

The Sumitomo Rubber Group's basic management policy is to enhance its corporate value as a promising and reliable global company for the benefit of all stakeholders, including shareholders. Under this policy, the Group considers the enhancement of corporate governance as a major management objective in its efforts to better fulfill its social responsibility and enhance its transparency. This policy will help to strengthen Group management and establish deep relationships of trust with society, while ensuring Groupwide business efficiency.

## Corporate Governance Structure

## Overview

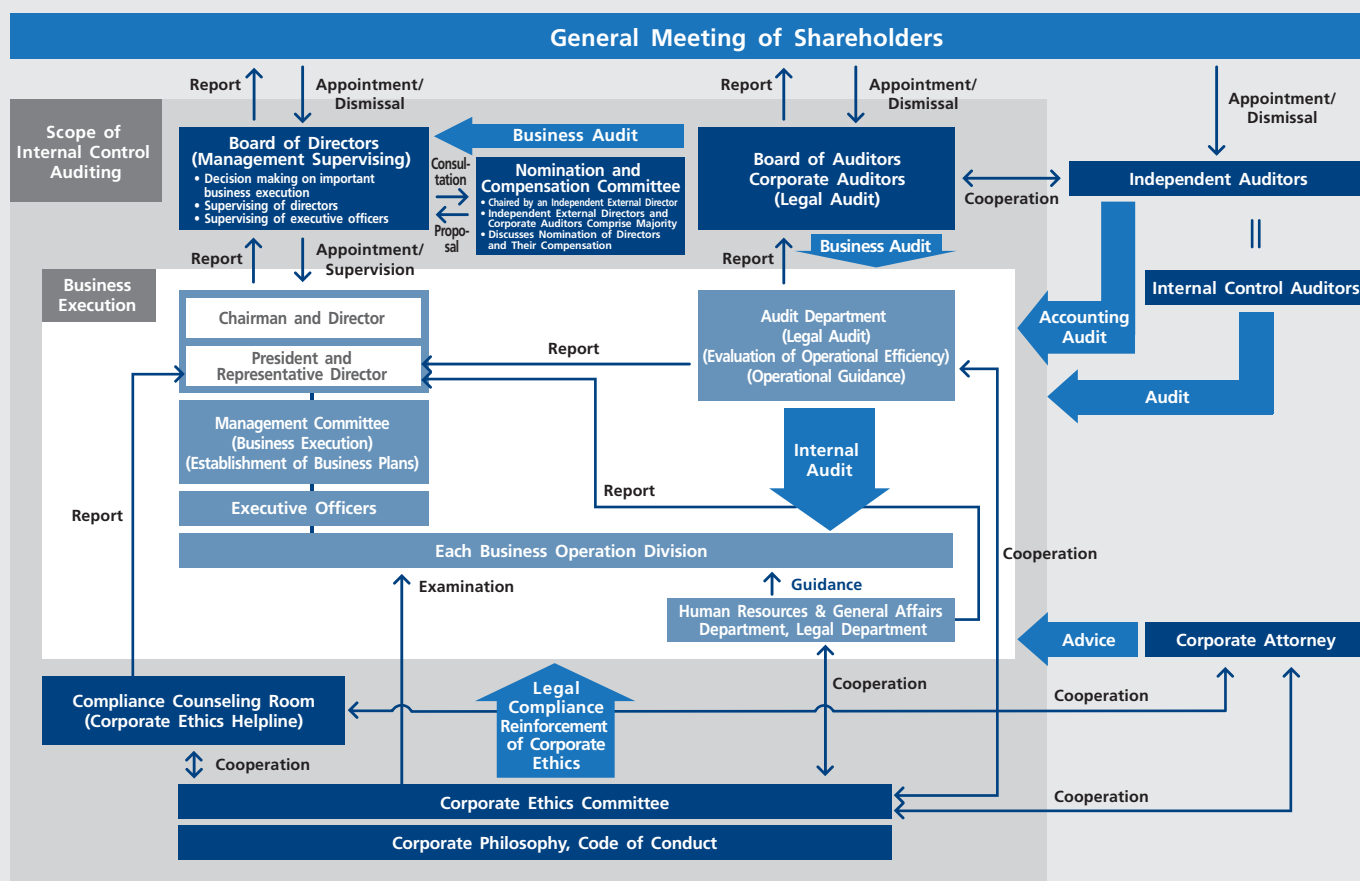
Sumitomo Rubber Industries has adopted a corporate system with a Board of Auditors and maintains directors, a general meeting of shareholders, accounting auditors and the following bodies.

The Company's Board of Directors deliberates and determines matters of managerial importance and supervises directors' execution of operations. As of March 30, 2017, the Board of Directors was composed of 11 members, three of whom were external directors.

Corporate auditors independently audit directors' execution of operations. As of March 30, 2017, the Company maintained a structure of five corporate auditors, two of whom were full-time corporate auditors. Full-time corporate auditors attend important internal meetings and confirm important documents for approval.

The Board of Auditors is composed of all of the Company's corporate auditors. To reinforce the management auditing function, three of the five corporate auditors serve as external auditors, securing a structure to conduct fair and objective audits.

In addition to the abovementioned organizations stipulated under Japan's Corporation Law, the Company established a Management Committee composed of internal directors and executive officers appointed by the president, who concurrently serves as a representative director. With the attendance of full-time corporate auditors, the Management Committee makes prompt



managerial decisions based on discussions or the reporting of matters considered to be important to management.

Furthermore, the Company adopted an executive officer system in March 2003. This system was put in place with the aim of establishing a management structure that promotes the separation of management supervision and execution, clarifies the rights and responsibilities of each business and promptly responds to changes in the business environment. As of March 30, 2017, there were 25 executive officers, 19 of whom did not serve concurrently as directors.

To realize even greater corporate value, in 2016 the Company established the Nomination and Compensation Committee as a voluntary initiative to enhance objectivity and transparency in the nomination of directors and determination of their compensation. Chaired by an independent external director, this committee serves as an advisory body for the Board of Directors, with the majority of members consisting of independent external directors and independent external corporate auditors.

### **Reasons for Adopting the Aforementioned Structure**

Guided by the Sumitomo Business Spirit as well as its Corporate Philosophy, the Sumitomo Rubber Group maintains a basic management policy of sustainably enhancing its corporate value as a promising and reliable global company acting for the benefit of all stakeholders, including shareholders. To that end, the Group continually strives to deliver attractive offerings, greater user comfort and other value for consumers. Under this policy, the Group considers the enhancement of corporate governance a major management objective, as it aims to ensure Groupwide business efficiency, establish deep relationships of trust with society and maintain fair and even more transparent operations. Accordingly, the Group currently believes that the aforementioned corporate governance structure is best suited to facilitating these pursuits.

### **Implementation and Status of the Internal Control System**

Based on compliance with social norms, which are stipulated in the Company's Code of Conduct, Sumitomo Rubber Industries maintains the guideline that corporate activities must adhere to laws and ordinances, social norms and standards of public decency. Moreover, the Company has established systems to ensure that in the execution of their duties, directors comply with laws and the Company's Articles of Incorporation and that Group operations undertaken by the Company and its subsidiaries are always appropriate, thereby securing strict legal compliance. In addition to complying with laws and its Articles of Incorporation, Sumitomo Rubber Industries aims to fulfill its corporate social responsibilities and, to this end, has established a strict code of corporate ethics while pursuing sound business operations. To that end, the Company formulated "Regulations on Corporate Ethics Activities" in February 2003. Simultaneously and in line with these regulations, the Company established the Corporate Ethics Committee, which meets on a quarterly basis and is chaired by the president, with the aim of strengthening its Groupwide compliance system. Furthermore, Sumitomo Rubber Industries set up a compliance counseling room directly controlled by the president as a corporate ethics helpline for employees. This enables the Corporate Ethics Committee to investigate any problems that arise within the Group and give sufficient attention to ensuring that those employees who come forward are not penalized. With a close eye on legal issues,

the Company also takes such measures as seeking advice from corporate attorneys as circumstances demand.

### **Implementation and Status of the Risk Management System**

With regard to a variety of management risks that could exert a significant impact on Group operations, including issues with product quality, legal requirements, environmental concerns, credit, accidents and disasters, each division and department undertakes preemptive analyses of potential risks and formulates appropriate countermeasures, which are discussed at management meetings in accordance with the risk management rules. When conducting risk analysis and formulating countermeasures, the Company requests on an as-needed basis advice and instruction from specialists, such as corporate attorneys. For cross-departmental risks, each administration department works in close collaboration with related divisions and departments in their respective areas of operation to conduct Companywide countermeasures.

Furthermore, Sumitomo Rubber Industries established a Risk Management Committee based on its risk management rules. Chaired by the president, the Risk Management Committee meets twice a year to control Groupwide risk management activities and investigates such activities to confirm the effectiveness of the risk management system.

Should significant risks materialize, or be expected to materialize, the Company president will establish a risk control headquarters based on the risk management rules.

### **Internal Audits and Audits by Corporate Auditors**

In accordance with audit plans and policies set out by the Board of Auditors, each corporate auditor attends important meetings, including Board of Directors' meetings; hears reports on the status of job execution from directors and internal audits; reviews important approval documents; and implements on-site audits at the Head Office, major business sites and subsidiaries while working closely with accounting auditors to ensure that audits are conducted in an appropriate manner.

Sumitomo Rubber Industries' internal audit function is the responsibility of the Audit Department. Under the direct control of the president, the Audit Department is composed of 13 staff and one fulltime assistant to the corporate auditors. The Audit Department conducts audits of the Group as a whole and evaluates the effectiveness of its internal control system over the Group's financial reporting. In accordance with audit policies and annual internal audit plans, the Audit Department implements onsite audits of the Head Office, major business sites and affiliates to evaluate the efficacy, efficiency and degree of compliance adequacy in connection with the execution of operations at each division and department and related Group company. On the completion of an internal audit, the results and any recommendations for improvement are reported to the president and the Board of Auditors in an effort to ensure reciprocal collaboration. The Audit Department and accounting auditors facilitate closer collaboration as needed to fulfill their duties.

For accounting audits, the Company has entered into an audit agreement with KPMG AZSA LLC in line with the Corporation and the Financial Instruments and Exchange Laws. In the fiscal year under review, Mr. Kenichiro Kuroki, Mr. Hirofumi Tani and Mr. Takaaki Mitsui, were primarily responsible for accounting audits as certified public accountants (CPAs), with 23 other CPAs serving as their assistants alongside 17 staff

members at KPMG AZSA LLC.

Looking at the Company's corporate auditors, Mr. Toshiyuki Noguchi has served the Company in the field of accounting and financial affairs for many years, while Mr. Yasuyuki Sasaki, who has long served the Company as well as Sumitomo Electric Industries, Ltd., boasts extensive experience in the same field. In addition, Mr. Morihiro Murata is a CPA and tax accountant. Leveraging their experience, they contributed their expert knowledge on finance and accounting to the Company.

### External Directors and External Corporate Auditors

Sumitomo Rubber Industries has three external directors and three external corporate auditors.

Director Keizo Kosaka leverages his abundant knowledge as a lawyer who excels at corporate legal affairs to provide valuable comments and opinions from an objective perspective. Therefore, the Company anticipates that he will continue to help enhance its corporate governance.

Director Fumikiyo Uchioka leverages his experience as a serving member of the board at Sumitomo Electric Industries, Ltd. to provide valuable advice and opinions regarding the broad aspects of the Company's operations. Therefore, the Company expects that he will make constant contributions to the enhancement of its corporate governance.

Director Kenji Murakami, who has served as the president and representative director of Daiwa House Industry Co., Ltd., leverages his experience in corporate management to provide valuable advice and opinions regarding the broad aspects of the Company's operations. Therefore, the Company expects that he will help the Company strengthen corporate governance.

Corporate auditor Tadao Kagono, a university professor specializing in business administration, leverages his academic expertise and considerable knowledge to provide opinions on directors' execution of operations from an objective perspective. Therefore, the Company anticipates that he will help reinforce its auditing system.

Corporate auditor Morihiro Murata, a CPA and tax accountant boasting considerable knowledge of finance and accounting, leverages his expertise as well as auditing experience as an external director who concurrently attends the Audit and Supervisory Committee at Kagome Co., Ltd. and as an Outside Audit & Supervisory Board Member at KOKUYO Co., Ltd. to provide opinions on directors' execution of operations from an objective perspective. Therefore, the Company expects that he will help strengthen the Company's auditing system.

Corporate auditor Tetsuji Akamatsu, who served as the president of KINREI CORPORATION and as a corporate auditor at Cogene Techno Service Co., Ltd. (currently, Creative Techno Solution Co., Ltd.), leverages his experience in corporate management to provide opinions on directors' execution of operations from an objective perspective. Therefore, the Company expects that he will help the Company reinforce its auditing system.

In appointing external directors and external corporate auditors, Sumitomo Rubber Industries has acted in line with its in-house standards for assessing the independence of candidates for these personnel. The Company is thus confident that the interests of its external directors and external corporate auditors are not in conflict with the interests of general shareholders.

## Remuneration of Directors and Corporate Auditors

**A breakdown of fiscal 2016 remuneration by position, total amount of remuneration by type and the number of persons to be paid, is as follows.**

	Total amount of remuneration (Millions of yen)	Total amount of remuneration by type (Millions of yen)				Number of persons to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding external directors)	466	351	—	115	—	9
Corporate auditors (excluding external corporate auditors)	49	49	—	—	—	2
External directors and external corporate auditors	51	51	—	—	—	6

Notes:

1. The number of persons to be paid refers to the total number of remuneration recipients.
2. As of December 31, 2016, Sumitomo Rubber Industries had 11 directors and five corporate auditors. Any difference between these numbers and the numbers of persons to be paid is attributable to one director who retired during the fiscal year under review.
3. In accordance with a resolution at the 123rd Ordinary General Meeting of Shareholders held on March 26, 2015, the maximum total amount of remuneration for directors and corporate auditors was set at ¥800 million per year (of which ¥70 million per year is for external directors) and ¥100 million per year, respectively. In fiscal 2016, the Company paid ¥492 million in total to 12 directors, including one director who retired during said fiscal year, and ¥74 million in total to five corporate auditors.

### Remuneration Amount and the Company's Policies for Determining Its Calculation Method

Sumitomo Rubber Industries' remuneration for directors and executive officers consists of basic compensation and bonuses. The basic compensation is determined based comprehensively on each individual's position, duties and responsibilities as well as the Company's business results. Directors' compensation is paid within the framework approved at the Company's General Meeting of Shareholders. The amount of each bonus is determined in accordance with an evaluation of the Company's business results as well as each director's business execution.

The amount of remuneration for corporate auditors is determined in discussions among corporate auditors and paid within the framework approved at the Company's General Meeting of Shareholders.

Although stock-based incentives are not paid, the Company encourages the purchase of its stock through a stockholding association scheme for directors and executive officers. When determining the amount of bonuses, the Company also takes into account the contributions made by each individual to the progress of medium- and long-term business plans. In these ways, the Company is providing directors and executive officers with incentives to achieve sustainable business growth. As for performance-based remuneration and stock options linked to medium- and long-term business results, the Company will engage in ongoing in-house discussions as well as dialog with its shareholders to assess the optimal timing for the introduction and determine the form of remuneration.

The Company determines the amount of remuneration for directors and executive officers based on a resolution of the Board of Directors' after examining proposals submitted by the Nomination and Compensation Committee, which discusses the matter from objective and unbiased viewpoints, with independent external directors comprising the majority of members.