

## 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.*

**a renewed  
platform**

1

**specialized  
products**

3

**a global  
network**

2

**innovative  
tire technology**

4

**driven by a renewed**

**S**umitomo 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.

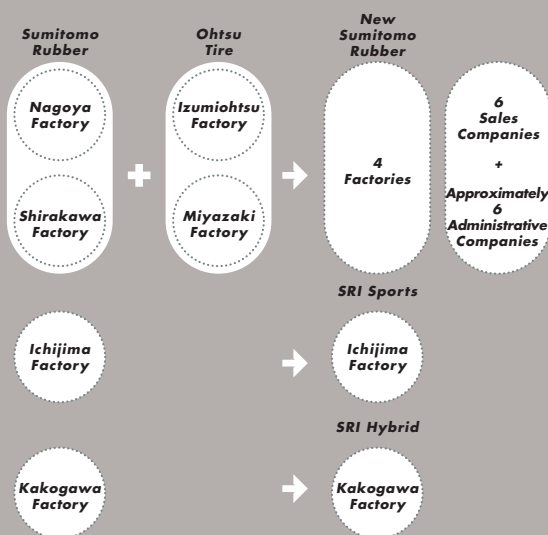
The Sports and Industrial Products businesses will be spun off into two new companies, SRI Sports Limited and SRI Hybrid Limited, to manage operations. Both of these

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.

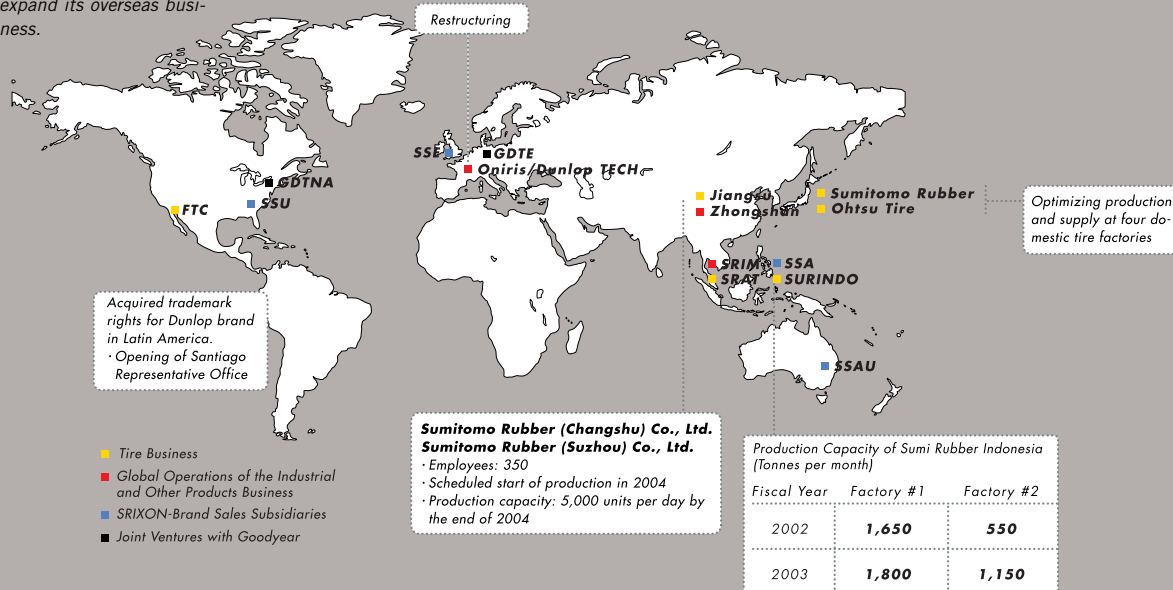
Following the implementation of structural reforms, decision making for the Group is vested in Sumitomo Rubber, in its capacity as the core Group company. The core Group company is also responsible for managing the Group's Tire business. In the Tire business, Sumitomo Rubber will establish sales companies 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.



**S**umitomo 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.

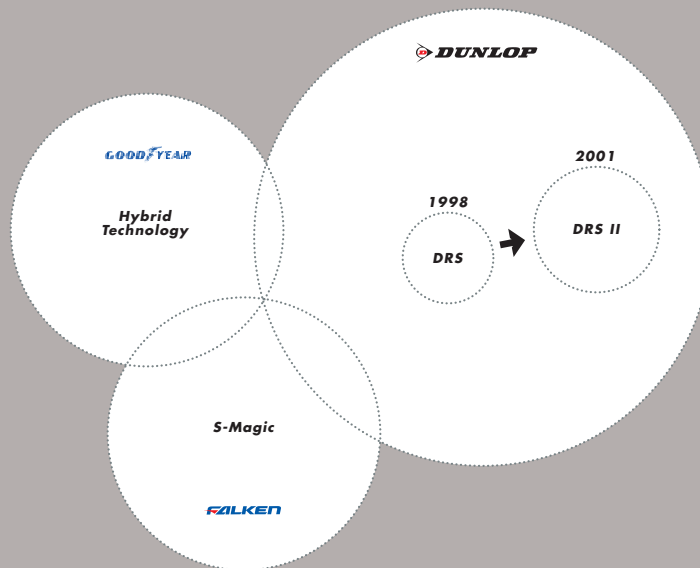
Digital Impact technology for golf goods uses a cutting-edge supercomputer to digitally simulate and precisely analyze the moment of impact in units of 1/100,000,000 of a second. As a flagship technology similar to Digi-Tyre, Digital Impact distinguishes Sumitomo Rubber from the competition by creating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

**S**umitomo 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

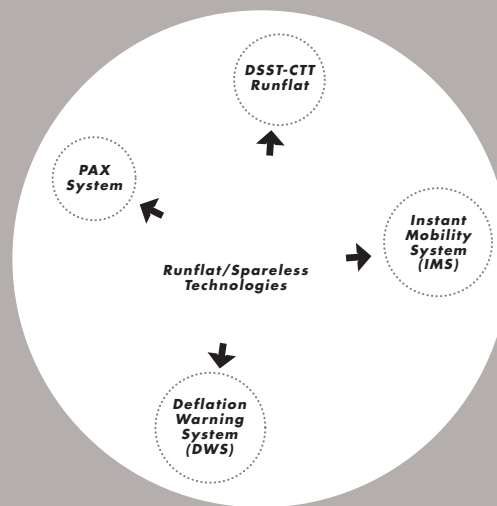
Based on a licensing agreement with Michelin, Sumitomo Rubber develops, manufactures and markets the PAX System under the Dunlop brand name. Four tire manufacturers in Japan, the United States and Europe, including Pirelli and Goodyear,

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



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**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