

Sumitomo Rubber remains committed to the objectives of its Medium-Term Five-Year Management Plan. Under this plan, in fiscal 2005 Sumitomo Rubber is aiming for annual consolidated net sales surpassing ¥500 billion, an operating income ratio in the 8% range, and a shareholders' equity ratio exceeding 30%. In addition, the Company will steadily raise ROE to above 10% and reduce interest-bearing debt to around ¥220 billion.

After the pace of its reforms slowed in fiscal 2001 due to the worsening of its business results, Sumitomo Rubber is addressing a number of key issues to get back on track toward achieving its goals. Through such efforts, Sumitomo Rubber is also striving for a rapid V-shaped recovery while strengthening and stabilizing its revenue base to ensure that it attains its objectives.

**T**he first crucial task facing the Company is to ensure that the net loss recorded in the year under review is a one-time event and to accelerate the pace of progress it makes in achieving its medium-term objectives, which slowed in fiscal 2001. Guided by the Urgent Structural Reforms announced in December 2001, Sumitomo Rubber is progressing with reforms with the dual aims of achieving a rapid recovery in business results and strengthening and stabilizing its earnings capabilities.

**U R G E N T   S T R**

### **Urgent Measures for Increasing Profits**

As a strategy for achieving a quick increase in profits, the Company is reviewing costs in every phase of its operations, with a specific goal of achieving a total of over ¥7.0 billion in cost reductions annually. By cost-reduction category, we are striving to constrict capital expenditures 25% and achieve 3% reductions in personnel, manufacturing, and other costs, respectively. With Sumitomo Rubber posting the first large net loss in its history, all employees should share a sense of crisis and thus strive to reduce total costs.

### **Extensive Structural Reform Measures**

Sumitomo Rubber is implementing extensive structural reform measures aimed at enabling the Company to strengthen its profitability from a long-term perspective.

The first theme of these structural reforms is "Rebuilding unprofitable businesses," in which we are 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.

Our most urgent task is to rebuild our bed business in France and Germany,

which is a large key to restoring the Group's profitability. Business restructuring teams headed by the local presidents are currently overseeing extensive rebuilding initiatives in Europe. As part of these efforts, we are selling or closing peripheral businesses, channeling management resources into bed businesses, and working to raise the efficiency of management. At the same time, these companies will work to reduce manufacturing costs through such measures as reviewing production flows and distribution. We also intend to rebuild our golf course, Sports and Industrial and Other Products businesses by withdrawing from unprofitable segments of these businesses.

The second theme of our structural reforms is to "Reduce costs for the entire Group by building a new business structure." To this end, we are pursuing cost reductions by achieving an optimal level

of staff through the simplification of our organizational structure and maximizing the benefits achieved from the integration of functions with Ohtsu Tire, which became a subsidiary in 2000. In the area of production, we are adjusting supply and demand at four domestic tire production plants being jointly used by both Sumitomo Rubber and Ohtsu Tire and that are being operated as integrated entities. This arrangement is in line with our efforts to effectively and efficiently utilize the facilities of the two companies. From July 2001, we unified our marketing of original equipment tires for auto manufacturers and in October we combined our technology development functions and are making progress in integrating the functions of our administrative divisions. We will continue working to maximize the effects of this integration of functions and strengthen the Group's profit base.

# U C T U R A L

# R E F O R M S



**O**ur second task is to progress with the development of a strategy for our three brands: Dunlop, Goodyear, and Falken. We are striving for increased synergies in a wider range of areas through our alliance with Goodyear, which includes technology exchanges, joint purchasing of materials and equipment, and sales of multiple brands. Concurrently, we must create additional synergies through the integration of various functions with Ohtsu Tire.

Regarding sales, we have transformed our marketing of original equipment tires for automobile manufacturers into the marketing subsidiary Dunlop Goodyear Tires Ltd. as we work to expand sales of these three brands of tires for new vehicles. As a particularly noteworthy development, since October 2000 Goodyear-brand tires manufactured by Sumitomo Rubber have been used on eight additional new vehicles, including the Toyota Noa and the Mitsubishi eK Wagon, and these tires have achieved sharp growth in sales. We are also achieving a synergy among our three brands of tires by combining sales of Goodyear-

brand tires with the Dunlop brand, which maintains a strong position in the sectors for luxury vehicles and 4WD cars, as well as the Falken brand, which is strong in the minicar and compact-car tire markets. Conversely, in replacement and export sectors, these three brands compete head to head in various markets. While working to attain synergies in development, production, and distribution, we are also placing high emphasis on sales under a structure that attaches importance to maintaining the independent sales routes of each brand. Through such efforts, we are striving to maximize sales efficiency.

# THREE-BRAND SALE





# ASIA STRATEGY

**O**ur third task is establishing strategies for carrying out our operations in Asia, a region that will serve as a foundation for new growth. Establishing a solid base in Asia will not only allow us to better respond to the needs of a growing market but is also important from the perspective of building a supply structure that is highly cost competitive.

## Increasing Our Production Plant Capacity in Indonesia

In our Tire business, we have steadily expanded the production capacity of P.T. Sumi Rubber Indonesia. Since commencing production in 1997, Sumi Rubber Indonesia has played an increasingly crucial role in our efforts to operate an optimal global tire production base. In 2001, this company achieved a noteworthy milestone when its cumulative tire production surpassed 10 million tires. Following the completion of work on an expansion of Plant #1 in December 2000,

partial production at Plant #2 commenced in October 2001. Plans call for the production capacity of Sumi Rubber Indonesia to be raised from 1,800 tons monthly (new rubber consumption) at the end of 2001, to 2,350 tons monthly at the end of 2002, and to 3,000 tons monthly at the end of 2005.

## Responding to the Market in ASEAN

In December 2001, we established Sumitomo Rubber Asia (Tyre) Pte. Ltd. in Singapore with the aim of strengthening tire sales in the countries that make up ASEAN. The countries of ASEAN represent an important market, where demand is expected to grow sharply in tandem with the region's economic growth. With an impending reduction in tariffs within ASEAN in 2003, the Company intends to aggressively expand sales in this region by supplying tires from its plants in Indonesia in addition to those exported from Japan.

## Establishing a Base in China

In September 2001, Zhongshan Sumirubber Precision Rubber Ltd., a subsidiary in China, commenced production of precision rubber parts for OA equipment. This subsidiary will supply rubber parts for transport systems for printers and copiers to Japanese makers of OA equipment that are expanding their local production in China. Sumitomo Rubber expects this subsidiary to contribute to profits in 2003.

In our Tire business, production of Dunlop-brand motorcycle tires was commenced at the China-based subsidiary of Hwa Fong Rubber Ind. Co., Ltd. of Taiwan, in which Sumitomo Rubber has a share. Following China's entry into the WTO, motorization has progressed in that country, underpinning expectations of large growth in the car tire market. Sumitomo Rubber plans to begin passenger-car tire production in China during 2004.

# S STRATEGY

# TECHNOLOGICAL

**T**he fourth task for Sumitomo Rubber will be to carry out Companywide marketing activities to achieve success for its mainstay new products integrating its proprietary technologies.

## The Progression of Digi-Tyre Technology

Since debuting in 1998, our Digi-Tyre technology has fueled extensive technological innovation in tire development. In 2001, Digi-Tyre technology advanced to a new stage with the introduction of the Digi-Tyre DRS II.

Digi-Tyre technology uses super-computers to simulate the movement of tires on road surfaces during driving by utilizing a tire module that closely replicates actual tires. Digi-Tyre technology has enabled Sumitomo Rubber to achieve dramatic advances in raising the effi-

ciency and quality of tire development. We produce tires integrating Digi-Tyre technologies across all categories and have already established a high-tech image for these tires in the minds of consumers. As of the end of 2001, total shipments of such tires had surpassed 20 million tires.

## Digi-Tyre DRS II

The Digi-Tyre DRS II technology involves simulations of tire conditions and various types of road environments, ranging from simulations of single tires to simulations of four tires fitted on actual vehicles. **The most significant benefit provided by Digi-Tyre DRS II is a reduction of the tire development schedule.** Raising the level of perfection of tires used to require the repetition of a sequential process encompassing design, creation of test products, actual driving tests, design changes, creation of trial products, and further actual driving tests. Digi-Tyre DRS II

enables repeated accurate simulations of the effects of vehicles and road surface environments on tires while changing various driving conditions, which allows a sharp reduction in the tire development schedule. In addition, because this technology permits an increase in the number of opportunities to carry out trial productions, we have achieved a dramatic improvement in tire perfection levels and realized tire performance capabilities surpassing initial development targets.

**Another noteworthy benefit realized through Digi-Tyre DRS II is the solving of traditional performance conflicts.** The use of existing development methods makes it difficult to satisfy conflicting

# BREAKTHROUGH

factors such as handling versus comfort, fuel economy and wet performance, aquaplaning and noise and uneven wear. However, the advance of Digi-Tyre technologies to the DRS II stage expands the range of possibilities in tire development by enabling tire movements and road surface conditions to be examined and analyzed from the design stage. Digi-Tyre DRS II features three technologies for solving traditional conflicts: Digi-Tyre FRR (Fiber-Reinforced Rubber), Digi-Tyre BCF (Biochemical Filler), and Digi-Tyre Aqua-Pattern. The combination of these three

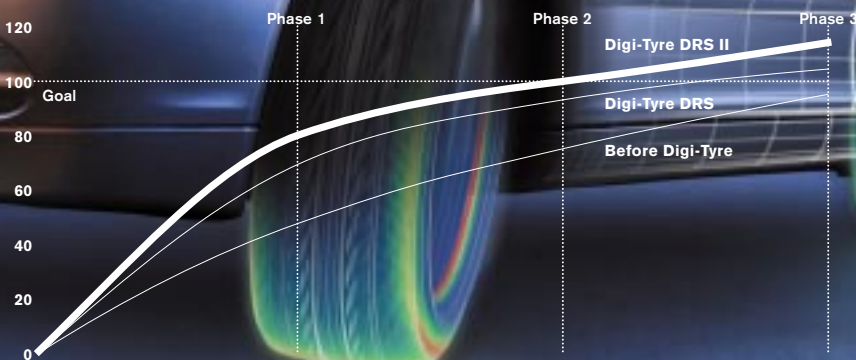
technologies helps achieve a high degree of balance without sacrificing any of the conflicting performance factors.

The announcement of the Le Mans LM 702 in November 2001 heralded the arrival of second-generation Digi-Tyre series of products. By utilizing the aforementioned three technologies, we are able to raise the degree of tire perfection to a new level. Looking ahead, we intend to successively integrate these technologies in new Dunlop products.

## New Goodyear and Falken Products

During the year, several promising new large-scale products from Goodyear and Falken were introduced in the market. Among these, the Goodyear Eagle LS 2000 integrates that company's new "Hybrid Technology" basic technologies, which increase pleasant driving and safety performance. The new Falken ZIEX ZE512 was created based on "Maintain Action," a novel concept for restricting secular distortion and preserving a high level of basic performance capabilities.

Reduced Development Times through the Use of Simulations



デジタイア



## Digital Impact

**T**ogether with Digi-Tyre technologies, Sumitomo Rubber's Digital Impact technology is another proprietary technology that uses digital simulations to design golf balls and clubs. Utilizing this technology, we digitally create the instant, which happens in 5/10,000ths of a second, when the face of a club strikes the ball and then digitally analyze changes in force, shape, and energy at units of 1/100,000,000th of a second. Digital Impact technologies allow us to create golf balls and clubs that meet the ideal expectations of all users in terms of distance, direction, and feel. Digital Impact

technologies may be regarded as the golf version of Digi-Tyre technologies. We are currently striving to apply these technologies to the development of tennis rackets. Along with Digi-Tyre technologies, we aim to distinguish our products from those of competitors by promoting a high-tech "Dunlop=Digital" image among users.

### New XXIO

Digital Impact technology has enabled the creation of a steady stream of new golf products, including New XXIO, HI-BRID, and SRIXON. We have particularly high expectations for New XXIO, a new version of the XXIO, which has become our all-time best-selling golf club following its introduction in February 2000.

In addition to its high acclaim for allowing for easy hitting, we raised the attractiveness of New XXIO woods and irons introduced in January 2002 by using Digital Impact technologies to achieve even greater distance.

### HI-BRID everio

In February 2002, we commenced sales of the HI-BRID everio line of golf balls created through the use of Digital Impact technologies. The HI-BRID everio line of golf balls features our proprietary energy-storage structure to achieve previously unthinkable distances. Our first fiscal-year sales target for the HI-BRID everio is one million dozen, which will make this our best-selling golf ball.



**O**ur fifth task is to improve the levels of product quality and performance as well as our services. As part of these efforts, we are developing technologies for safe driving, including our Run-Flat Tires.

### Run-Flat Tire System

In July 2001 Sumitomo Rubber and Michelin signed a licensing agreement for PAX System, Michelin's run-flat tire system. This technology is already being adopted by Pirelli and Goodyear. With the addition of Sumitomo Rubber, four companies will now carry out joint global development activities as well as marketing of this system.

The PAX System is a run-flat tire system developed in 1997 by Michelin. Rather than focusing solely on the tire, this system was created based on an

unprecedented concept composed of four elements: the tire, wheel, air-pressure sensing device, and a support ring that supports the tires in the case of a puncture. **The PAX System provides a high degree of safety that allows vehicles to be driven up to 200 kilometers at a maximum speed of up to 80 kilometers per hour even when a tire is deflated.** In addition, this system improves such basic tire functions as performance and fuel economy.

Sumitomo Rubber has commenced technology development based on this licensing contract while progressing with the development of a lightweight self-support-type run-flat Combined Technology Tire (CTT), a proprietary technology. CTT uses a profile-design technology, which features continually changing profiles extending from the center of the tread to the sidewalls and

that minimize the area of the sidewall that supports the weight. At the same time, it achieves a balance between enabling lighter weight and run-flat performance on the sidewall reinforcement layer.

We are also progressing with the development of products that are based on our proprietary technologies for tires and safe driving. Chief among these are our Deflation Warning System (DWS) and Instant Mobility System (IMS). The DWS is a system that detects decreases in air pressure based on changes in tire revolutions. In the United States, DWS is already being used on Toyota, Mitsubishi, BMW, and other vehicles. IMS is an emergency repair system for punctures and provides such benefits as a reduced need for spare tires and contributes to the creation of lighter-weight vehicles and resource conservation.

# SECURING SAFETY