A Message from the Chief Financial Officer

Review of Financial Results

Due to the global fallout from the novel coronavirus (COVID-19) pandemic, the business environment surrounding our group has been extremely severe, with market conditions deteriorating significantly in the first six months—and particularly in the second quarter—of the fiscal year ended December 31, 2020 (fiscal 2020). Although market conditions began to recover in the second half, albeit in varying degree from region to region, our overall performance remained sluggish throughout the fiscal year.

Consolidated Performance Summary for Fiscal 2020

(Billions of Yen)

	2019	2020	Y-o-Y Change
Sales Revenue	893.3	790.8	89%
Business Profit*1 (Rate)	54.4 (6.1%)	43.4 (5.5%)	80%
*2 Operating Profit (Rate)	33.1 (3.7%)	38.7 (4.9%)	117%
Profit Attributable to Owners of the Parent Company*3	12.1	22.6	187%
ROE	2.6%	4.9%	
ROA*4	5.2%	4.3%	
D/E Ratio*5	0.7X	0.6X	

*1 Business Profit = Sales Revenue − (Cost of Sales + Selling, General and Administrative Expenses): In line with changes in our accounting policies, business profit for fiscal 2019 and the first quarter of fiscal 2020 has been retrospectively restated.
*2 Gain (Loss) on foreign exchange and derivatives: Jan. to Dec. 2020: Negative ¥7.1 Billion; Jan. to Dec. 2019: Negative ¥2.5 Billion
*3 Profit attributable to owners of the parent company as calculated according to IFRS.
*4 ROA: Business Profit / Total Assets
*5 D/E Ratio: Figures for 2019 and thereafter reflect the adoption of IFRS 16 (Leases).

Breakdown of Fiscal 2020 Financial Results

Despite various difficulties in the first half of the year, we strove to seize opportunities arising from recovery in demand in the second half, rallying the combined strength of our entire group to expand sales and increase profit. Consequently, while sales revenue and business profit totaled ¥790.8 billion and ¥43.4 billion, down 11% and 20% year-on-year, respectively, operating profit stood at ¥38.7 billion, up 17%. Moreover, profit attributable to owners of the parent company came to ¥22.6 billion, up 87% compared with the previous fiscal year.

Sales revenue declined considerably due to a significant deterioration in the overall sales environment, reflecting the impact of the COVID-19 pandemic, and business profit similarly decreased. On the other hand, operating profit and profit attributable to the owners of the parent company grew year-on-year thanks to such factors as a substantial decrease in the amount of impairment losses on goodwill and noncurrent assets compared with the previous fiscal year.

Financial results by business segment are as described below.

Tire Business: Sales revenue totaled ¥679.9 billion, down 11% year-on-year, while business profit amounted to ¥40.9 billion, down 12% year-on-year. Due to the fallout from the COVID-19 pandemic, demand was extremely sluggish in the first half of the year. However, we strove to seize opportunities arising from the recovery in market conditions that began from the second half, rallying the combined strength of our entire group to expand sales. As a result, we succeeded in improving sales revenue in the second half to a level equivalent to 97% of our revenue figures from the same period of the previous fiscal year, largely regaining ground lost since the onset of the pandemic. Moreover, our business profit in the second half was 123% of our profit figures from the same period of the previous fiscal year, representing a year-on-year increase of ¥7.9 billion. Nevertheless, the decline in our first-half performance was such that these upturns in the second half were insufficient to fully offset our poor showing in the first half. Thus, our annual sales revenue and business profit were both down in year-on-year terms.

Sports Business: Sales revenue totaled ¥70.3 billion, down 17% compared with the previous fiscal year, while overall business losses totaled ¥0.7 billion. Fallout from the COVID-19 pandemic caused demand for golf goods and tennis equipment to plummet in the first half of the year, leading to a significant decrease in sales of these products. As such, annual sales revenue was down significantly in year-on-year terms. As a result, our Sports Business ultimately posted a loss in fiscal 2020. Looking at our second-half results, however, we saw a steady recovery in overseas sales, with business profit in the second half growing compared with the same period of the previous fiscal year.

Industrial and Other Products Business: Sales revenue amounted to ¥40.7 billion, a figure that is virtually unchanged from the previous fiscal year. Business profit was ¥3.2 billion, down 7% year-on-year. Sales of rubber parts for medical applications and vibration control dampers remained steady. Moreover, due to the COVID-19 pandemic, we saw growing demand for rubber gloves and other positive factors that bolstered sales growth. On the other hand, our business was also negatively affected by a decrease in sales of precision rubber parts for office equipment as manufacturers of printers and photocopiers reduced production volume as well as various other negative factors arising out of the pandemic.

Taking all of the above factors into account, our annual consolidated business profit was ¥43.4 billion, down 20%, or ¥11.0 billion, year-on-year.

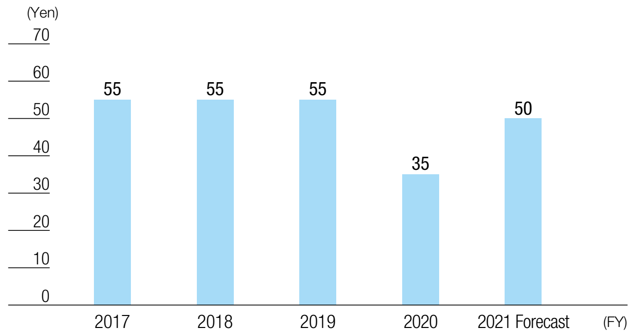
Our Stance on Shareholder Returns

We consider the return of gains to shareholders to be a matter deserving of the utmost priority. Accordingly, our basic policy is to ensure a long-term, stable stream of shareholder returns based on comprehensive consideration of dividend payout ratios, performance prospects, retained earnings levels and other such indicators on a consolidated basis. We also fully intend to utilize our retained earnings as a means of securing funds for capital expenditures, R&D and other forward-looking investments with the aim of expanding our group's earnings base well into the future.

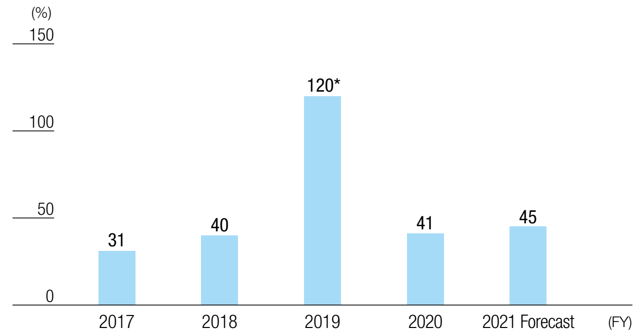
As for the year-end dividend for fiscal 2020, we decided to pay ¥35 per share, up ¥10 per share from our initial dividend forecast of ¥25 per share, which we had announced alongside our financial results for the first nine months of the year. Our current plan for fiscal 2021 calls for paying annual dividends of ¥50 per share, comprising an interim dividend of ¥20 per share and a year-end dividend of ¥30 per share.

Looking ahead, we will strive to ensure stable shareholder returns throughout our business management and operations.

Dividends per Share (as of February 9, 2021)



Dividend Payout Ratio (as of February 9, 2021)



Note: The dividend payout ratio for fiscal 2019 would amount to 48% if impairment losses recorded in said fiscal year were excluded.

Our Financial Strategy for Achieving Our Midterm Plan Objectives

Hiroki Ishida
Director and Senior Executive Officer

Q Please tell us about your policy on capital expenditures.

Currently, our principal aim with respect to investment is to boost production capacity for Advanced Tires in line with our efforts to expand sales in markets throughout the world. In fiscal 2020, our capital expenditures totaled ¥41.9 billion, which represents a decrease of ¥16.2 billion year-on-year and reflects a more restrained investment policy implemented in response to the impact of the COVID-19 pandemic. By contrast, we plan to invest a total of ¥59.0 billion in fiscal 2021. Reversing our previous policy of reining in investment in our overseas factories, we will now undertake various capital expenditures with the aim of increasing our group's overall production capacity. At the same time, we will also be working to update existing manufacturing lines at our domestic factories to allow for increased production of Advanced Products. Meanwhile, the Sumitomo Rubber Group's factory management techniques are now being embraced by those working at our USA Factory just as strong sales of our FALKEN brand tires are propelling the growth of our business in North America. Thus, our ongoing efforts to improve productivity and quality since acquiring this factory are now beginning to yield sure and steady results. Thanks to these factors, we felt confident enough to greenlight major capital expenditures to increase the factory's production capacity in a manner that will put us ahead of the competition when it comes to capitalizing on recovering demand coinciding with the resumption of economic activities in the United States. This investment is expected to total US $122 million (approximately ¥12.8 billion).

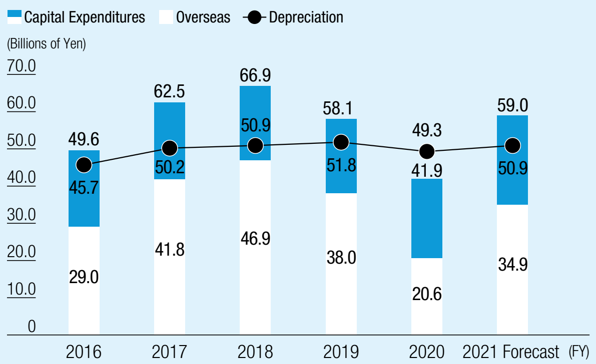
Going forward, over the medium term, we will continuously strive to make improvements in terms of cost factors while also working to dilute fixed costs attributable to capital expenditures that we have undertaken with the aim of increasing production capacity.

Q Please tell us about the progress being made in your efforts to improve cash-generating capabilities as part of the "Be the Change" project.

We are currently striving to ascertain the specific measures needed to yield positive cash-generating effects via improvements in working capital and the efficiency of capital expenditures. Our fiscal 2020 cash flow figures included a ¥32.0 billion increase in cash flows from operating activities compared with the previous fiscal year, thanks mainly to a decrease in inventory levels. Cash flows from investing activities similarly improved, with a ¥17.8 billion increase in cash inflows due to such factors as a decrease in overall capital expenditures. As a result, free cash flow grew from positive ¥28.0 billion in fiscal 2019 to positive ¥77.9 billion in fiscal 2020.

Striving to push ahead with these and other cash-generation activities, we will work to introduce various new measures to generate cash while also striving to lock in solid results from our existing cash-generating measures. We will thus aim to expand our cash flows in order to improve our overall financial position with the ultimate aim of achieving sustainable growth and the further enhancement of our corporate value.

Trends in Capital Expenditures and Depreciation



*Figures for 2019 and thereafter do not reflect the adoption of IFRS 16 (Leases).

Cash Flow Trends