Ikuji Ikeda
President and CEO, Representative Director

IFRS Voluntarily Adopted in Fiscal 2016

From the fiscal year ending December 31, 2016, the Group, as a truly global corporation, adopted the International Financial Reporting Standards (IFRS). The adoption is expected to improve the compatibility of our financial data with systems used by capital markets worldwide and enhance the Group's quality of management with regard to subsidiaries. For presentation purposes, consolidated figures for the previous fiscal year and comparisons thereto are based on IFRS. In addition, the Company uses business profit* as its unique management indicator. This new management indicator is intended to allow the ongoing evaluation of each business segment's performance as the Group aims toward sustainable growth in the medium and long term. The Group also believes that the indicator provides useful information for users of the consolidated financial statements to assess its operating results.

During fiscal 2016, the U.S. economy continued to expand, and the European economy enjoyed steady growth overall. China maintained a high growth rate despite slowing down, and the Indian economy remained firm. In countries like Russia and Brazil, however, stagnant market conditions persisted.

In Japan, the economy remained weak. Capital investment and private-sector consumption stagnated mainly because the strong yen during the period rendered the outlook for corporate earnings uncertain.

As for the business environment surrounding the Group, natural rubber and crude oil prices stayed relatively low throughout the fiscal year despite gradual increases that gave way to a sharp rise toward the year-end. Turning to foreign exchange rates, the yen continued to appreciate throughout the period (except against a number of emerging nations' currencies), which had a large impact on sales prices.

Against this backdrop, the Group worked to raise sales of high-value-added products, including fuel-efficient tires, while proactively entering new markets and business fields with the aim of realizing VISION 2020—the Group's long-term vision that sets

Consolidated Fiscal 2016 Results

(Billions of yen)

IFRS	Actual FY2016	Actual FY2015	y-o-y
Sales revenue	756.7	798.5	95%
Business profit (ratio)	74.9 (9.9%)	78.9 (9.9%)	95%
Operating profit (ratio)	73.3 (9.7%)	89.2 (11.2%)	82%
Profit attributable to owners of parent	41.4	72.0	57%

(Billions of yen)

JGAAP	Actual FY2016	Actual FY2015	y-o-y
Net sales	805.0	848.7	95%
Operating income (ratio)	74.3 (9.2%)	77.1 (9.1%)	96%
Ordinary income (ratio)	71.0 (8.8%)	78.9 (9.3%)	90%
Profit attributable to owners of parent	49.9	55.8	89%

targets for 2020. To this end, we rallied our Groupwide strengths to support initiatives aimed at driving business growth and improving profitability.

As a result, consolidated sales revenue decreased 5% year on year to ¥756.7 billion, business profit* (which represents operating profit under JGAAP) fell 5% year on year to ¥74.9 billion, operating profit declined 18% year on year to ¥73.3 billion, and net profit** decreased 43% to ¥41.4 billion. Thus, revenue and profit were down, a situation largely attributable to the appreciation of the yen. For details about the difference between JGAAP and IFRS, see the table above.

* Sales revenue – (Cost of sales + Selling, general and administrative expenses)
** Profit attributable to owners of parent

Progress of the Medium-Term Five-Year Management Plan

During fiscal 2016, we actively promoted various measures in line with the first year of the newly formulated medium-term management plan. With regard to Group operations, we reinforced the new three-region management structure spanning the Americas, Europe and Africa, and Asia and the Pacific, which replaced the previous organization focused on the Head Office in Japan. At the same time, we bolstered our development, production and sales networks in Europe and the United States, where we now enjoy increasing market flexibility.

In the Americas, we worked hard to increase production capacity at U.S. factories, especially for SUV tires, which are in high demand. At factories in Brazil, we promoted the local production of truck and bus tires, which are expected to see an increase in demand. Moreover, we continued to grow the value of the Falken brand, maintaining our sponsorship contract with Major League Baseball.

In the Europe and Africa region, the Turkish factory serving as a supply base for the European market that came on line in 2015 is continuing to steadily ramp up its production capacity. Our South African factory, which makes highly functional tires for SUVs and passenger cars, is also increasing its production capacity.

In the Asia and Pacific region, China introduced voluntary regulations regarding fuel-efficient tires in September 2016. We launched SP TOURING R1 and ENASAVE EC300+ tires in line with these new regulations, and sales have been brisk. On the sales front, we reinforced development efforts for a new Chinese sales channel called D-Guard and worked to expand the number of stores handling Falken brand tires in China, India and Australia.

And, in Japan, we launched Dunlop brand WINTER MAXX 02 tires in August 2016. These tires received rave reviews for their ability to deliver a long-lived excellent performance on icy road surfaces.

Then, in December 2016, we agreed to the acquisition of the overseas Dunlop trademark and the Dunlop brand sport goods and licensing businesses. Thanks to this deal, Sumitomo Rubber now owns the Dunlop trademark in areas outside of Europe, the United States, India and Australia, enabling it to proactively expand the Dunlop brand around the world. Our focus will be on improving brand value, with efforts directed by Dunlop International Co., Ltd., a brand management company founded on February 1, 2017.

Also in the Tire business, we acquired the U.K. tire sales company Micheldever Group Ltd. on February 10, 2017, in line with our drive to expand sales in Europe and the United States. The United Kingdom is key to this expansion, being the second largest tire market in Europe after Germany. The Micheldever Group boasts a large share of the market with annual sales of around 6 million tires. With this acquisition, we intend to bolster the Falken brand's presence in the U.K. market.

Micheldever tire retail outlet PROTYRE

Moving from a structure focused on the Head Office in Japan to a three-region structure

Acquiring the overseas Dunlop brand business

Strengthening development, production and sales network structure in Europe and the United States

Acquiring a major U.K. tire sales company

Making major progress toward successfully implementing the medium-term management plan

Outlook for the Fiscal Year Ending December 31, 2017

The global economic outlook is ever more uncertain due in part to the anticipated impact of Brexit on the European Union and potential global repercussions of the new U.S. administration's conservative policies. Such uncertainty is expected to grow due to rising crude oil and natural rubber prices, exchange rate trends and the manifestation of geopolitical risks. In Japan, consumer confidence may deteriorate due to concerns about financial instability and the murky global economic outlook.

As for the Sumitomo Rubber Group's results forecast for fiscal 2017, a fall in profit is inevitable given the climbing raw material prices amid the very harsh business environment. We expect sales revenue to rise 12% year on year to ¥850 billion, business profit to decline 33% to ¥50 billion, operating profit to decrease 32% to ¥50 billion and net profit to fall 20% to ¥33 billion.

We anticipate sales increases in all our business categories, namely the Tire, Sports and Industrial and Other Products businesses. On the other hand, we project declines in business profit for the Tire business, down 35% year on year, and the Sports business, a fall of 30%, due mainly to rising raw material prices. However, we do expect the Industrial and Other Products business to see business profit rise 12% as a result of the sales increase.

Moreover, we are confident that as of December 31, 2017, our tire production capacity will have expanded 2% year on year to 62,800 tons per month, an increase of 4% in annual production volume to 663,000 tons, and predict the annual utilization rate will be 89%.

Corporate Governance

As a good corporate citizen, the Group aims to contribute to social and economic development through its business activities. We therefore endeavor to ensure comprehensively sound corporate governance. Operating in line with the corporate governance code, we will continue to work to secure sustainable business growth and medium- to long-term corporate value. As a global company, we carefully listen to international voices and are actively taking on progressive initiatives.

Overview of CSR Policy and Initiatives

As part of the Sumitomo Group, the Group believes that acting in line with the Sumitomo Business Spirit is in itself acting to fulfill CSR. The spirit incorporates the strong sense of mission that Sumitomo businesses must not only benefit themselves; they must also benefit the nation and society as a whole.

To invigorate its CSR activities and be a corporate group that earns the trust of society, the Group has formulated its CSR Philosophy and its CSR Guideline comprising five ideals: Green (green initiative), Ecology (ecological process), Next (next-generation product development), Kindness (kindness to employees) and Integrity (integrity for stakeholders). Every year, in line with the guideline, we set initiative goals while establishing high-priority indicators (materiality) and promoting the PDCA cycles.

Dividend Policy

The Company considers the return of profits to shareholders to be a high-priority issue. Accordingly, the Company has established a basic policy of ensuring 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 2016, annual cash dividends totaled ¥55 per share, comprising a year-end dividend of ¥25 per share in line with the initial forecast and an interim dividend of ¥30 per share. Accordingly, the consolidated payout ratio stood at 34.9%.

Amid rising economic uncertainty, the Group continues to work toward the realization of its Long-Term Vision. We are working to expand business and strengthen our earnings capabilities by fostering the greater growth of existing business and creating new sources of revenue.

We sincerely ask for your continued understanding and support.