CONSOLIDATED BALANCE SHEETS

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2001**	2000	**2001**
Assets			
Current assets:			
Cash and time deposits	**¥ 22,033**	¥ 17,921	**$ 166,917**
Marketable securities (Note 5)	**—**	3	**—**
Notes and accounts receivable (Note 15)—			
Trade	**110,830**	118,681	**839,621**
Other	**6,202**	5,388	**46,985**
Allowance for doubtful accounts	**(3,500)**	(6,150)	**(26,515)**
Inventories (Note 4)	**46,223**	47,749	**350,174**
Short-term loans (Note 15)	**7,491**	6,015	**56,750**
Deferred tax assets (Note 10)	**9,538**	6,801	**72,258**
Other	**4,338**	3,406	**32,864**
Total current assets	**203,155**	199,814	**1,539,054**
Investments and other assets:			
Investments in securities (Note 5)	**18,063**	20,755	**136,841**
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 5 and 15)	**81,210**	85,048	**615,227**
Long-term loans	**2,558**	2,417	**19,379**
Long-term prepaid expenses	**2,565**	2,306	**19,432**
Trademarks (Note 8)	**9,529**	10,817	**72,189**
Goodwill and other intangible assets	**6,681**	6,027	**50,614**
Other	**14,156**	14,110	**107,242**
Allowance for doubtful accounts	**(2,895)**	(1,550)	**(21,932)**
Total investments and other assets	**131,867**	139,930	**998,992**
Property, plant and equipment (Notes 7 and 9):			
Land	**47,136**	50,800	**357,091**
Buildings and structures	**101,289**	117,447	**767,341**
Machinery and equipment	**313,667**	304,014	**2,376,265**
Construction in progress	**6,589**	4,328	**49,917**
Accumulated depreciation	**(289,288)**	(295,172)	**(2,191,576)**
Total property, plant and equipment	**179,393**	181,417	**1,359,038**
Translation adjustments	**—**	2,399	**—**
Total assets	**¥514,415**	¥523,560	**$3,897,084**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 87,651**	¥100,051	**$ 664,023**
Current portion of long-term debt (Note 9)	**33,967**	26,925	**257,326**
Notes and accounts payable—			
Trade (Note 15)	**68,895**	72,680	**521,932**
Construction	**9,077**	6,114	**68,765**
Other	**13,581**	12,896	**102,886**
Accrued expenses	**16,873**	14,157	**127,826**
Accrued income taxes (Note 10)	**6,473**	4,424	**49,038**
Other	**7,085**	8,796	**53,674**
Total current liabilities	**243,602**	246,043	**1,845,470**
Long-term liabilities:			
Long-term debt (Note 9)	**119,982**	122,622	**908,955**
Accrued pension and severance costs (Note 11)	**11,605**	14,061	**87,917**
Other	**17,294**	17,367	**131,015**
Total long-term liabilities	**148,881**	154,050	**1,127,887**
Minority interest in consolidated subsidiaries	**14,541**	13,472	**110,159**
Shareholders' equity (Notes 13 and 18):			
Common stock—			
Authorized: 800,000,000 shares			
Issued: 242,543,057 shares	**33,905**	33,905	**256,856**
Capital surplus	**28,657**	28,657	**217,098**
Retained earnings	**36,365**	47,434	**275,492**
Net unrealized gains on available-for-sale securities	**1,822**	—	**13,803**
Translation adjustments	**6,647**	—	**50,357**
	107,396	109,996	**813,606**
Less treasury stock, at cost—			
2001—8,719 shares	**(5)**	—	**(38)**
2000—1,550 shares	**—**	(1)	**—**
Total shareholders' equity	**107,391**	109,995	**813,568**
Contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	**¥514,415**	¥523,560	**$3,897,084**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Rubber Industries, Ltd. and its Consolidated Subsidiaries

Years ended December 31	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Net sales (Note 15)	**¥434,463**	¥423,247	**$3,291,386**
Cost of sales (Note 15)	**279,074**	273,451	**2,114,197**
Gross profit	**155,389**	149,796	**1,177,189**
Selling, general and administrative expenses	**132,813**	124,355	**1,006,159**
Operating income	**22,576**	25,441	**171,030**
Other income (expenses):			
Interest and dividend income	**848**	1,042	**6,424**
Interest expenses	**(3,739)**	(5,408)	**(28,326)**
Loss on sales or disposal of property, plant, and equipment, net	**(456)**	(504)	**(3,454)**
Exchange loss, net	**0**	147	**0**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**(2,866)**	1,232	**(21,712)**
Gain on transfer of securities to employees' retirement benefit trust (Note 11)	**11,063**	—	**83,811**
Amortization and write off of initial transition cost of pension and severance plans (Note 11)	**(12,664)**	—	**(95,939)**
Impairment loss in assets of a domestic subsidiary (Note 12)	**(6,898)**	—	**(52,258)**
Loss on write down of golf club memberships	**(3,070)**	(1,664)	**(23,258)**
Write down of investments in securities	**(2,885)**	(4,811)	**(21,856)**
Other, net	**(4,252)**	(1,644)	**(32,212)**
	(24,919)	(11,610)	**(188,780)**
Income (loss) before income taxes	**(2,343)**	13,831	**(17,750)**
Income taxes (Note 10):			
Current	**10,023**	7,575	**75,932**
Deferred	**(5,514)**	(50)	**(41,773)**
	4,509	7,525	**34,159**
Income (loss) before minority interest in consolidated subsidiaries	**(6,852)**	6,306	**(51,909)**
Minority interest in consolidated subsidiaries	**(355)**	(971)	**(2,689)**
Net income (loss)	**¥ (7,207)**	¥ 5,335	**$ (54,598)**

	Yen 2001	Yen 2000	U.S. dollars (Note 1) 2001
Per share amounts:			
Net income (loss)	**¥ (29.71)**	¥ 23.24	**$ (0.225)**
Cash dividends paid	**10.00**	10.00	**0.076**

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	**2001**	2000	**2001**
Common stock:			
Balance at beginning of year	**¥33,905**	¥27,356	**$256,856**
Shares issued upon conversion of convertible note	**—**	6,549	**—**
Balance at end of year	**¥33,905**	¥33,905	**$256,856**
Capital surplus:			
Balance at beginning of year	**¥28,657**	¥22,133	**$217,098**
Proceeds in excess of the amounts credited to common stock upon conversion of convertible note	**—**	6,524	**—**
Balance at end of year	**¥28,657**	¥28,657	**$217,098**
Retained earnings:			
Balance at beginning of year	**¥47,434**	¥47,987	**$359,348**
Cumulative effect of change in accounting for income taxes (Note 2(14))	**—**	(753)	**—**
Net income (loss)	**(7,207)**	5,335	**(54,598)**
Cash dividends	**(2,425)**	(1,965)	**(18,371)**
Bonuses to directors and corporate auditors	**(103)**	(88)	**(781)**
Other comprehensive income of foreign affiliate	**(1,444)**	—	**(10,939)**
Effect of change in reporting entities	**110**	(3,082)	**833**
Balance at end of year	**¥36,365**	¥47,434	**$275,492**

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	**2001**	2000	**2001**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ (2,343)**	¥ 13,831	**$ (17,750)**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities—			
Depreciation and amortization	**24,645**	25,275	**186,704**
Loss on sales or disposal of property, plant and equipment, net	**456**	504	**3,454**
Write down of investments in securities	**2,885**	4,811	**21,856**
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	**2,866**	(1,232)	**21,712**
Gain on transfer of securities to employees' retirement benefit trust	**(11,063)**	—	**(83,811)**
Amortization and write off of initial transition cost of pension and severance plans	**12,664**	—	**95,939**
Impairment loss in assets of a domestic subsidiary	**6,898**	—	**52,258**
Loss on write down of golf club memberships	**3,070**	1,664	**23,258**
Provision for allowance for doubtful accounts	**741**	854	**5,614**
Reversal of accrued pension and severance costs, net of payment	**(895)**	(2,629)	**(6,780)**
Interest and dividend income	**(848)**	(1,042)	**(6,424)**
Interest expenses	**3,739**	5,408	**28,326**
Decrease (increase) in notes and accounts receivable	**7,982**	(1,196)	**60,470**
Decrease in inventories	**2,538**	6,593	**19,227**
Decrease in notes and accounts payable	**(4,327)**	(3,723)	**(32,780)**
Increase in accrued expenses	**2,535**	784	**19,204**
Other	**354**	1,069	**2,682**
Sub total	**51,897**	50,971	**393,159**
Interest and dividend received	**2,489**	3,905	**18,856**
Interest paid	**(3,718)**	(5,590)	**(28,166)**
Income taxes paid	**(8,309)**	(13,200)	**(62,947)**
Net cash provided by operating activities	**42,359**	36,086	**320,902**
Cash flows from investing activities:			
Capital expenditures	**(25,372)**	(19,944)	**(192,212)**
Proceeds from sales of property, plant and equipment, net of related outstanding receivables	**659**	1,096	**4,992**
Acquisition of investments in securities	**(215)**	(1,644)	**(1,629)**
Proceeds from sales of investments in securities	**29**	617	**220**
Acquisition of a consolidated subsidiary, net	**(1,152)**	—	**(8,727)**
Acquisition of investments in unconsolidated subsidiaries and affiliates	**(1,077)**	(2,254)	**(8,159)**
Other	**1,844**	420	**13,970**
Net cash used in investing activities	**(25,284)**	(21,709)	**(191,545)**
Cash flows from financing activities:			
Net decrease in short-term borrowings	**(14,013)**	(14,135)	**(106,159)**
Proceeds from issuance of long-term debt	**32,999**	7,135	**249,992**
Repayments of long-term debt, including redemption of bonds	**(28,782)**	(15,930)	**(218,046)**
Decrease in lease obligation	**(2,545)**	(382)	**(19,280)**
Dividends paid	**(2,425)**	(1,965)	**(18,371)**
Dividends paid to minority interest	**(473)**	(299)	**(3,583)**
Other	**67**	—	**508**
Net cash used in financing activities	**(15,172)**	(25,576)	**(114,939)**
Effect of exchange rate changes on cash and cash equivalents	**494**	535	**3,741**
Net increase (decrease) in cash and cash equivalents	**2,397**	(10,664)	**18,159**
Cash and cash equivalents at beginning of year	**17,519**	20,868	**132,720**
Increase of cash and cash equivalent due to change in reporting entities	**1,251**	7,315	**9,477**
Cash and cash equivalents at end of year	**¥ 21,167**	¥ 17,519	**$ 160,356**

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 ¥132=US$1, the approximate current rate prevailing on December 31, 2001, 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.

In accordance with the revised Accounting Standard for Consolidation which is effective from the year ended December 31, 2000, a company which is substantially controlled by the Company is defined as a consolidated subsidiary and is included in the consolidation as well as majority-owned subsidiaries. The Ohtsu Tire & Rubber Co., Ltd. with its subsidiaries, which was previously accounted for under the equity method are newly included in the consolidated financial statements. A domestic subsidiary previously accounted for under the cost method is also included in the consolidation, because its effect on the financial position and the results of operations become material.

Zhongshan Sumirubber Precision Rubber Ltd. and a domestic subsidiary previously accounted for under the cost method are included in the 2001 consolidation. Also, a domestic subsidiary previously accounted for under the equity method is included in the 2001 consolidation. Those effects on the financial position and the results of operations become material. In addition, three foreign subsidiaries established in 2001 and a domestic subsidiary acquired in 2001 are included in the 2001 consolidation.

In the case of change in the reporting entity, the consolidated financial statements are not restated. The effect of the change at 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 is deferred and amortized using the straight line method over a 5-year period. Exceptions to this policy are the differences related to Goodyear Dunlop Tires Europe B.V. which is being amortized over a 10-year period, and Falken Tire Corporation which is being amortized over a 40-year period and minor differences which are charged or credited to income in the period of acquisition.

(2) Consolidated statements of cash flows

The form of accompanying consolidated statement of cash flows is defined by the Financial Services Agency of Japan. The statement of cash flows for the year ended December 31, 2000 was modified to conform to the new form.

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 and minority interests at December 31, 2001.

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 and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

All assets and liabilities denominated in foreign currency 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 have been written down as a result of 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 aren't readily determinable are carried at cost.

Loss from permanent impairment of securities is charged to income.

The cost of securities sold are determined based on the average cost of all shares of the securities held at the time of sale.

The effect of the adoption of the new accounting standard was to increase loss before income taxes by ¥2,916 million ($22,091 thousand) for the year ended December 31, 2001.

(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 adopted 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 hedging 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 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 write down to fair values as further discussed in Note 12.

(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. Such expenses for the years ended December 31, 2001 and 2000, were ¥14,027 million ($106,265 thousand) and ¥13,166 million, respectively.

(13) Accrued pension and severance costs, and postretirement benefits other than pensions
The employees of the Company or consolidated subsidiaries who are not covered by the non-contributory pension plans discussed in Note 11 are entitled to lump-sum indemnities when they retire from their respective companies. For these employees, the Company and its consolidated subsidiaries accrue severance costs which are sufficient to state the liabilities at the amount required if all employees voluntarily retired at the end of each fiscal year.

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 (the “New Accounting Standard for Pensions”). Under the New Accounting Standard for Pensions, the liabilities and expenses for retirement and severance benefits at December 31, 2001 are accounted for based on the estimated amounts of projected benefit obligation and plan assets at that 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 ($22,174 thousand).

(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.

Effective January 1, 1999, the Company and its domestic consolidated subsidiaries adopted interperiod income tax allocation accounting with respect to all such temporary differences using the asset and liability method in accordance with an amendment of the Japanese Securities and Exchange Law and related accounting regulations. Before 1999 the deferred method was applied. The cumulative effect of changing from the deferred method to the asset and liability method was debited to retained earnings as a cumulative effect of change in accounting for income taxes. The cumulative effect of change in accounting for income taxes for the year ended December 31, 2000 was related to the Ohtsu Tire & Rubber Co., Ltd. which was included in the Company's consolidation in 2000.

(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, 2001 and 2000.

(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) Accounting change

Effective January 1, 2000, the Company has changed the accounting for technical aid income and technical aid expenses to include them in net sales and cost of sales from other income (expenses), respectively. The Company believes that technical aid activities are to be considered as a result of operating activities, and the amount has become material. This change results in more appropriate presentation of income statements.

As a result of this change, net sales increased by ¥2,728 million and operating income increased by ¥1,665 million. However, there were no impact on income before income taxes.

(18) 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, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Cash and time deposits	**¥22,033**	¥17,921	**$166,917**
Time deposits with a maturity of over three months	**(57)**	(224)	**(432)**
Short-term loans	**56**	—	**424**
Bank overdraft	**(865)**	(178)	**(6,553)**
Cash and cash equivalents	**¥21,167**	¥17,519	**$160,356**
Non-cash financing activities:			
Conversion of convertible notes into common stock and capital surplus	**—**	¥13,073	**—**

4. Inventories:

Inventories at December 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished goods	**¥34,879**	¥37,945	**$264,235**
Work in process	**3,295**	3,279	**24,962**
Raw materials	**5,407**	4,337	**40,962**
Supplies	**2,642**	2,188	**20,015**
	¥46,223	¥47,749	**$350,174**

5. Marketable Equity Securities:

At December 31, 2001, cost, book value and the related unrealized gains and losses pertaining to available-for-sale securities with readily determinable fair values were as follows:

	Millions of yen				Thousands of U.S. dollars			
Available-for-sale securities	Cost	Book value	Unrealized gains	Unrealized losses	Cost	Book value	Unrealized gains	Unrealized losses
	¥12,177	**¥15,436**	**¥3,520**	**¥(261)**	**$92,250**	**$116,939**	**$26,666**	**$(1,977)**

The cost and market value of marketable equity securities included in marketable securities (current assets) and investments in securities and investments in and advances to unconsolidated subsidiaries and affiliates (non-current assets) at December 31, 2000 were as follows:

	Millions of yen	
	Current	Non-current
Cost	¥3	¥11,435
Market	4	23,410
Net unrealized gain	¥1	¥11,975

6. Derivative Financial Instruments:

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

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Interest rate related contracts						
Interest rate swap contracts:						
Receive variable rate, give fixed rate	**¥ 6,000**	**¥(99)**	**¥ (99)**	**$ 45,454**	**$(750)**	**$ (750)**
Interest rate option (cap) contracts:	**9,700**	**94**	**(185)**	**73,485**	**712**	**(1,402)**
	¥15,700	**¥ (5)**	**¥(284)**	**$118,939**	**$ (38)**	**$(2,152)**

7. Property, Plant and Equipment:

The depreciation charges for the years ended December 31, 2001 and 2000 were ¥20,084 million ($152,152 thousand) and ¥20,410 million, respectively. Estimated useful lives of the major classes of depreciable assets ranged from 2 to 65 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, 2001 and 2000, amortization charges for capitalized trademarks were ¥1,445 million ($10,947 thousand) and ¥1,441 million, respectively.

9. Short-Term Borrowings and Long-Term Debt:

Short-term borrowings, other than commercial paper, of ¥73,651 million ($557,962 thousand) at December 31, 2001 and ¥100,051 million at December 31, 2000 bore interest ranging from 0.300% to 4.700% and 0.63% to 8.55% per annum, respectively.

Commercial paper, included in short-term borrowings, of ¥14,000 million ($106,061 thousand) at December 31, 2001, bore interest ranging from 0.065% to 0.198% per annum.

Long-term debt at December 31, 2001 and 2000 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
2.150% unsecured bonds due 2001 payable in Japanese yen	**¥ —**	¥ 5,000	**$ —**
2.625% unsecured bonds due 2003 payable in Japanese yen	**5,000**	5,000	**37,878**
1.800% unsecured bonds due 2002 payable in Japanese yen	**5,000**	5,000	**37,878**
2.150% unsecured bonds due 2004 payable in Japanese yen	**5,000**	5,000	**37,878**
2.100% unsecured bonds due 2003 payable in Japanese yen	**10,000**	10,000	**75,758**
1.900% unsecured bonds due 2006 payable in Japanese yen	**10,000**	10,000	**75,758**
0.570% unsecured bonds due 2005 payable in Japanese yen	**10,000**	—	**75,758**
0.910% unsecured bonds due 2007 payable in Japanese yen	**10,000**	—	**75,758**
0.550% unsecured bonds due 2002 payable in Japanese yen	**6,574**	6,574	**49,803**
Loans payable to banks and other financial institutions due 2001-2033, with interest 0.134%–6.85%			
Secured	**35,638**	41,285	**269,985**
Unsecured	**56,737**	61,688	**429,826**
	153,949	149,547	**1,166,280**
Less portion due within one year	**33,967**	26,925	**257,326**
	¥119,982	¥122,622	**$ 908,956**

The aggregate annual maturities of long-term debt are as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 33,967	$ 257,326
2003	27,659	209,538
2004	20,306	153,833
2005	21,569	163,402
2006	18,321	138,795
2007 and thereafter	32,127	243,386
	¥153,949	$1,166,280

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, 2001 property, plant and equipment amounting to ¥72,311 million ($547,811 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, 2001 and 2000.

Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statement of income for the year ended December 31, 2000 were as follows:

	2000
Normal cumulative statutory tax rate	41.7%
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.5)
Dividends, elimination for consolidation, from subsidiaries and affiliates	8.7
Change in valuation allowance for deferred tax assets	3.3
Expenses not deductible for tax purposes	3.3
Other	0.9
Effective tax rate per consolidated statements of income	54.4%

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
	2001	2000	**2001**
Deferred tax assets—current:			
Provision for doubtful accounts	**¥ 750**	¥ 1,681	**$ 5,682**
Accrued business enterprise tax	**623**	408	**4,720**
Elimination of unrealized gains on inventories	**3,035**	3,103	**22,992**
Impairment in assets of a domestic company	**2,877**	—	**21,796**
Other	**2,253**	1,609	**17,068**
Total	**¥ 9,538**	¥ 6,801	**$ 72,258**
Deferred tax assets—non-current:			
Elimination of unrealized gains on fixed assets	**443**	401	**3,356**
Provision for accrued pension and severance costs	**1,014**	350	**7,682**
Other	**730**	553	**5,530**
Total	**¥ 2,187**	¥ 1,304	**$ 16,568**
Deferred tax liabilities—current:	**¥ (65)**	¥ (62)	**$ (492)**
Deferred tax liabilities—non-current:			
Deferred gain on sales replacement of property, plant and equipment	**(3,207)**	(3,339)	**(24,295)**
Elimination of unrealized gain on land of a consolidated subsidiary	**(1,645)**	(1,645)	**(12,462)**
Provision for accrued pension and severance costs	**1,337**	1,358	**10,129**
Impairment of investments in subsidiaries	**1,069**	—	**8,098**
Unrealized gains on available-for-sale securities	**(1,090)**	—	**(8,258)**
Other	**425**	(192)	**3,220**
Total	**¥(3,111)**	¥(3,818)	**$(23,568)**

11. Accrued Pension and Severance Costs and Postretirement Benefits Other than Pensions:

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 employees 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 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.

The aggregate amount charged to income for the year ended December 31, 2000 with respect to the pension and severance costs and postretirement benefits other than the pensions was ¥3,603 million.

Pension assets (based on the latest available information) at December 31, 2000 amounted to ¥55,842 million.

As discussed in Note 2 Summary of Significant Accounting Policies, 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 pension, the excess of the projected benefit obligation over the total of the fair value of pension assets as of January 1, 2001 and the liabilities for severance and retirement benefits recorded as of January 1, 2001 amounted to ¥17,477 million ($132,402 thousand), of which ¥11,460 million ($86,818 thousand) was charged to income as a result of the transfer of investment securities to the employees' retirement benefit trust and, the remaining transition amounting to ¥6,016 million ($45,576 thousand), is being amortized over a 5-year period from the year ended December 31, 2001.

In the mean time, a gain of ¥11,063 million ($83,811 thousand) on the transfer of securities is included in other income.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of December 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Benefit obligation at end of year	**¥(94,090)**	**$(712,803)**
Fair value of plan assets at end of year	**64,794**	**490,864**
Funded status:		
Benefit obligation in excess of plan assets	**(29,296)**	**(221,939)**
Unrecognized net transition obligation at date of adoption	**4,813**	**36,462**
Unrecognized actuarial losses	**14,630**	**110,833**
Unrecognized prior service cost	**(1,752)**	**(13,273)**
Accrued pension and severance costs	**¥(11,605)**	**$ (87,917)**

Retirement and pension costs of the Company and its consolidated subsidiaries for the year ended December 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 3,909**	**$ 29,613**
Interest cost	**2,572**	**19,485**
Expected return on plan assets	**(1,541)**	**(11,674)**
Amortization of transition obligation at date of adoption	**12,664**	**95,939**
Amortization of prior service cost	**(30)**	**(227)**
Net periodic benefit costs	**¥17,574**	**$133,136**

The discount rate and the rate of expected return on plan assets used by the Company are 3.0 percent and 3.5 percent, 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 statement of income using the straight line method mainly over 15 years. Amortization period for transition charges at date of adoption and prior service cost are 5 years and 15 years, respectively.

12. 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.

13. 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 appropriate by the resolution at 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.

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

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

(1) Information by industry segment

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥315,944**	¥300,567	**$2,393,515**
Intersegment sales and transfers	**8**	9	**61**
	315,952	300,576	**2,393,576**
Sports—			
Sales to unaffiliated customers	**63,080**	64,581	**477,879**
Intersegment sales and transfers	**555**	678	**4,204**
	63,635	65,259	**482,083**
Industrial Products—			
Sales to unaffiliated customers	**55,439**	58,099	**419,993**
Intersegment sales and transfers	**33**	29	**250**
	55,472	58,128	**420,243**
Adjustment and eliminations	**(596)**	(716)	**(4,515)**
	¥434,463	¥423,247	**$3,291,386**
Operating income:			
Tires	**¥ 24,247**	¥ 23,267	**$ 183,689**
Sports	**2,520**	3,591	**19,091**
Industrial Products	**(4,174)**	(1,454)	**(31,621)**
	22,593	25,404	**171,159**
Adjustment and eliminations	**(17)**	37	**(129)**
	¥ 22,576	¥ 25,441	**$ 171,030**
Identifiable assets:			
Tires	**¥380,192**	¥379,443	**$2,880,243**
Sports	**65,107**	72,765	**493,235**
Industrial Products	**49,154**	54,744	**372,379**
	494,453	506,952	**3,745,857**
Corporate assets and eliminations	**19,962**	16,608	**151,227**
	¥514,415	¥523,560	**$3,897,084**
Capital expenditures:			
Tires	**¥ 22,895**	¥ 15,931	**$ 173,447**
Sports	**2,100**	1,293	**15,909**
Industrial Products	**2,275**	3,165	**17,235**
	27,270	20,389	**206,591**
Corporate assets and eliminations	**1,497**	351	**11,341**
	¥ 28,767	¥ 20,740	**$ 217,932**

Depreciation and amortization:			
Tires	**¥ 18,584**	¥ 19,009	**$ 140,788**
Sports	**2,459**	2,709	**18,629**
Industrial Products	**3,547**	3,481	**26,871**
	24,590	25,199	**186,288**
Corporate assets and eliminations	**55**	76	**416**
	¥ 24,645	¥ 25,275	**$ 186,704**

(2) Information by geographic area

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Net sales:			
Japan—			
Sales to unaffiliated customers	**¥391,849**	¥383,436	**$2,968,553**
Sales between geographic areas	**7,828**	7,881	**59,303**
	399,677	391,317	**3,027,856**
Other—			
Sales to unaffiliated customers	**42,614**	39,811	**322,833**
Sales between geographic areas	**4,072**	2,423	**30,848**
	46,686	42,234	**353,681**
Total—			
Sales to unaffiliated customers	**¥434,463**	¥423,247	**$3,291,386**
Sales between geographic areas	**11,900**	10,304	**90,152**
	446,363	433,551	**3,381,538**
Adjustment and eliminations	**(11,900)**	(10,304)	**(90,152)**
	¥434,463	¥423,247	**$3,291,386**
Operating income:			
Japan	**¥ 25,494**	¥ 26,053	**$ 193,135**
Other	**(2,748)**	(449)	**(20,818)**
	22,746	25,604	**172,318**
Adjustment and eliminations	**(170)**	(163)	**(1,288)**
	¥ 22,576	¥ 25,441	**$ 171,030**
Identifiable assets:			
Japan	**¥439,566**	¥454,614	**$3,330,046**
Other	**61,475**	57,960	**465,720**
	501,041	512,574	**3,795,766**
Corporate assets and eliminations	**13,374**	10,986	**101,318**
	¥514,415	¥523,560	**$3,897,084**

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Net sales			
North America	**¥ 23,747**	¥ 24,509	**$179,902**
Europe	**38,996**	37,616	**295,423**
Asia	**28,424**	22,288	**215,333**
Other areas	**18,193**	15,640	**137,826**
Total	**¥109,360**	¥100,053	**$828,485**
	Percentage		
Percentage of such sales in consolidated net sales	**25.2%**	23.6%	

15. Related Party Transactions:

Significant balances and transactions with unconsolidated subsidiaries and affiliates at December 31, 2001 and 2000 and for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Receivables:			
Notes and accounts:			
Trade	**¥ 3,390**	¥ 7,906	**$ 25,682**
Other	**257**	274	**1,947**
	¥ 3,647	¥ 8,180	**$ 27,629**
Short-term loans	**¥ 6,588**	¥ 5,308	**$ 49,909**
Long-term loans (included in investments in and advances to unconsolidated subsidiaries and affiliates)	**¥ 160**	¥ 3,427	**$ 1,212**
Notes and accounts payable, trade	**¥ 4,752**	¥ 4,322	**$ 36,000**
Sales	**¥21,048**	¥23,324	**$159,454**
Purchases	**¥11,453**	¥10,930	**$ 86,765**

16. Contingent liabilities:

At December 31, 2001 the Company and its consolidated subsidiaries were contingently liable for:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	**¥1,609**	**$12,189**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**1,114**	**8,439**

17. Leases:

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation, assuming they are calculated using the straight-line method over the lease terms, as of December 31, 2001 were as follows:

	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	**¥7,725**	**¥4,059**	**¥3,666**	**$58,523**	**$30,750**	**$27,773**
Other	**671**	**497**	**174**	**5,083**	**3,765**	**1,318**
Total	**¥8,396**	**¥4,556**	**¥3,840**	**$63,606**	**$34,515**	**$29,091**

And as of December 31, 2000 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥7,164	¥3,986	¥3,178
Other	625	390	235
Total	¥7,789	¥4,376	¥3,413

Lease payments under non-capitalized finance leases for the years ended December 31, 2001 and 2000, amounted to ¥1,797 million ($13,614 thousand) and ¥1,815 million, respectively.

The balances of future finance lease payments, including interest, at December 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥1,543**	¥1,453	**$11,689**
Due later	**2,297**	1,960	**17,402**
	¥3,840	¥3,413	**$29,091**

The future lease payments under noncancelable operating leases, including interest, at December 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥ 256**	¥ 377	**$ 1,939**
Due later	**1,747**	1,832	**13,235**
	¥2,003	¥2,209	**$15,174**

18. Subsequent Events:

Appropriations of retained earnings

The following appropriations of retained earnings of the Company were proposed and approved at the general meeting of shareholders held on March 28, 2002.

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2001	**¥51,748**	**$392,030**
Appropriations—		
Cash dividends (¥6 per share outstanding at December 31, 2001)	**(1,455)**	**(11,023)**
Balance after appropriations	**¥50,293**	**$381,007**

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
[illegible] Bldg.
[illegible]
[illegible] Osaka [illegible]
Japan

March 28, 2002

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, 2001 and 2000, 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 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.

As discussed in Note 2 (17) to the financial statements, the Company changed accounting policy for technical aid income and expense during the year ended December 31, 2000.

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

(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.