SUMITOMO
RUBBER INDUSTRIES

FOR FUTURE GROWTH

ANNUAL REPORT 2001

Sumitomo Rubber Industries, Ltd. is one of Japan's leading manufacturers of tires, golf balls, golf clubs, tennis balls and tennis rackets. In its Tire business, the Company aims to sustain its growth in world markets by pursuing maximum benefits with its three-brand strategy encompassing the Dunlop, Goodyear and Falken brands. In Sports and Industrial and Other Products businesses, Sumitomo Rubber is striving to contribute to an increase in its corporate value by concentrating its management resources on even higher-profit products.

FOR A V-SH

I will begin my message to you in this year's annual report for fiscal 2001, ended December 31, 2001, by reporting that Sumitomo Rubber Industries, Ltd. posted a consolidated net loss of ¥7,207 million, the Company's worst-ever consolidated net loss. I sincerely regret this disappointing performance, which does not meet the expectations of shareholders and has caused them concern. However, the good news is that this loss was a one-time event attributable to other expenses and we are implementing various measures to ensure a V-shaped recovery in fiscal 2002.

Performance in Fiscal 2001

During the fiscal year under review, consolidated net sales by Sumitomo Rubber advanced 2.6% to ¥434,463 million. In our mainstay Tire business, which accounts for approximately 70% of consolidated net sales, each of our three brands—Dunlop, Goodyear, and Falken—posted growth in sales. These increases compensated for declines in our Sports and Industrial and Other Products businesses, which were severely hampered by the recession in the Japanese economy.

Nevertheless, operating income contracted 11.3% to ¥22,576 million, mirroring sluggish market conditions and deteriorating performance in our bed business in Europe. The Company

APED RECOVERY

posted a net loss of ¥7,207 million due to other expenses resulting from such factors as impairment loss in assets of a domestic subsidiary and loss on write down of golf club memberships and write down of investments in securities.

Because Sumitomo Rubber views its net loss as a temporary one-time event resulting mainly from write downs, the Company will maintain annual cash dividends per share at ¥10.

Evidence of a V-Shaped Recovery

Based on reasons related to increases and decreases in revenues, I will next explain how the worsening of our business results in the past fiscal year is unlikely to impede the Company's future performance and why there is a strong possibility the Company will post a quick V-shaped recovery.

At the operating income level, we posted a ¥2,865 million decrease compared with the previous fiscal year, to ¥22,576 million. However, Sumitomo Rubber recorded higher profits in

Years ended December 31	2001	2000	1999	1998	1997	1996	2001
	Millions of yen, except per share figures						Thousands of U.S. dollars, except per share figures
Operations:							
Net sales	**¥434,463**	¥423,247	¥509,215	¥653,525	¥613,753	¥582,360	**$3,291,386**
Operating income	**22,576**	25,441	23,752	27,770	19,205	19,247	**171,030**
Net income (loss)	**(7,207)**	5,335	4,929	5,034	5,850	4,683	**(54,598)**
Financial position:							
Total assets	**514,415**	523,560	441,707	614,197	644,631	629,828	**3,897,084**
Interest-bearing debt	**241,600**	252,143	223,727	311,574	324,327	313,069	**1,830,303**
Shareholders' equity	**107,391**	109,995	97,475	96,091	93,855	89,962	**813,568**
Per share data:							
Net income (loss)	**¥ (29.71)**	¥ 23.24	¥ 22.57	¥ 23.06	¥ 26.79	¥ 22.46	**$ (0.225)**
Net income—diluted	**—**	—	20.63	—	—	—	**—**
Cash dividends paid	**10.00**	10.00	9.00	9.00	9.00	9.00	**0.076**
Common stock prices:							
High	**680**	725	930	806	865	967	**5.15**
Low	**438**	415	446	437	510	788	**3.32**
Key ratios:							
Return on shareholders' equity	**(6.6)%**	5.1%	5.1%	5.3%	6.4%	5.7%	**—**
Shareholders' equity ratio	**20.9%**	21.0%	22.1%	15.6%	14.6%	14.3%	**—**

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥132 per US$1, the approximate exchange rate prevailing on December 31, 2001.
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 (see Note 2 (1) to Consolidated Financial Statements). 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 (see Notes 2 (13) and 11 to Consolidated Financial Statements).
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 (see Note 2 (17) to Consolidated Financial Statements).

AND LONG-TERM

its core Tire business and has maintained its competitiveness in this sector. Particularly noteworthy were the positive benefits of our alliance with The Goodyear Tire and Rubber Company, which yielded approximately ¥6,000 million (¥4,000 million in the previous fiscal year) in cost savings compared with 1999 through reductions in unit purchase prices and enhanced efficiency. From 2002, we expect this alliance will bring even further benefits, including the expansion of benefits to The Ohtsu Tire & Rubber Co., Ltd., a subsidiary.

The deterioration in operating income is attributable largely to worsening performances by subsidiaries engaged in manufacturing and selling bed-related and other products in Europe. Despite a conspicuous deterioration in the business environment, one of our most urgent priorities under our "Extensive Structural Reforms," which will be detailed later in this annual report, is to rebuild our European subsidiaries by channeling our management resources into the bed business while striving to enhance productivity and rapidly achieve profitability.

In non-operating income, Sumitomo Rubber recorded several one-time losses due to various factors. First, the Company posted other expenses that included a ¥6,898 million impairment loss in assets of a domestic subsidiary; a ¥3,070 million loss on write down of golf club memberships; and a ¥2,885 million write down of investments in securities.

Second, the Company recorded ¥2,866 million in equity in losses of unconsolidated subsidiaries and affiliates. This loss includes expenses for the restructuring of a European joint venture with Goodyear, mainly one-time expenses aimed at more effectively and quickly realizing the synergistic effects from this alliance. In addition, expenses that we had planned for fiscal 2002 were front-loaded to fiscal 2001.

As a result of these other expenses, the Company recorded a net loss. The other expenses recorded in the year included approximately ¥17,600 million in evaluation losses, which do not involve cash outflows. Therefore, free cash flow—deducting cash flow used in investment activities from cash flow provided by operating activities—amounted to positive cash flow of ¥17,075 million, 18.8% higher than in the previous fiscal year. The Company used this cash flow as a resource for trimming its interest-bearing debt by ¥10,543 million at the end of the fiscal year to ¥241,600 million.

PROFIT GROWTH

Urgent Structural Reforms

Sumitomo Rubber remains steadfastly committed to the original targets of its Medium-Term Five-Year Management Plan. In fiscal 2000, when the Company posted an all-time high in net income, the Company registered important progress in undertaking its structural reforms and was ahead of schedule for achieving its targets. To get back on track toward attaining its goals, a top priority in fiscal 2002 will be to achieve a V-shaped recovery. To ultimately reach the extremely lofty goals it has set, the Company believes it must strengthen and stabilize its profit structure from a long-term perspective.

Our “Urgent Structural Reforms,” announced in December 2001, will serve as guidelines as we strive to reach these goals. The Urgent Structural Reforms consist of two platforms—“Urgent Measures for Increasing Profits,” which involve making strenuous efforts to cut costs, and the “Extensive Structural Reforms,” through which the Company will raise its level of profitability.

Under the Urgent Measures for Increasing Profits, we are aiming for an improvement of ¥7,000 million in profits annually by taking such steps as reducing manufacturing costs, focusing mainly on restraining capital investment and reducing personnel and other costs. Our Extensive Structural Reforms encompass two themes. The first is “Rebuilding unprofitable businesses,” targeting three areas that include rebuilding our bed business in Europe, closely scrutinizing our golf course business, and emphasizing selection and concentration in our Sports and Industrial and Other Products businesses. The second theme of the Extensive Structural Reforms is to “Reduce costs for the entire Group by building a new business structure” with the aim of pursuing optimal cost efficiency. Our efforts will be focused on optimizing staff by simplifying our organization, maximizing the benefits of integrating functions with Ohtsu Tire, and establishing a unified distribution system.

Technologies That Create High Value Added

While implementing the previously mentioned structural reforms, Sumitomo Rubber will continue to make its utmost efforts to develop and sell high-value-added products. The growth of our high-value-added strategic products, which are based on the Company’s unmatched proprietary technologies, are playing a key role in elevating the Company’s brand image and fortifying the Group’s core strengths. Moreover, these high-value-added products help Sumitomo Rubber build a strong product mix to support the Company’s profit structure even amid the current economic environment characterized by sluggish market prices in all business sectors.

Since debuting in 1998, tires with Digi-Tyre technologies have been rapidly accounting for a growing percentage of the total proportion of our annual tire shipments, and the cumulative number of shipments of these tires surpassed 20 million as of the end of 2001. In November 2001, we announced the launch of the Digi-Tyre DRS (Digital Rolling Simulation) II, an advanced second-generation version of the Digi-Tyre. We are planning the successive introduction of Digi-Tyre technologies, which have advanced to a new stage, in new Dunlop-brand tires.

In our Sports business, the XXIO(zéksio)-brand golf clubs are now in their second year following launch and have developed into Dunlop’s flagship brand. In January 2002 we launched our New XXIO golf clubs and SRIXON HB-TOUR golf balls created with Digital Impact technologies and followed these with the launch of the HI-BRID everio golf balls in February.

Progressing with the Establishment of Bases in Asia

Finally, I would like to briefly discuss our business strategy in the Asia region, which is becoming an extremely crucial region in the Group's global strategy.

At our Indonesian subsidiary, P.T. Sumi Rubber Indonesia, we expanded Plant #1 and have progressed with the construction of Plant #2 to further increase and strengthen our production capacity for passenger-car radial tires. Partial production at this second facility commenced in October 2001. Since inaugurating operation in 1997, cumulative production at Sumi Rubber Indonesia has surpassed 10 million tires, and this subsidiary has played an increasingly important role as a supply base in Asia.

In preparation for a reduction in tariffs in the countries comprising ASEAN in 2003, the Company is striving to expand its tire business in this region, and as part of these efforts established Sumitomo Rubber Asia (Tyre) Pte. Ltd., a sales subsidiary in Singapore, in December 2001. Sumitomo Rubber Asia is currently beginning marketing and sales activities within the ASEAN countries.

In China, Zhongshan Sumirubber Precision Rubber Ltd., a subsidiary for manufacturing precision rubber components for office automation (OA) equipment, began operation in September 2001. Also, in December 2001, a subsidiary in China of Taiwan-based Hwa Fong Rubber Ind. Co., Ltd. began local production of Dunlop-brand motorcycle tires and has begun supplying these tires to Japanese-affiliated motorcycle manufacturers. In addition, plans are being made at present for the start of production of passenger-car tires in 2004.

A Closing Word to Our Shareholders

Unquestionably, we are operating in a harsh business environment. Companies that have undertaken reform are maintaining their favorable performances even amid the current severe conditions. Sumitomo Rubber views the challenge of improving business results as a true test of its reforms. By implementing the previously mentioned strategies, we are aiming for a rapid recovery and building a strong profit structure that can withstand fluctuations in the business environment. We ask our shareholders for their continued support and understanding.

Mitsuaki Asai

Mitsuaki Asai
President