Co., Ltd.
Izumiohtsu, Japan

Dunlop Goodyear Tires Ltd.
Koto-ku, Tokyo, Japan

Goodyear Japan Ltd.
Minato-ku, Tokyo, Japan

P.T. Sumi Rubber Indonesia
Jakarta, Indonesia

Oniris S.A.S.
Limay, France

Dunlop TECH GmbH
Hanau, Germany

Sumirubber Industries (Malaysia) Sdn. Bhd.
Sungai Petani, Kedah, Malaysia

Sumirubber Industries (Kedah) Sdn. Bhd.
Sungai Petani, Kedah, Malaysia

Zhongshan Sumirubber Precision Rubber Ltd.
Zhongshan, Guangdong, China

Sumitomo Rubber Asia (Tyre) Pte. Ltd.
Singapore, Singapore

Srixon Sports USA, Inc.
Georgia, U.S.A.

Srixon Sports Asia Sdn. Bhd.
Salangor Darul Ehsan, Malaysia

Srixon Sports Europe Ltd.
Alton, Hampshire, U.K.

Srixon Sports Australasia Pty Ltd.
Sydney, Australia

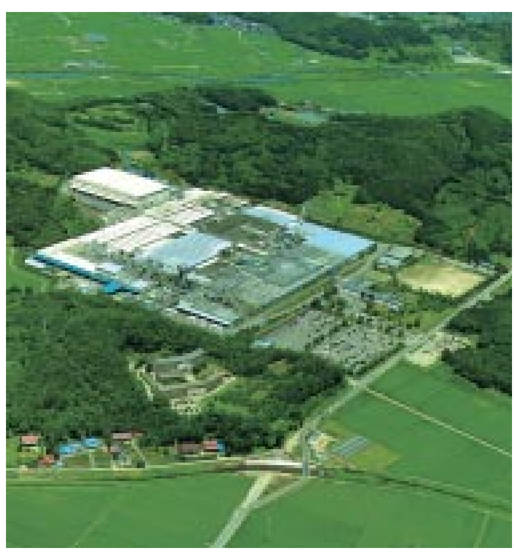
Major Affiliates

Goodyear Dunlop Tires Europe B.V.
Amsterdam, Holland

Goodyear Dunlop Tires North America, Ltd.
Akron, Ohio, U.S.A.

Goodyear-SRI Global Purchasing Co.
Akron, Ohio, U.S.A.


Nagoya Factory


Shirakawa Factory


Ichijima Factory


Kakogawa Factory


Izumiohtsu Factory (Ohtsu Tire)


Miyazaki Factory (Ohtsu Tire)


Sumi Rubber Indonesia


Sumirubber Industries (Malaysia)

CORPORATE DATA

Board of Directors

Chairman
Naoto Saito

President
Mitsuaki Asai*

Managing Executive Officers
Tetsuji Mino*
Toshiyuki Noguchi*
Ryochi Sawada*

Senior Executive Officers
Akihiko Nakamura
Hisao Takahashi
Koji Soeda
Yasuyuki Sasaki

Directors
Norio Okayama
Samir G. Gibara

*Representative Directors

Auditors

Shigeki Okada
Hiroo Jikihara
Sumao Tokumasu
Kimio Toma

Executive Officers

Tsunetoshi Yamaura
Hiroshi Okuno
Mikio Takatsu
Yoshinori Yamada
Hiroyuki Bamba
Takaki Nakano
Masatoshi Tsuchi
Takayuki Saimen
Susumu Shiotani
Hiroaki Tanaka
Yasushi Nojiri
Ikuji Ikeda

(As of March 28, 2003)

Investor Information

Paid-in Capital
¥33,904,513 thousand

Number of Common Stock
Authorized: 800,000,000
Issued: 242,543,057

Number of Shareholders
9,180

Major Shareholders

Sumitomo Electric Industries, Ltd.	27.9%
The Goodyear Tire & Rubber Company	10.0%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7.1%
Japan Trustee Service Bank, Ltd. (Trust Account)	5.6%
Shinsei Bank, Limited	4.0%
Sumitomo Corporation	4.0%
Sumitomo Mitsui Banking Corporation	2.2%
UFJ Trust Bank Limited (Trust Account A)	1.4%
Trust & Custody Services Bank, Ltd. (Trust Account A)	1.4%
Nippon Life Insurance Company (Separate Account—Pension)	1.4%

Stock Exchange Listings
Tokyo, Osaka, Nagoya

Ticker Symbol
5110

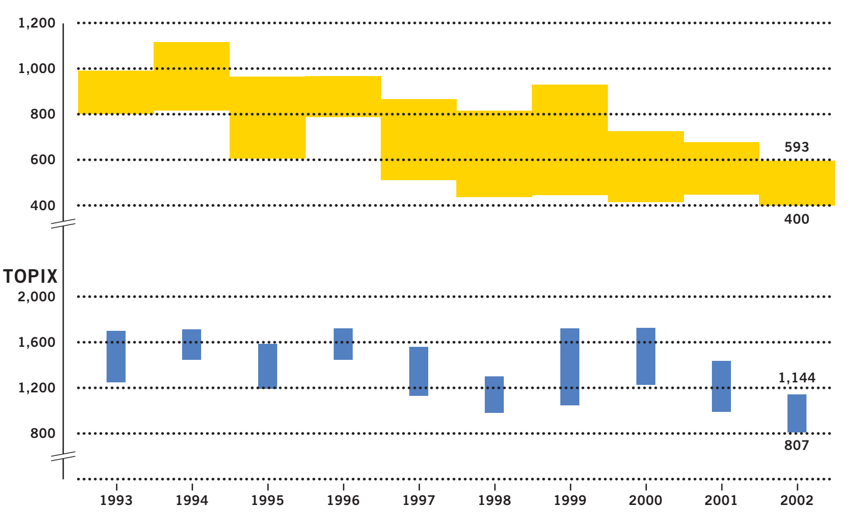
Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.
5-33, 4-chome, Kitahama, Chuo-ku,
Osaka 541-0041, Japan

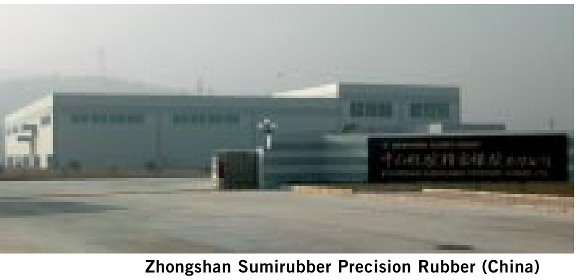
Independent Accountants
PricewaterhouseCoopers
Nakanoshima Mitsui Bldg., 16th Floor
3-3-3, Nakanoshima, Kita-ku,
Osaka 530-8248, Japan

Investor Relations
Public Relations 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, 2002)

Stock Price (Yen)





Zhongshan Sumirubber Precision Rubber (China)