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In Line with Its Long-Term Vision, the Sumitomo Rubber Group Will Endeavor to Further Enhance Earnings Capabilities

Attaining Record-High Sales and Profit

In the fiscal year ended December 31, 2011, the Sumitomo Rubber Group continued to face harsh operating conditions. Among the factors contributing to the situation were major price hikes for such raw materials as natural rubber, which saw prices reach a historic high in the beginning of fiscal 2011. In addition, domestic automobile production fell year on year due to the Great East Japan Earthquake while severe floods cramped production in Thailand.

Addressing the situation, the Sumitomo Rubber Group worked quickly to restore factory and business sites dam-

aged by the Great East Japan Earthquake as well as to further enhance its earnings capabilities by expanding sales of high-value-added products, including fuel-efficient tires; reinforcing production capacity at various overseas factories; and making across-the-board efforts to improve productivity and reduce costs.

Reflecting these efforts, consolidated net sales in fiscal 2011 grew 12.0% year on year to ¥676,904 million and operating income rose 13.4% to ¥53,924 million. During the fiscal year under review, the Sumitomo Rubber Group recorded a ¥4,697 million loss on disaster due to the Great East Japan Earthquake and the eruption of Mount Shinmoe in the Kirishima mountain range. Despite such

loss, consolidated net income surged 32.5% year on year to ¥28,386 million. Thus, the Group's sales and profit for the year under review were record highs.

Progress in Implementing Our Management Policy

In our previous annual report, we introduced a management policy in line with our Long-Term Vision. This policy was broken down into five themes aimed at realizing dynamic growth amid a rapidly changing environment. In this report, I would like to describe our progress under two of these themes, namely, the "establishment of international business structure" and the "consolidation of earnings and financial foundations to support growth path."

Management Policy Themes

1. Structural reform based on a long-range outlook
2. Establishment of international business structure
3. Consolidation of earnings and financial foundations to support growth path
4. Value sharing
5. Nurturing next-generation top management

Establishment of International Business Structure

In the Tire business, we are striving to reinforce our global supply system to meet rising demand, particularly in emerging nations. As part of such efforts, we are constructing a second factory in China—now the world's second largest automobile market—that is scheduled to come on line in July 2012. In addition, we decided to establish a tire factory in Brazil that will be the Group's first such manufacturing

base for the Latin American market, initiating construction in January 2012. Furthermore, our factory in Thailand, which serves as a key base for the Group's global business development, has been expanding its production capacity and is expected to become one of the largest tire factories in the world. Sumitomo Rubber Industries is currently planning the construction of another new tire factory and will announce details of the plan in the current fiscal year.

In the Sports business, we are proactively developing businesses in the extensive U.S. market as well as the growing Asian market. During fiscal 2011, we increased the market share enjoyed by our golf balls in the United States while expanding sales in the burgeoning Chinese market. We also established a sales subsidiary in South Korea, the world's third largest golf goods market, in preparation for meeting local needs.

In the Industrial and Other Products business, our global business bases are steadily taking root. Our rubber glove production factory in Malaysia celebrated its 30th anniversary in 2011 and the Zhongshan Factory in China, which manufactures precision rubber parts for printers and photocopiers, marked its 10th anniversary.

Consolidation of Earnings and Financial Foundations to Support Growth Path

Under our Long-Term Vision, in which we have set fiscal 2015 as the year for attaining our targets, we aim to "realize the industry's top earnings power." One of the numerical targets we set ourselves was achieving an operating income ratio of 10% or greater. Given the changes in the competitive environment, however, we need to reconsider this target, making 10% a milestone and aiming for a higher objective.

Numerical Targets and Achievements under the Long-Term Vision and the Medium-Term Management Plan

(Billions of yen)

	2007	2008	2009	2010	2011	2012 Target	2015 Target
Net sales	¥567.3	¥605.0	¥524.5	¥604.5	¥676.9	¥700.0	¥800.0
Operating income	45.1	25.7	28.7	47.6	53.9	62.0	10% or more
Operating income ratio	8.0%	4.2%	5.5%	7.9%	8.0%	8.9%	10% or more
Net income	19.5	1.0	9.1	21.4	28.4	28.0	5% or more
Net income ratio	3.4%	0.2%	1.7%	3.5%	4.2%	4.0%	5% or more
ROA (operating income base)	7.1%	3.9%	4.6%	7.7%	8.3%	9.0%	10% or more
ROE	9.1%	0.5%	4.9%	11.4%	14.7%	13.0%	15% or more
Interest-bearing debt	¥239.6	¥275.7	¥261.6	¥241.3	¥274.2	¥260.0	¥200.0
Equity ratio	33.9%	28.3%	30.5%	30.5%	29.4%	35.0%	40.0%
Debt-to-equity ratio	1.1 times	1.5 times	1.4 times	1.3 times	1.4 times	1.1 times	0.7 times

Amid a severe business environment encompassing the ongoing appreciation of the yen and raw material price hikes, Sumitomo Rubber Industries must work quickly to improve its current profit ratio in order to gain a competitive edge. Therefore, we need to secure “New Earnings” and, to this end, are currently engaged in “NEXT” activities.

As part of our “NEXT” activities, we are applying our proprietary technologies, such as eco-friendly technology, proven new production system and simulation technology, in our global business development initiatives to secure “New Earnings.” As one of our medium- to long-term objectives, we aim to make efficient use of such “New Earnings” to promote “Total Optimization” across the board to achieve higher profit. To achieve this goal, we have established three targets: (1) boosting our competitive edge in the eco-friendly tire market; (2) enhancing cost-competitiveness and (3) increasing our technological advantage.

NEXT Activities	
New Earnings	X Total Optimization
Securing Next Earnings	Promoting Total Optimization

●Boosting Our Competitive Edge in the Eco-Friendly Tire Market

Responding to the tire labeling system* introduced in Japan in January 2010, Sumitomo Rubber Industries released ENASAVE series fuel-efficient tires in various sizes. The series has rapidly gained a leading position in the domestic fuel-efficient tire market. Moving forward and avoiding complacency with this success, we launched the ENASAVE PREMIUM tire in February 2012, which received an AAA classification under the tire labeling system for its rolling resistance. We will continue to strive to expand the fuel-efficient tire lineup.

In the current fiscal year, we are increasing our focus on global business development with regard to the ENASAVE brand. Starting with the Asian region, we will introduce the ENASAVE fuel-efficient tire in Thailand, China and Indonesia.

As a medium- to long-term theme in the development of fuel-efficient tires, we are aiming for a tire with half the rolling resistance of a conventional tire. Currently, we are making a steady progress with an eye to product release in 2015.

Furthermore, we have been addressing the issue of a fossil resource-free tire that poses minimal environmental

burden from either a raw material or fuel cost perspective. Our efforts have been successful—we were able to replace the final 3% of fossil resource content of the ENASAVE 97 tire with naturally sourced ingredients. We presented a prototype of the 100% fossil resource-free tire at the Tokyo Motor Show held in December 2011. We are currently developing mass-production technology for the new tire and are expecting to introduce a commercial model in 2013.

* A labeling guideline to promote fuel-efficient tires

●Enhancing Cost-Competitiveness

We have consistently made achievements in the “ABC [Asian Best Cost] Project,” which we launched in 2006. In recent years, however, the escalating prices of natural rubber and crude oil are negating past achievements. Therefore, we are striving to rationalize the entire production processes by using alternative materials, improving productivity and cutting fixed costs on both the production and sales fronts. Simultaneously, we will pursue the further reduction of overall costs from the “Total Optimization” perspective in order to build a structure more tolerant of market changes.

Specifically, we will work to ensure the optimal cost performance of production systems at all times, despite fluctuations in exchange rates and demand. We believe such efficiency will be achieved by standardizing our factories both in Japan and overseas, a move that will ensure that regardless of factory location, the quality and performance of our products will be uniform. This pursuit of the most cost-efficient manufacturing processes will not be limited to certain departments; rather, it will apply across the board. To this end, we have established a team specializing in the global procurement of reasonably priced materials. Through the ABC Project, we are aiming to achieve a competitive edge in emerging nations.

Based on the ABC Project concept, we will adopt a standardized tire manufacturing and sales system throughout the Asian region, including in China and Thailand, in fiscal 2012. We expect that stepped-up mass production in the region will yield reduced costs and improved competitiveness.

●Increasing Our Technological Advantage

In 1992, the Sumitomo Rubber Group launched a department specializing in simulations and has since proactively invested in the development of simulation technologies. Our advanced simulation technologies have been effectively

applied in the design of tire tread patterns and golf ball dimples. We have also leveraged the capabilities of the Earth Simulator, a supercomputer, to analyze the nanostructure of materials that might significantly reduce the rolling resistance of tires. In 2012, the K computer, presently ranked as the world's fastest next-generation supercomputer, will come on line in Kobe City. We are planning to create innovative technologies as well as new materials and products by making use of the K computer.

The prototype of the *Taiyo* tire production system was completed in 1996, and we have since been steadily installing and upgrading it at our production facilities. We are currently working on the development of a next-generation production system that represents a considerable advance on the *Taiyo* system and expect our work to be finished by the end of 2012.

In the Industrial and Other Products business segment, we continually work to extend our technological advantages. One result of our efforts to date has been the creation of earthquake tremor absorption dampers made using a proprietary high damping rubber. We have introduced various types of dampers for use mainly in buildings and bridges. During fiscal 2011, we developed the MIRAIE damper for use in the construction of housing, and released it in March 2012.

Increasing Annual Dividends Paid by ¥3 Per Share

Sumitomo Rubber Industries regards the return of profits to shareholders as a priority issue. In light of this, the Company has established a basic policy to ensure long-term

sustainable returns to shareholders while comprehensively reviewing the levels of dividend payout ratios on a consolidated basis, performance prospects and retained earnings. For fiscal 2011, we increased the year-end dividend ¥7 per share from the initial forecast of ¥8 per share to ¥15 per share. Combined with an interim dividend of ¥8 per share, annual cash dividends for the fiscal year under review totaled ¥23 per share, a ¥3 increase per share compared with the previous fiscal year. Accordingly, the consolidated payout ratio stood at 21.3%. For fiscal 2012, we plan for an annual cash dividend of ¥23 per share, comprising an interim dividend of ¥10 per share and the year-end dividend of ¥13 per share.

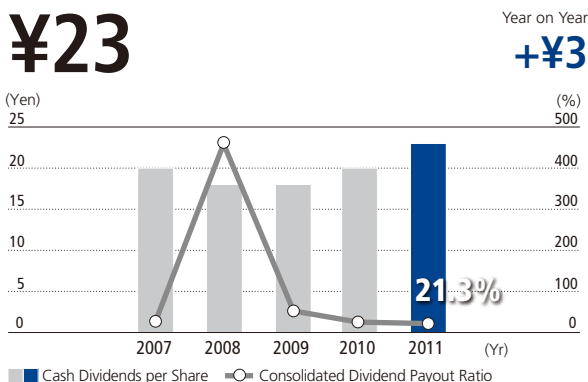
Advancing Toward Higher Goals

In "the Sumitomo Rubber Way," in which our values and principles of action are codified for the entire Group, the principle of "dedication to greater goals" is upheld. Adherence to this principle means that we will always strive to the utmost when pursuing our goals and thus attain greater growth. With all employees working in concert, the Sumitomo Rubber Group will strive to further enhance its earnings capabilities as it strives toward achieving the Long-Term Vision.

We will also fulfill our numerous social responsibilities, including in the areas of environmental preservation and compliance, to become a corporate group that meets society's expectations and wins its trust by delivering "genuine value."

We sincerely ask for your continued understanding and support.

Cash Dividends per Share and Consolidated Dividend Payout Ratio



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