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

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.

The 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.

URGENT STR

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.

UCTURAL REFORMS

THREE-BRAND SALE

Our 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.

ASIA STRATEGY

Our 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

The 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 supercomputers 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 efficiency 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

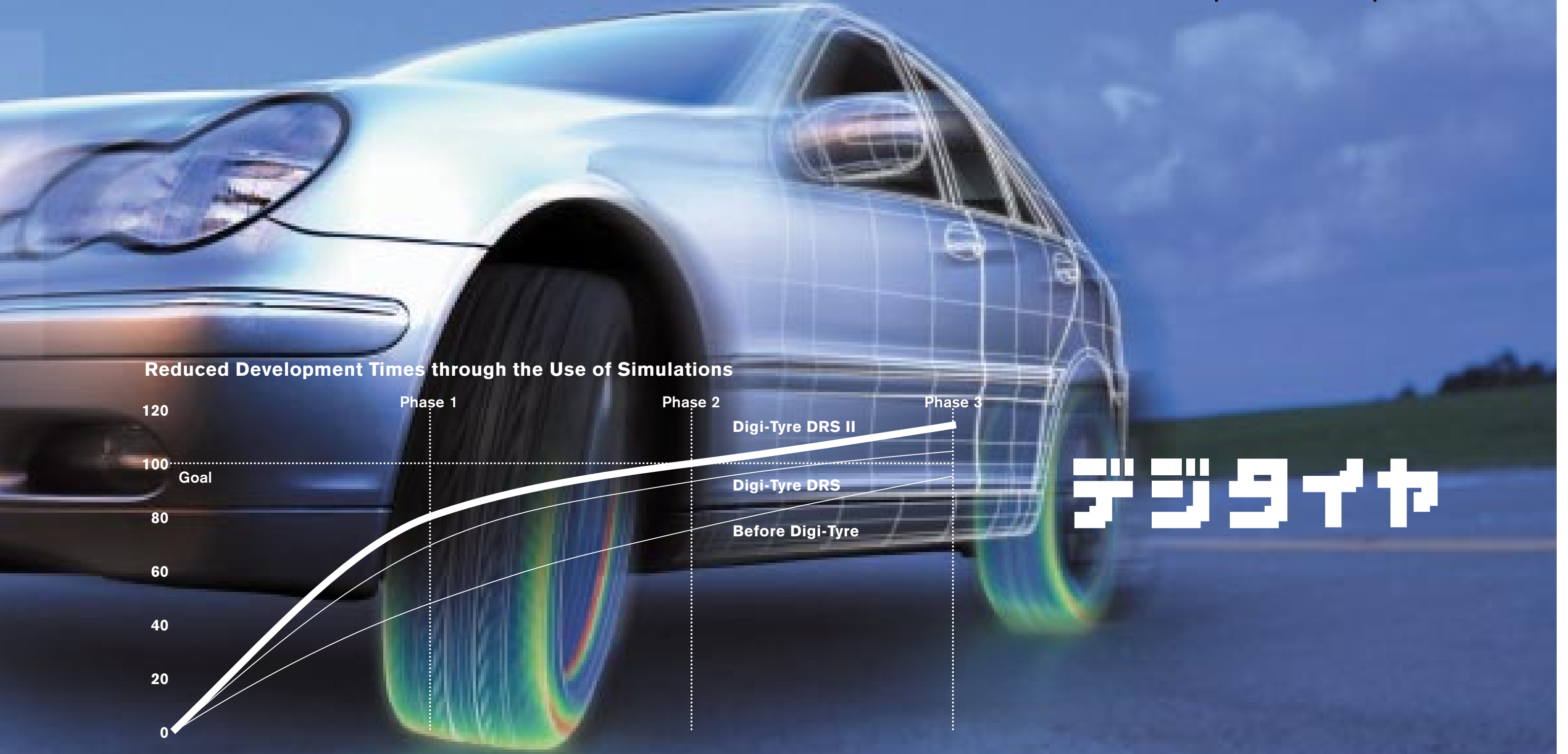
BREAKTHROUGH

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.



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Digital Impact

Together 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.

Our 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

Dunlop GRANDTREK AT2

Dunlop LE MANS LM702

Dunlop SP65e

Dunlop LE MANS RV RV501

Dunlop FORMULA FM901

Dunlop GRANDTREK MT2

Goodyear EAGLE LS3000

Goodyear EAGLE LS2000

Goodyear G47

Falken AZENIS ST115

Falken ZIEX ZE512

Falken ESPIA EP-01

TIRE BUSINESS

In its Tire business in Japan, the Company manufactures and sells Dunlop, Goodyear, and Falken-brand tires. Overseas, in addition to manufacturing activities carried out at Sumi Rubber Indonesia, its Indonesian subsidiary, Sumitomo Rubber manufactures and sells tires through affiliated companies in Europe and North America established under an alliance with Goodyear. Several tire products are also mutually imported and exported among companies in the Group.

Fiscal 2001 Results

During the fiscal year under review, sales in the Tire business advanced 5.1% to ¥315,944 million. Operating income rose 4.2% to ¥24,247 million. Amid an increasingly severe business environment, Sumitomo Rubber achieved higher sales of tires in replacement, original equipment, and export markets, thanks to a contribution made by new products and measures taken to strengthen its marketing strategy. The Company's three brands—Dunlop, Goodyear, and Falken—posted favorable sales. Particularly noteworthy was the steep growth in sales of Goodyear-brand tires both in replacement and original equipment markets.

Favorable Results for All Three Brands

Sales of tires for replacement markets rose from the previous fiscal year, buoyed by brisk sales of studless tires resulting from snowfalls at the beginning of the year. Other factors contributing to this performance included robust sales of the Dunlop-brand tires with Digi-Tyre technology, AZENIS tires, a new line of Falken-brand tires, and the Goodyear-brand G-Impact series of tires.

The Company is achieving sharp growth in sales volume of its strategic line of products that integrate Digi-Tyre technologies. Since sales were commenced in 1998, cumulative shipments of tires with Digi-Tyre technologies reached 10 million at the end of 2000 and surpassed 20 million at the end of fiscal 2001. These tires have contributed to sales and helped us raise the high value added of our product mix. In November 2001, we announced our second-generation Digi-Tyre DRS II technology, which allows us to further expand the scope of our simulations. We plan to successively introduce this technology in new Dunlop-brand tires.

Sumitomo Rubber posted sharp double-digit increases in both the volume and value of sales of Goodyear-brand tires, supported by the introduction of new tires as well as efforts to expand product range of these tires and increase sales for each sales channel.

Higher sales of Ohtsu Tire's Falken-brand tires were fueled by an increase in sales of studless tires and rubber chains due to snowfalls at the beginning and end of the fiscal year. Also supporting growth in sales was the favorable performance of AZENIS, a new product.

Despite an increasingly harsh environment created by such factors as the shrinking volume of domestic automobile production and a decrease in sales prices, sales of tires in the original equipment market rose from the previous year. This increase is attributable to the unifying of sales of our three brands under the marketing subsidiary Dunlop Goodyear Tires Ltd. in October 2001. This organizational change has allowed us to respond more closely to the needs of our customers.

Demand for tires for export markets plunged sharply amid the slowdowns of the U.S. and European economies. Nevertheless, we attained growth in both sales volume and value, mirroring increased sales, mainly in Southeast Asia, the Middle East, and Central and South America.

Despite political instability and the effects of a weak rupiah, Sumi Rubber Indonesia, our subsidiary in Indonesia, recorded a large increase in sales due to that company's efforts to expand exports as a proportion of its sales. Moreover, this subsidiary achieved profits for the third consecutive year. Sumi Rubber Indonesia will increase its production capacity. As part of these efforts, work is progressing on the expansion of its manufacturing plant. In October 2001 partial production commenced at Plant #2.

SRIXON HB-TOUR

HI-BRID everio

XXIO

SRIXON PRO UR

XXIO CGC-2111

SRIXON W-201

XXIO

SRIXON I-201

HI-BRID DIGITAL Autofocus

Backlights for LCDs

Precision rubber parts
for OA equipment

A variety of gloves

SPORTS BUSINESS

In its Sports business, Sumitomo Rubber manufactures Dunlop-brand golf balls, golf clubs, tennis balls, and tennis rackets and sells these products in Japan, Taiwan, and Korea. The Company also sells SRIXON golf balls and golf clubs in countries worldwide.

Fiscal 2001 Results

Sales in the Sports business declined 2.3% to ¥63,080 million, and operating income decreased 29.8% to ¥2,520 million.

In Japan, despite a downtrend in golf course use, the Company registered growth in sales of golf clubs owing to higher sales of the XXIO brand of golf clubs. Nevertheless, overall domestic sales declined because of lower sales of golf balls caused by slumping demand, a downtrend in prices, and competition with imported golf balls.

Despite the introduction of new products, sales of tennis products remained level with the amount recorded in the previous fiscal year.

In Asia, sales rose sharply over the amount recorded in the previous year, mirroring brisk sales of SRIXON-brand golf balls and XXIO-brand golf clubs.

With the aim of strengthening our domestic sports sales structure and raising the efficiency of the management of this business, we integrated five sales subsidiaries in the Kanto and Tohoku regions.

Favorable Performance of XXIO

Our extensive selection of XXIO golf clubs, which feature heads that are easy to hit with and offer superior directional stability, are used by a wide range of golfers, from average amateurs to tournament professionals. From February 2000, when the XXIO series was launched, to the end of 2001, we have sold 300,000 woods and 110,000 iron sets in the XXIO series. In October 2001, we introduced our New XXIO series, which integrates our Digital Impact technologies to provide greater restitution. Highly acclaimed for enabling easy hitting as well as providing added distance, this series has become one of our most appealing product lines.

Sumitomo Rubber is also applying its Digital Impact technologies to golf balls. In February 2002, we launched our HI-BRID everio, which integrates these technologies and has an energy-storage structure to achieve previously unthinkable distances. As a first-year sales target, we are aiming for sales of one million dozen, which will make this our best-selling line of golf balls.

Overseas, we took an important step to strengthen sales of SRIXON products, one of our strategic overseas brands, by establishing Srixon Sports Europe Ltd. in October 2001. Previously, we established SRIXON subsidiaries in Asia and North America. With the establishment of this subsidiary in Europe, Sumitomo Rubber has built a sales structure for the SRIXON brand that covers the principal regions of the world. In addition, we intend to raise our brand recognition level by forming golf club and golf ball use contracts with top-name professional players in various countries.

INDUSTRIAL AND OTHER PRODUCTS BUSINESS

In the Industrial and Other Products business, in Japan Sumitomo Rubber manufactures printer blankets, products for the construction industry, and backlights for LCDs. Overseas, the Company manufactures natural rubber gloves in Malaysia, precision rubber parts for OA equipment in China, and bed-related products in France and Germany.

Fiscal 2001 Results

During fiscal 2001, sales in the Industrial and Other Products business declined 4.6% to ¥55,439 million and this division recorded an operating loss of ¥4,174 million, compared with an operating loss of ¥1,454 million in the previous fiscal year.

In the domestic market, the slump in IT industries resulted in sluggish sales of precision rubber parts for OA equipment and LCD backlights. In addition, orders for sporting facilities and Omni sand-filled artificial turf fell sharply, mirroring a decline in public-sector investment and declining prices.

Despite smooth growth in sales in Japan, sales of natural rubber gloves in Europe and the U.S. declined steeply owing to the effects of souring market conditions there.

In China, to respond to the shift to overseas production by OA equipment manufacturers, Zhongshan Sumirubber Precision Rubber Ltd., our production base for precision rubber parts in Guandong, began full-scale production in September 2001.

Our bed business in Europe recorded a decline in sales, mainly to retailers, and profitability of this business worsened significantly. Factors underlying this deteriorating performance included the slowdown of the European economy, consumer preferences for lower prices, and a shift in the structure of the distribution market toward large-scale retail chains. Sumitomo Rubber has dispatched a team to rebuild this business in Europe and is progressing with these revitalization efforts through such measures as trimming staff and selling and closing unprofitable businesses, including its car-seat business.

Sumitomo Rubber announced its Environmental Accounting for Fiscal 2000 in May 2001, which highlights the Company's proactive approach to the disclosure of information. In addition, the Company made significant strides toward achieving the goals of its "zero emissions"* policy as it strives for the reduction of waste materials.

*zero emissions: landfill waste of less than 1% of total waste materials

Numerical Targets and Achievements

Sumitomo Rubber has been working to achieve medium- and long-term "environment action targets" for conserving energy, addressing the problem of global warming, reducing waste materials, and lowering the volume of organic solvents used.

First, regarding targets for energy, we are making ongoing efforts to achieve a more than 20% reduction in basic units of heavy crude oil and an 11% cut in basic units of electric power consumption by 2010 compared with fiscal 2000 levels. In 2001, we attained reductions exceeding 5% and 4%, respectively, in these two categories.

Second, as a response to the problem of global warming, Sumitomo Rubber has set the goal of reducing emissions of carbon dioxide to below 1990 levels by 2010. In 2001, the total volume of carbon dioxide emissions amounted to 94% of the 1990 level.

Third, for reducing waste materials, Sumitomo Rubber has been striving to achieve its goal of "zero emissions" by the end of 2002 at production plants and business sites. In April 2002, the Company achieved "zero emissions" for three out of its four plants in Japan. The Company has set a target of reducing units of waste generated by more than 10% by 2005 and more than 20% by 2010 compared with 2000 levels. In 2001, the Company achieved a 4% reduction.

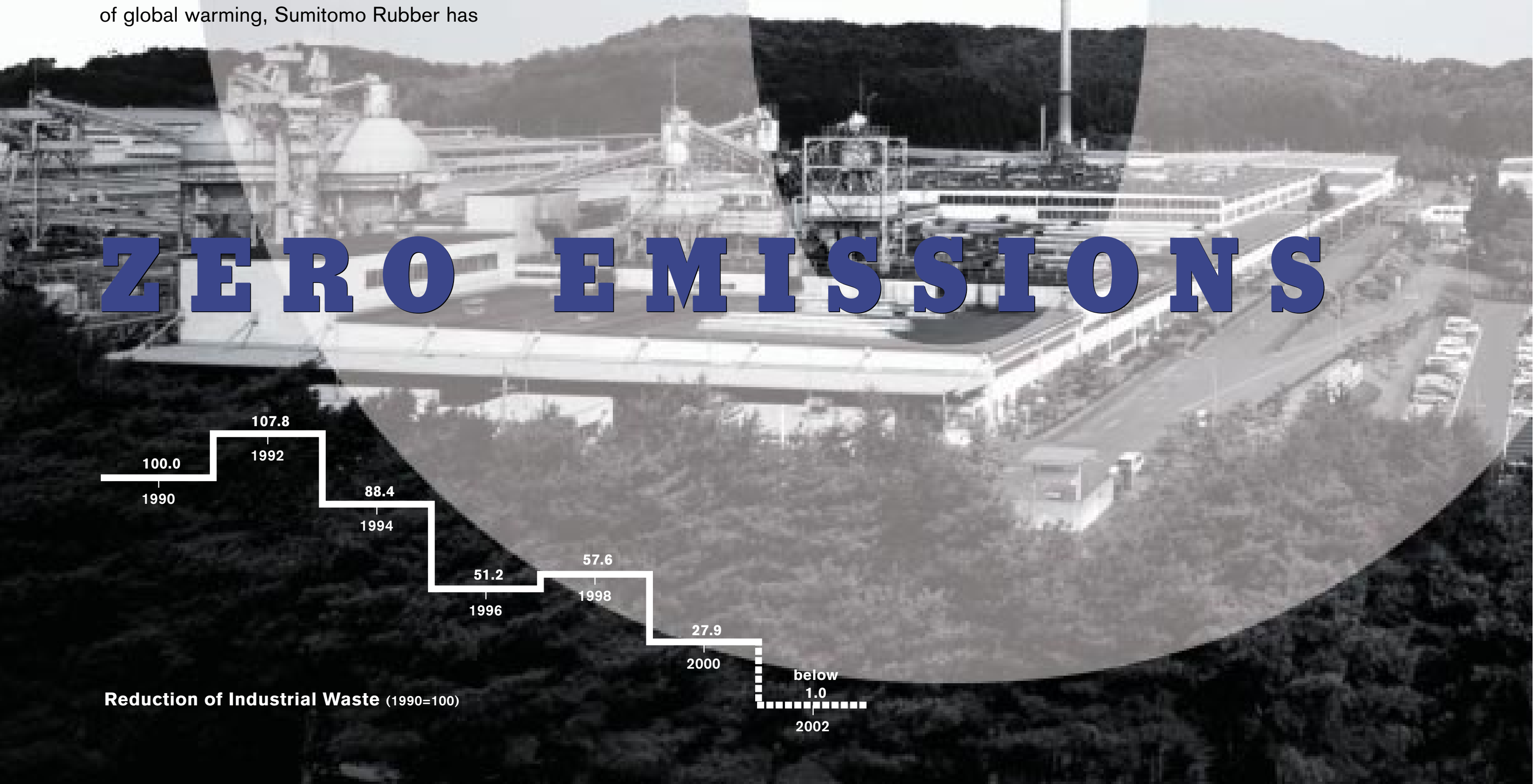
Developing Environment-Friendly Products

Hit products since their introduction in December 1999, our Digi-Tyre ECO, SP65e and SP70e, which achieve a balance between driving performance and environmental performance, have earned the Energy Conservation Center Japan Chairman's Prize at the Fiscal 2001 Grand Energy Conservation Prize for Excellent Energy-Saving Products. The Digi-Tyre ECO reduces rolling resistance by 20% and lowers fuel consumption by 4% compared with the Company's other tires and has been highly acclaimed for its outstanding energy and resource conservation features.

Announcing Environmental Accounting

In fiscal 2000, Sumitomo Rubber introduced environmental accounting for the purpose of ascertaining the effects and costs of its environment protection activities. In 2000, the Company's investments for environment protection amounted to approximately ¥238 million, expenses were about ¥1,729 million, and environment protection effects were approximately ¥371 million. Looking at an expense breakdown, expenses at our own business sites amounted to over 80% of total expenses. These expenses were mainly for desulpherization and denitration equipment as well as for wastewater treatment facilities. The environmental protection effects consisted of a reduction in costs through energy conservation achieved by cogeneration and activities to conserve energy. These effects also included the recycling of and profit on sales of waste materials as well as recycling and reduction of volumes of other types of waste.

ZERO EMISSIONS



Reduction of Industrial Waste (1990=100)

Scope of Consolidation

The Company's consolidated financial statements include Sumitomo Rubber and 86 consolidated subsidiaries (60 domestic and 26 overseas). Sumitomo Rubber applies the equity method to 42 subsidiaries and affiliated companies (36 domestic and 6 overseas).

During the fiscal year under review, a total of seven companies became consolidated subsidiaries, including Zhongshan Sumirubber Precision Rubber Ltd., a production base for precision rubber parts in Guandong, China. On the other hand, a total of five companies were removed from the scope of consolidation due to the merging of subsidiaries in the Company's Sports and Industrial and Other Products businesses. As a result, there was a net increase of two consolidated subsidiaries. Two companies were newly accounted for under the equity method while six companies were no longer accounted for under the equity method. Therefore there was a net decrease of four companies accounted for under the equity method. Because these movements involved small-sized companies, this had no significant impact on the Company's consolidated results.

Net Sales

In the fiscal year ended December 31, 2001, consolidated net sales increased 2.6% to ¥434,463 million. In our Tire business, which accounts for approximately 70% of net sales, we recorded steady growth in sales in replacement, original equipment and export markets. This performance compensated for declines in sales of the Sports and Industrial and Other Products businesses, which were seriously hampered by the effects of a sluggish domestic economy, and enabled the Company to post an overall increase in sales.

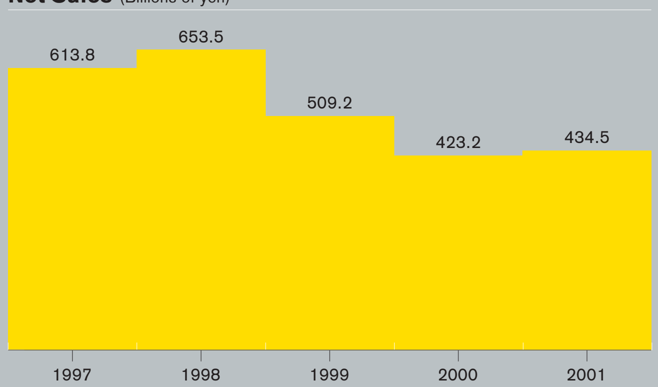
By business segment, sales in the Tire business rose 5.1% to ¥315,944 million, accounting for 72.7% of net sales. Sales in Sports businesses retreated 2.3% to ¥63,080 million, or 14.5% of the Company's net sales, while sales in Industrial and Other Products businesses shrank 4.6% to ¥55,439 million, making up 12.8% of net sales.

Overseas sales rose 9.3% to ¥109,360 million, and the ratio of overseas sales to net sales edged up to 25.2% from 23.6% in the previous fiscal year. Particularly noteworthy was a 27.5% jump in sales in Asian countries, which contributed significantly to overall sales.

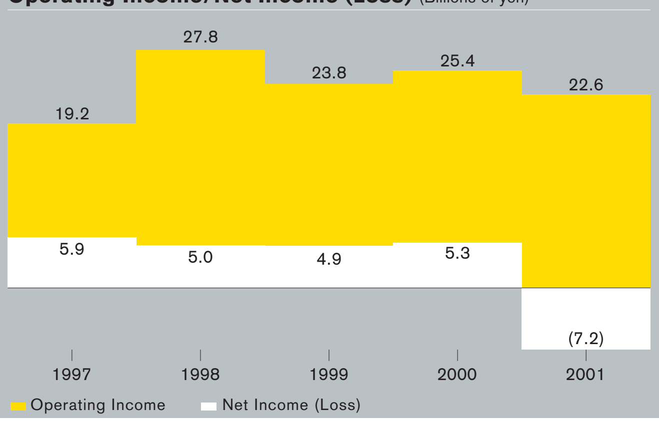
Operating Income

Consolidated gross profit in the fiscal year was up 3.7% to ¥155,389 million, and the gross profit ratio was 35.8%, an improvement of 0.4 percentage point from the previous fiscal year. However, selling, general and administrative expenses rose 6.8% to ¥132,813 million. As a result, operating income declined 11.3% to ¥22,576 million. The operating income ratio fell to 5.2% from 6.0% in the previous fiscal year. The principal reason underlying this decline was a sharp decrease in sales prices, which largely offset such income-increasing factors as a reduction in costs through increased productivity and the effects of a weakening yen.

Net Sales (Billions of yen)



Operating Income/Net Income (Loss) (Billions of yen)



Looking at a breakdown of cost reductions, Sumitomo Rubber's alliance with Goodyear is yielding sweeping improvements to the Company's cost structure. On a non-consolidated basis, we have achieved a 50% increase, or ¥6,000 million, in cost reductions from the previous year through such measures as the joint procurement of materials and increases in productivity.

Turning to operating income by business segment, operating income in the Tire business rose 4.2% to ¥24,247 million. In the Sport business, operating income decreased 29.8% to ¥2,520 million. The Industrial and Other Products businesses posted an operating loss of ¥4,174 million.

Net Income

In other income (expenses), the Company posted large expenses due to several factors.

First, the Company recorded evaluation losses that included ¥6,898 million in impairment loss in assets of a domestic subsidiary, which was related to an unprofitable golf course management company; a ¥3,070 million loss on write down on golf club memberships, which resulted from the application of the new accounting standard for financial instruments; and a ¥2,885 million write down of investments in securities.

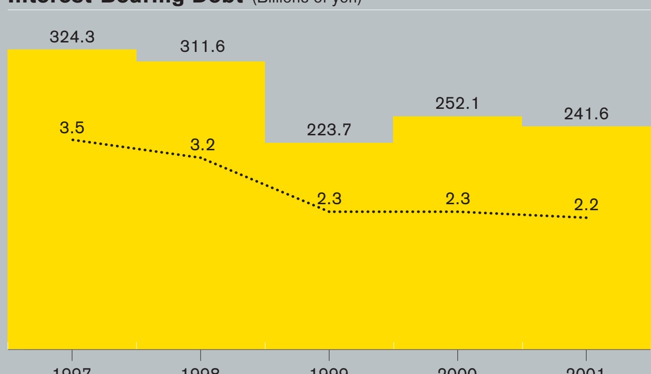
Second, the Company posted expenses of ¥2,866 million from equity in losses of unconsolidated subsidiaries and affiliates. The principal factor underlying this loss was worsening performances of joint ventures with Goodyear in Europe and North America due to the deteriorating economic conditions in those regions. In addition, restructuring expenses planned for fiscal 2002 were moved forward to fiscal 2001, and this also had a significant effect. Moreover, we recorded ¥608 million in expenses for rebuilding overseas subsidiaries as part of expenses for rebuilding our bed business in Europe.

Third, although we posted an ¥11,063 million gain on transfer of securities to employees' retirement benefit trust, we recorded a ¥12,664 million expense from the amortization and write off of initial transition cost of pension and severance plans. As a result, we registered ¥1,601 million net expenses for pension provisions.

As a result of the previous factors, Sumitomo Rubber posted a loss before income taxes of ¥2,343 million, compared with income before income taxes of ¥13,831 million in the previous fiscal year. After income taxes and minority interest in consolidated subsidiaries, the Company recorded a net loss of ¥7,207 million, compared with net income of ¥5,335 million in the previous fiscal year.

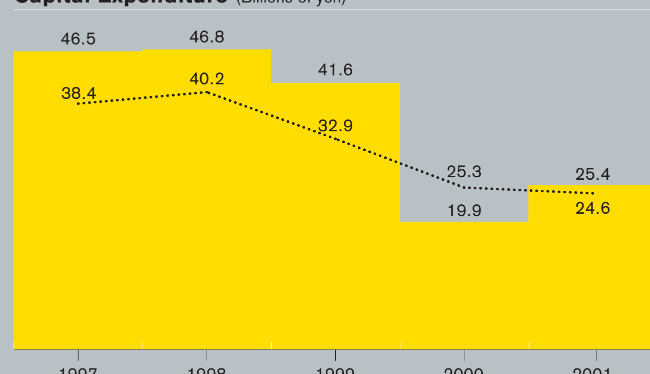
The Company believes that the worsening of its business results in fiscal 2001 was a one-time event and will thus maintain an annual cash dividend per share of ¥10.

Interest-Bearing Debt (Billions of yen)



··· Debt-Equity Ratio (%)

Capital Expenditure (Billions of yen)



··· Depreciation and Amortization

Cash Flows

Cash and cash equivalents at end of year rose ¥3,648 million over the previous fiscal year-end to ¥21,167 million.

Net cash provided by operating activities amounted to ¥42,359 million, up from ¥36,086 million in the previous fiscal year. Despite a ¥2,343 million loss before income taxes, this increase was due to ¥24,645 million in depreciation and amortization and the reversal of other costs not involving cash outflow as well as the effects of efforts to raise the efficiency of operations that include progressing with the recovery of sales receivables and the shrinking of inventories.

Net cash used in investing activities amounted to ¥25,284 million, compared with ¥21,709 million in the previous fiscal year. This consisted mainly of ¥25,372 million in capital expenditures, which were for the acquisition of fixed assets and expenditures for increasing production by the parent company as well as at a subsidiary in Indonesia.

Net cash used in financing activities amounted to ¥15,172 million. This consisted mainly of proceeds from issuance of long-term debt for the repayment of short-term borrowings as well as the repayment of long-term debt, including redemption of bonds, which enabled the Company to reduce its interest-bearing debt by ¥10,543 million. Dividends paid amounted to ¥2,425 million.

When including effect of exchange rate changes on cash and cash equivalents and increase of cash and cash equivalents due to changes in reporting entities, cash and cash equivalents at end of year rose to ¥21,167 million from ¥17,519 million in the previous fiscal year.

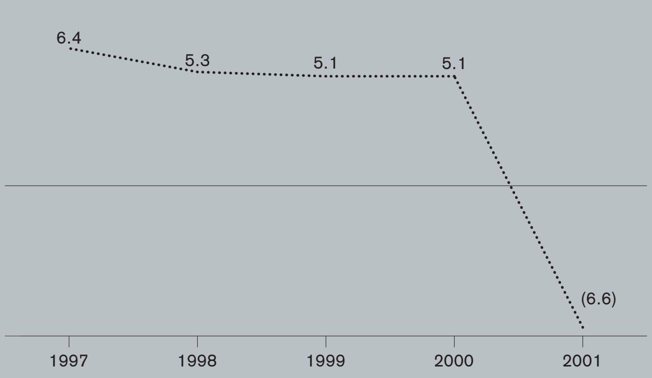
Financial Position

Total assets at fiscal year-end declined ¥9,145 million from the end of the previous fiscal year to ¥514,415 million. Within current assets, notes and accounts receivable and inventories declined due to efforts to raise the efficiency of operations. However, current assets rose ¥3,341 million to ¥203,155 million due to a rise in cash and time deposits. On the other hand, total property, plant and equipment declined ¥2,024 million to ¥179,393 million, owing to an impairment in assets of a golf course management company.

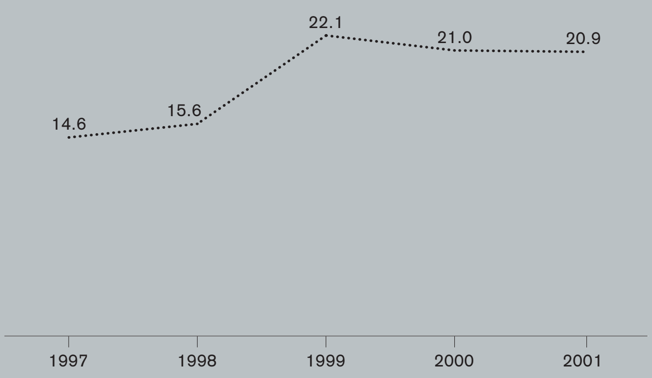
On the liabilities side, interest-bearing debt declined ¥10,543 million to ¥241,600 million due to the repayment of borrowings with the portion of increased funds from the improvement in cash flows. As a result, the debt-equity ratio improved 0.1 point from the previous fiscal year to 2.2 times. Total liabilities declined ¥7,610 million from the end of the previous fiscal year to ¥392,483 million due to efforts to reduce interest-bearing debt.

Shareholders' equity declined ¥2,604 million from previous fiscal year-end to ¥107,391 million. Despite a ¥6,647 million translation adjustment, shareholders' equity decreased because of an ¥11,069 million decline in retained earnings. As a result, the shareholders' equity ratio declined to 20.9%, from 21.0% at the previous fiscal year-end.

Return on Shareholders' Equity (%)



Shareholders' Equity Ratio (%)



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**

	2001 (Millions of yen)	2000 (Millions of yen)	2001 (Thousands of U.S. dollars)
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] Floor [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.

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Tokyo 135-6005, Japan
Tel: (03) 5546-0111
Fax: (03) 5546-0140

Facilities
Kakogawa Factory
Nagoya Factory
Shirakawa Factory
Ichijima Factory
Okayama Tire Proving Ground
Nayoro Tire Proving Ground
Golf Science Center

OVERSEAS OFFICES

Los Angeles Office
438 Amapola Avenue
Suite 100
Torrance, CA 90501, U.S.A.

Toronto Office
c/o Goodyear Canada Inc.
450 Kipling Ave., Toronto
Ontario M8Z 5E1, Canada

Atlanta Office
1850 Beaver Ridge Circle,
Suite D
Norcross, GA 30071, U.S.A.

Brussels Office
Park Lane
Cullinganlaan 2A
B-1831 Diegem
Belgium

Melbourne Office
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O'Herns Road, Somerton,
Victoria 3062, Australia

Dubai Office
c/o EASA SALEH AL GURG
P.O. Box 325, Dubai, UAE

Jeddah Office
c/o BINZAGR COMPANY
P.O. Box 54, Jeddah 21411
Saudi Arabia

Singapore Office
1 Maritime Square
#09-58 World Trade Center
Singapore 099253, Singapore

Beijing Office
No. 905 Beijing Fortune Building
No. 5 Dong San Huan Bei Lu,
Chao Yang District
Beijing 100004, China

MAJOR SUBSIDIARIES

The Ohtsu Tire & Rubber Co., Ltd.
Izumiohtsu, Japan

Dunlop Goodyear Tires Ltd.
Koto-ku, Tokyo, Japan

Goodyear Japan Ltd.
Minato-ku, Tokyo, Japan

P.T. Sumi Rubber Indonesia
Jakarta, Indonesia

Oniris S.A.
Limay, France

Dunlop TECH GmbH
Hanau, Germany

Sumirubber Industries (Malaysia) Sdn. Bhd.
Sungai Petani, Kedah, Malaysia

Sumirubber Industries (Kedah) Sdn. Bhd.
Sungai Petani, Kedah, Malaysia

Zhongshan Sumirubber Precision Rubber Ltd.
Zhongshan, Guangdong, China

Srixon Sports USA, Inc.
Georgia, U.S.A.

Srixon Sports ASIA Sdn. Bhd.
Salangor Darul Ehsan, Malaysia

Srixon Sports Europe Ltd.
Alton, Hampshire, U.K.

MAJOR AFFILIATES

Goodyear Dunlop Tires Europe B.V.
Amsterdam, Holland

Goodyear Dunlop Tires North America, Ltd.
Akron, Ohio, U.S.A.

Goodyear-SRI Global Purchasing Co.
Akron, Ohio, U.S.A.

Nagoya Factory

Shirakawa Factory

Ichijima Factory

Kakogawa Factory

Izumiohtsu Factory (Ohtsu Tire)

Miyazaki Factory (Ohtsu Tire)

Sumi Rubber Indonesia

Sumirubber Industries (Malaysia)

CORPORATE DATA

BOARD OF DIRECTORS

Chairman
Naoto Saito

President
Mitsuaki Asai*

Executive Directors
Toshiyuki Noguchi*
Ryochi Sawada*
Akihiko Nakamura
Hisao Takahashi
Koji Soeda
Yasuyuki Sasaki

Directors
Norio Okayama
Samir G. Gibara
Tsunetoshi Yamaura
Hiroshi Okuno
Mikio Takatsu
Yoshinori Yamada
Hiroyuki Bamba
Takaki Nakano
Masatoshi Tsuchi
Takayuki Saimen
Susumu Shiotani

Auditors
Shigeki Okada
Hiroo Jikihara
Sumao Tokumasu
Kimio Toma

*Representative Directors

(As of March 28, 2002)

INVESTOR INFORMATION

Paid-in Capital
¥33,904,513 thousand

Number of Common Stock
Authorized: 800,000,000
Issued: 242,543,057

Number of Shareholders
10,206

Major Shareholders

Sumitomo Electric Industries, Ltd.	27.9%
The Goodyear Tire & Rubber Company	10.0%
Japan Trustee Services Bank, Ltd.	5.4%
Shinsei Bank, Ltd.	4.0%
Sumitomo Corporation	4.0%
The Mitsubishi Trust and Banking Corp.	4.0%
Sumitomo Mitsui Bank, Ltd.	2.2%
Goldman Sachs International	1.9%
The Toyo Trust & Banking Co., Ltd.	1.7%
Trust & Custody Services Bank, Ltd.	1.5%

Stock Exchange Listings
Tokyo, Osaka, Nagoya

Ticker Symbol
5110

Transfer Agent
The Sumitomo Trust & Banking Co., Ltd.
5-33, 4-chome, Kitahama, Chuo-ku,
Osaka 541-0041, Japan

Independent Accountants
PricewaterhouseCoopers
Nihon Seimei Imabashi Bldg.,
7th Floor 3-1-7, Imabashi, Chuo-ku,
Osaka 541-8582, Japan

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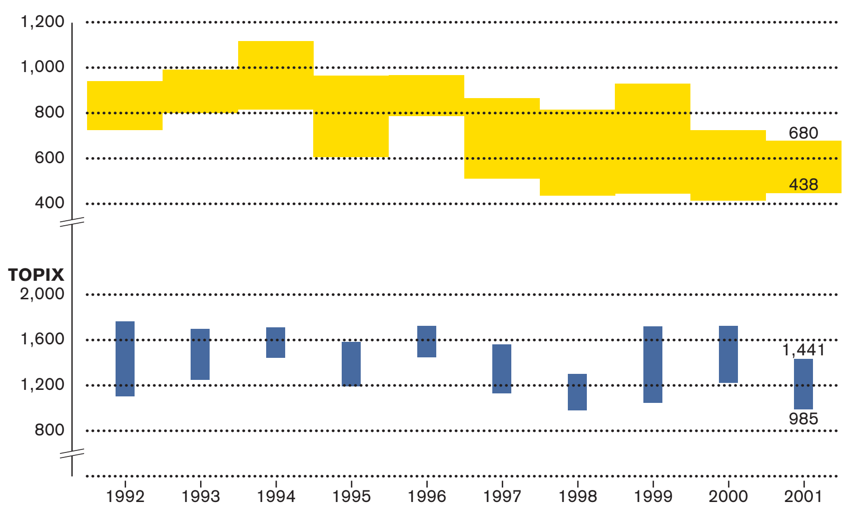
Hyogo 651-0072, Japan
Tel: (078) 265-3004
Fax: (078) 265-3113

(As of December 31, 2001)

Stock Price (Yen)



Zhongshan Sumirubber Precision Rubber Ltd. (China)

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