

TO OUR SHAREHOLDERS

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.

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.

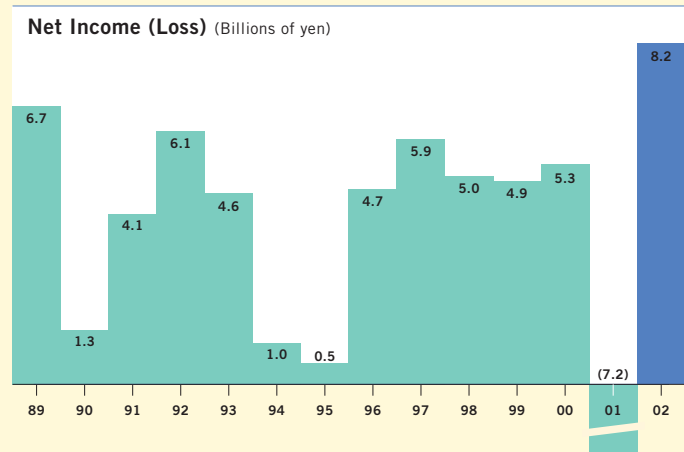
Fiscal 2002 Results—V-Shaped Recovery

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.



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.



Thousands of
U.S. dollars,
except per
share figures

Millions of yen, except per share figures

Years ended December 31	2002	2001	2000	1999	1998	1997	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

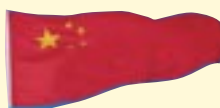


May

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.

Dunlop 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 (zékisio) 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 busi-

ness 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.

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
President

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