

Key Management Resources

In addition to financial capital, we regard manufactured capital (such as factories and production facilities), diverse human capital, intellectual capital (including research & development capabilities and intellectual property), social capital (e.g., global brand capability) and natural capital (such as energy resources) as key management resources.

In this section, we provide a brief discussion of our approach to the different types of capital, and their current status.

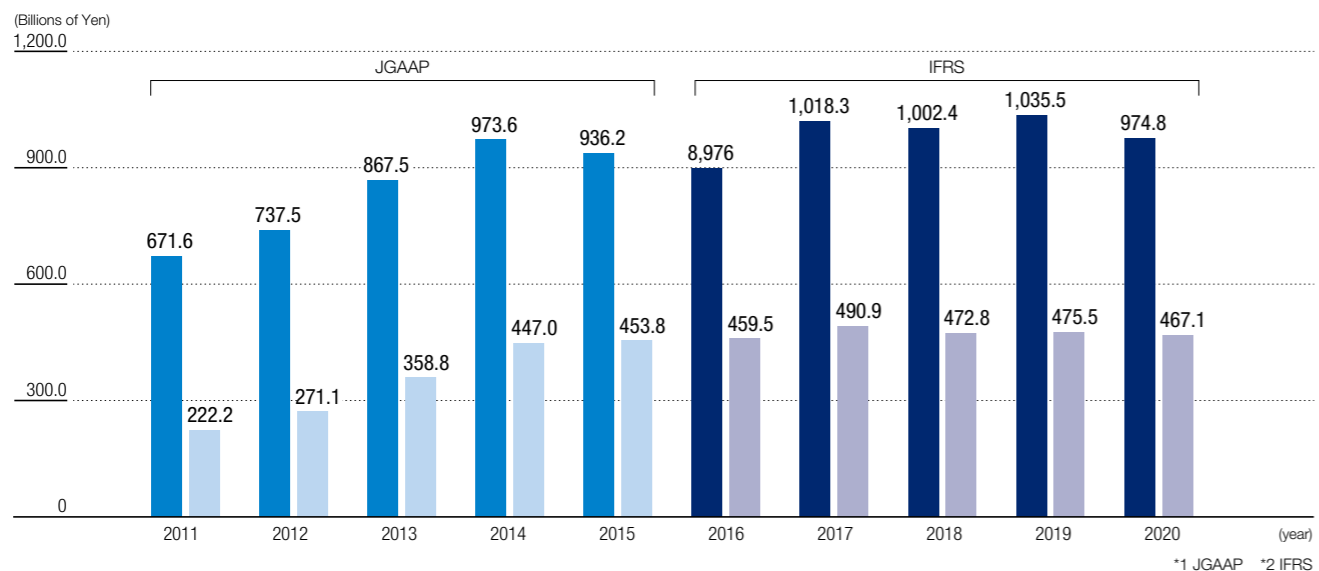
Financial Capital (financial position)

For the Group, sound financial capital is a key management resource that supports sustainable growth.

Total assets at the end of fiscal 2020 were ¥974.8 billion and total equity was ¥467.1 billion.

Total Assets / Net Assets, Total Equity

■ Total assets*1 ■ Net assets*1
■ Total assets*2 ■ Total equity*2



Financial Position

Total assets at the end of fiscal 2020 were ¥974.8 billion, a decrease of ¥60.7 billion from the end of the previous fiscal year.

Current assets fell ¥23.4 billion due to declines in inventories, while restraints on investment and a decrease in property, plant and equipment reflecting foreign exchange effects led to a decrease of ¥37.3 billion in non-current assets.

Total liabilities at the end of fiscal 2020 were ¥507.7 billion, a decrease of ¥52.2 billion from the end of the previous fiscal year. Interest-bearing debt came to ¥276.7 billion, falling ¥48.8 billion from the end of the previous fiscal year.

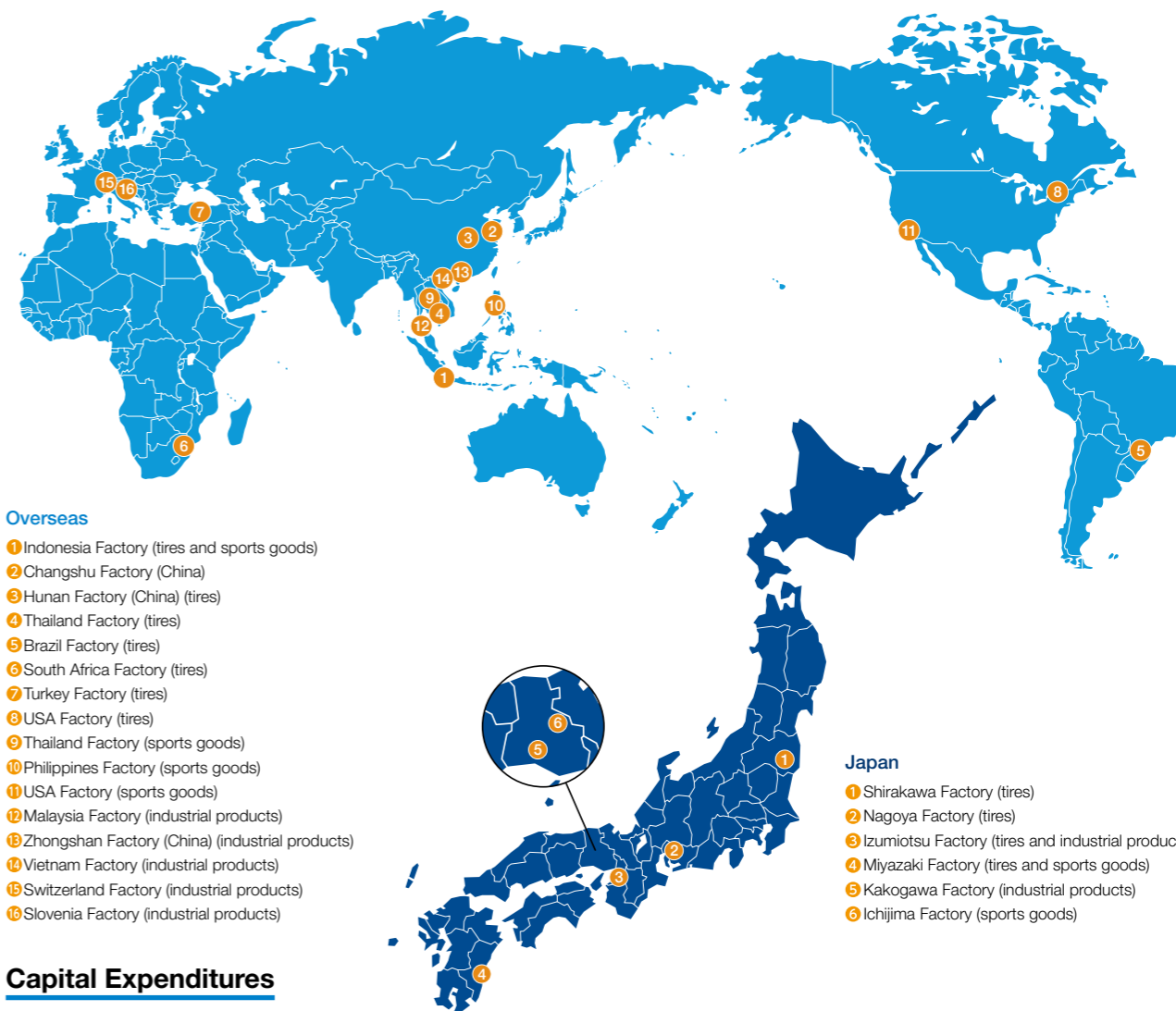
Total equity at the end of fiscal 2020 was ¥467.1 billion, of which total equity attributable to owners of parent was ¥454.7 billion, for a ratio of equity attributable to owners of parent of 46.6%. Equity attributable to owners of parent per share was ¥1,729.05.

Securing Liquidity

Going forward, the Group's policy is to continue its program of capital expenditures for the purpose of increasing production capacity in order to support the expansion of sales, primarily overseas. While increasing sales volumes and improving profitability so as to expand cash flows from operating activities, we will also utilize funding from financial markets and institutions, etc., as required, seeking a balance between growth on the one hand and securing liquidity and improving our financial position on the other. Through these endeavors, we will strive to achieve a D/E Ratio below 0.5 times in line with our Midterm Plan, which was announced on February 13, 2020.

Manufactured Capital (production infrastructure, capital expenditures)

The Group, which is expanding its business globally, possesses six domestic bases and 16 overseas bases in its production network. In fiscal 2020, we implemented a total of ¥41.9 billion in capital expenditures.



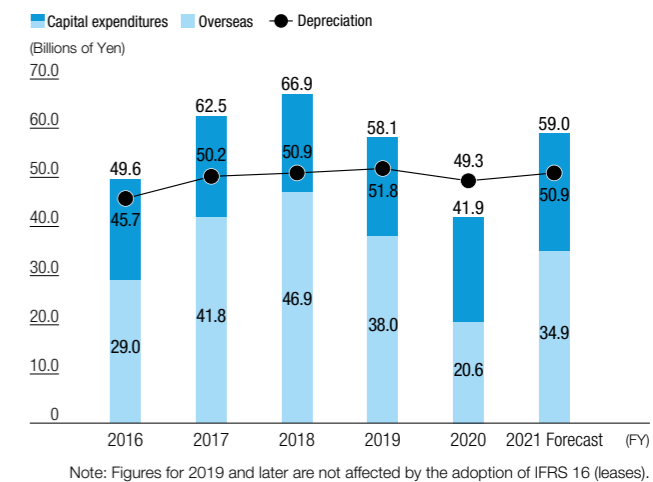
Capital Expenditures

As a rule, the companies of the Group each take into account medium-term demand forecasts, production plans and the ratio of investment to profit, formulating their capital expenditures accordingly. In the case of important plans, the Company takes the central role in coordinating the Group, primarily for the purpose of optimization.

In fiscal 2020, the Group restrained capital investment due to the novel coronavirus (COVID-19) pandemic. Capital expenditure thus amounted to ¥41.9 billion, a decrease of ¥16.2 billion year on year. Depreciation was ¥49.3 billion, a ¥2.5 billion decrease from the previous fiscal year.

For fiscal 2021, plans call for capital expenditure totaling ¥59.0 billion. We will expand investment in overseas factories to boost their production output, reversing the restrained policy exercised in fiscal 2020. At the same time, we will invest in domestic factories to promote a shift to advanced product manufacturing lines. (For more details, please refer to page 18.)

Capital Expenditures



Note: Figures for 2019 and later are not affected by the adoption of IFRS 16 (leases).

Key Management Resources

Production Infrastructure

Tire Business

Establishing a globally optimized production infrastructure

The development of the Tire Business's global production infrastructure began in 1997 with the Indonesia Factory, and the number of production bases continued to expand steadily with the opening of the Changshu Factory in China in 2004, the Thailand Factory in 2006 and the Hunan Factory in China in 2012. To further strengthen the supply infrastructure, we are currently moving forward with plans to extend the Thailand Factory into one of the largest of its kind in the world. In addition, we are moving steadily ahead with the expansion and enhancement of other production facilities and have launched, for example, production at the Brazil Factory and South Africa Factory in 2013 as well as at the Turkey Factory in 2015 and have acquired a factory in New York state to serve as the Group's U.S. base.

Increasing competitiveness via a global production infrastructure

Taking full advantage of the capacities afforded by our factories around the globe, we will push ahead a shift to a structure in which products are manufactured near their target markets. Simultaneously, we will supplement product supply by charging our Thailand Factory—the world's largest facility of its kind and a source of strength for the Group—to ensure that any underserved demand across the world can be met.

Through these efforts, we will establish relationship of trust with automakers. This will, in turn, help us raise the number of original equipment tires we supply and secure robust sales in the replacement market. In these ways, we solidify our business foundation.

Geographically, our production infrastructure already boasts low-cost manufacturing bases in Japan and elsewhere in Asia. And, in line with changing market needs, we have begun replacing facilities to raise our SUV tire production capacity. Looking ahead, we will continuously strive to maintain stable sales in Japan and China and secure robust sources of profit.

Looking at Europe and Africa, our Turkey Factory, a supply base for the former, is steadily ramping up production. Via this factory, we will fully leverage scale merits to stably increase the volume of products delivered to European automakers while expanding sales of replacement tires. With regard to the South Africa Factory, we will promote productivity improvement as well as a shift to high-value-added products.

In the Americas, we have seen stable sales growth in North America. Recently, we decided to invest in the USA Factory as well as in the Japan and Thailand factories—our export bases—in an effort to raise these facilities' production output. This investment will boost our regional supply capacity for SUV and other tires, with both U.S.A-made and imported products supporting our lineup. In Brazil, we have made progress in securing sufficient local production for local consumption by raising our production capacity in the region. As such, we are striving to develop a stable profit base.

Status of Our Global Production and Sales Bases

● Production bases
● Sales bases

Making progress in maximizing the effect of our network of manufacturing and sales bases encompassing key markets around the globe



Europe and Africa

Factories: Currently increasing production capacities
Sales: Currently increasing the number of original equipment tires supplied to non-Japanese automakers

Japan and elsewhere in Asia

Factories: Promoting the replacement of facilities with those for advanced tires
Sales: A stable business foundation already in place

North America

Factories: Increasing production capacity
Sales: Stably expanding sales

Sports Business

Proving ourselves worthy of the trust of users through superior production technology and the ingenuity of our employees

The Company began the domestic manufacture of golf balls and tennis balls in 1930. Golf balls, such as SRIXON and XXIO, which are the mainstay of the Sports Business, are currently manufactured at the Ichijima Factory (Tamba City, Hyogo Prefecture) and the Indonesia Factory. In addition to the manufacture of golf clubs, manufacturing subsidiary Dunlop Golf Club Corp. (Miyakonojo City, Miyazaki Prefecture) is involved in producing custom clubs to meet the needs of a wide variety of customers.

In tennis, our tennis ball factories in the Philippines and Thailand manufacture balls for the Australian Open and major events on the ATP Tour.

Industrial and Other Products Business

Raising production capacity for the Rubber Parts for Medical Applications Business

In the growing Rubber Parts for Medical Applications Business, since first commencing the production of rubber parts for medical applications at the Izumiotsu Factory in 2000, we have pursued global production infrastructure development through the ongoing expansion of these operations via the launch of the Kakogawa Factory in 2010, the Swiss Factory in 2015 and the Slovenia Factory in 2017.

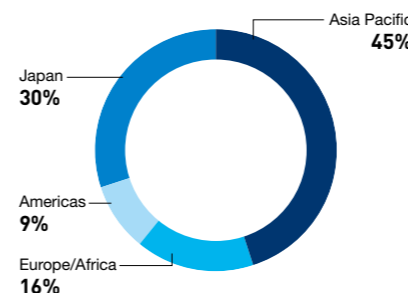
Human Capital (number of employees, fostering human resources, promoting Work Style Reform)

The basic aim of the Group is to respect the human rights of employees, fostering a workplace environment in which everyone feels safe, respected and free to engage in the open exchange of ideas and is encouraged to take on challenging tasks. In line with this, we are striving to create a corporate culture that supports employee efforts to achieve personal growth in step with the Group's business growth.

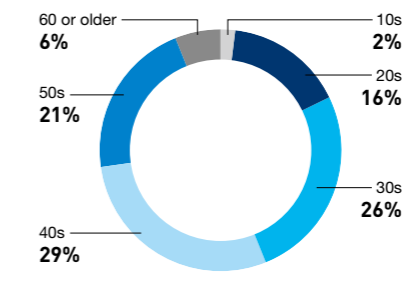
Employees

	2016	2017	2018	2019	2020
Number of consolidated employees	33,792	36,650	37,852	39,233	39,298
Japan	11,677	11,606	11,674	11,837	11,856
Overseas	22,115	25,044	26,178	27,396	27,442
Number of employees (Sumitomo Rubber Industries Ltd. (Non-Consolidated Basis))	6,693	6,666	7,175	7,325	7,371
Average years of service (Sumitomo Rubber Industries Ltd. (Non-Consolidated Basis))	16.5	16.2	15.9	15.7	15.9
Men (years)	16.7	16.4	16.3	16.1	16.2
Women (years)	13.3	13.0	12.6	12.2	12.5
Employee turnover ratio (Sumitomo Rubber Industries Ltd. (Non-Consolidated Basis))	3.5	3.9	3.8	3.2	3.4

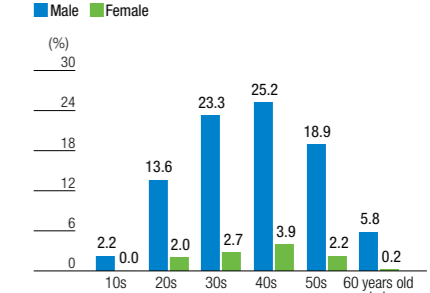
Composition by Region



Composition by Age (Sumitomo Rubber Industries Ltd. (Non-Consolidated Basis))



Composition by Sex (Sumitomo Rubber Industries Ltd. (Non-Consolidated Basis))



Basic Perspective on Human Resource Development

The Group fosters human resources through a combination of three components: OffJT such as group training, etc., OJT at each division, and self-study. We believe that to develop robust human resources, we must start with helping employees be aware of what they need to learn. In particular, we provide young employees with grade-specific career vision training designed to help them envision their desired future and thereby identify the types of skills they need to acquire. This training also involves supplementary programs for those who voluntarily take on further learning. Although the majority of the above training programs were undertaken in the form of online seminars in 2020, we will continue to enhance our training systems in a way that takes full advantage of the features of online, in-person and e-learning.

Regarding the systematic execution of human resource development, we are promoting a variety of training programs to enable employees to improve their skills, with the Human Resources Development Department and the Manufacturing Education Department playing a central role.

As for the fostering of global human resources, we are strengthening efforts overseas, aiming to ensure identical product quality irrespective of the factory in which manufacturing takes place, so that all employees are able to grow and to feel job satisfaction.

Our manufacturing education emphasizes manufacturing technology and craftsmanship in Japan and overseas.

In workplace supervisor training, the focus is on putting what has been learned to practical use. To raise the level of workplace management, we are conducting various activities aimed at establishing a consistent, Group-wide philosophy embraced by all employees across the Group.

Respect for Human Rights

Basic Perspective on Consideration for Human Rights

Our Corporate Code of Conduct states that we "maintain a sound working environment free from discrimination on the basis of belief, creed, religion, race, skin color, nationality, language, social background, gender, sexual orientation, gender identity, age, physical handicap or other reason." Accordingly, we strive to prevent infringement of human rights of any employee.

Furthermore, a handbook on human resource and labor management has been distributed to all those in managerial positions. We also help raise their awareness of relevant topics via training and lecture sessions. In these ways, we are striving to create a working environment that tolerates no human resource violations or harassment and empowers every employee to work energetically.

Key Management Resources

Intellectual Capital (research and development, intellectual property strategies, etc.)

We promote a wide range of research and development in domains or fields related to tires, sports and industrial and other products businesses. The intellectual capital accumulated through such activities becomes the driving force that generates products with competitive advantages, as well as new growth.

The State of Our Intellectual Capital

	2016	2017	2018	2019	2020
R&D Expenses (millions of yen)	24,257	25,720	25,780	26,198	24,215
Ratio of R&D Expenses to Sales Revenue (%)	3.2	3.8	2.9	2.9	3.1
Number of Japanese and Foreign Patents (Number of patents held)	8,761	9,183	9,199	9,156	10,063

R&D Activities

With the Sumitomo Rubber Industries' R&D organization and facilities at the core of our efforts, we promote R&D activities in a wide range of fields related to the tire, sports, industrial and other products businesses in close cooperation with subsidiaries and affiliates around the world.

Guided by the underlying concept of "What tire technology can do for the global environment," the Tire Business focuses its R&D efforts on developing environmentally friendly products by focusing on three areas: "innovative materials," "fuel efficiency," and "resource conservation." The Tire Technical Center, located near the Kobe Head Office, serves as the core facility for these initiatives, which it pursues in collaboration with the Europe and USA Tire Technical Centers.

In line with our particular focus on developing tires boasting superior safety performance as well as capabilities that help reduce

environmental burden, we have been engaged in cutting-edge research initiatives, including an R&D project that has been under way since 2012 in which we perform large-scale simulations using the K computer to create innovative rubber materials.

In the Sports Business, having established R&D sections at both the Sports Business HQ and Roger Cleveland Golf Company, Inc. in the USA, we are developing, evaluating, and testing new technologies and products by employing computer simulations and other technologies.

In the Industrial and Other Products Business, we are actively developing new products aimed at accommodating consumer needs in such fields as vibration control units using high-damping rubber parts for medical applications and precision rubber parts for office equipment.



Topics

Winning an HPCI* Excellent Achievement Award in recognition of large scale molecular dynamics simulations of rubbers for tires

*High Performance Computing Infrastructure

The Company was chosen to receive an HPCI Excellent Achievement Award in recognition of its research effort employing the K computer to perform large scale molecular dynamics simulations of rubbers for tires.

Through this research, we have discovered the mechanism by which the form of cohesion between silica and coupling agents, both acting as rubber additives, affects the strength of the resulting rubber material. These findings, in turn, helped us yield positive results in terms of improvement in abrasion resistance. Looking ahead, we will take advantage of these simulation results in the development of new rubber materials and products.

In addition, as we aim to push ahead with efforts to create tires capable of realizing both a superior safety performance and a lower environmental footprint, we will also employ Fugaku, a supercomputer designed as the successor to the K computer and made available for shared use since 2021, to advance simulation-based tire development.

Joint research involving industry-academia collaboration

The Sumitomo Rubber Groups is engaged in the development of new technologies via participation in industry-academia collaboration involving universities boasting cutting-edge technologies.

Research partners	Key themes of recent research projects
Ibaraki University	Establishment of a method for selectively observing specific materials contained in tire rubber
Gunma University	Development of a system that remotely monitors tire pressure of Level 4 autonomous vehicles
Kansai University	Success in the verification testing of technologies enabling power generation in tires
Tohoku University	Acceleration of X-ray-based CT imaging of tire material (approximately 1,000 times faster than the conventional method) to assess damage status

Intellectual Property Strategies

The Group proactively carries out intellectual property activities that support its businesses.

Specifically, the Group undertakes intellectual property activities focusing on three pillars, namely: 1) "securing intellectual property rights" with regard to such industrial properties as patents, utility models, designs and trademarks; 2) "exercising such rights" against the infringement of Sumitomo Rubber Industries' intellectual properties; and 3) "eliminating risk" by developing a structure to defend against attacks by third parties. In step with the rapid expansion of its overseas operations, the scope of the Group's intellectual property activities is growing worldwide, encompassing not only Japan but also the United States, Europe and such Asian countries as China, as well as Russia and countries in South

America, the Middle East and Africa.

Efforts are now under way to nurture human resources and reinforce our structure to conduct intellectual property activities that go along with such globalization. In particular, the Group is providing training sessions not only for Intellectual Property Department members but also for employees at every operational base with the aim of raising awareness of intellectual property and upgrading the competencies of the entire workforce. Such action is facilitating the development of a structure that ensures intellectual property activities are carried out smoothly and seamlessly on a Group-wide basis. In particular, we are focusing on acquiring more effective rights by assigning IP representatives to Europe.

Focusing on the above-mentioned three pillars, the Group will promote the more efficient implementation of intellectual property activities at a global level.

Social Capital

Building favorable relationships with customers, suppliers, local communities, shareholders, investors, employees and all other stakeholders is essential to enhancing our corporate value. Taking heed of their voices, we will strive to live up to what they expect of us and accommodate their needs, thereby fulfilling our social responsibilities.

The State of Our Social Capital (efforts to promote dialogue with key stakeholders)

	Communication methods	Fiscal 2020 achievements
Customers	<ul style="list-style-type: none"> Customer consultation and service contact Customer response through service and sales departments Providing information via our website and various media channels Exhibitions and events, etc. 	Number of customer consultations (cases) <ul style="list-style-type: none"> Tire Business: 4,644 (inquiries: 4,252; complaints: 392) Sports Business: 7,790 (inquiries: 7,292; complaints: 498) Industrial and Other Products Business: 3,600 (inquiries: 2,466; complaints: 1,134)
Business partners	<ul style="list-style-type: none"> Dialogue through day-to-day business Confirmation visits to procurement partners, and feedback Questionnaires targeting procurement partners Explanatory meetings, etc. 	Number of CSR procurement briefings (held once every three years) :0 Note: In fiscal 2020, CSR procurement briefings had not been held to prevent the risk of COVID-19 infection.
Local communities	<ul style="list-style-type: none"> Participation in local events Cooperation with NGOs and NPOs in social contribution activities Participation in economic and industry organizations Dialogue with local governments, etc. 	Total amount of CSR Fund subsidy: ¥13.14 million Number of participants in the Dunlop Monozukuri Class: 231
Shareholders and investors	<ul style="list-style-type: none"> General meeting of shareholders Timely disclosure of news releases and publications Issuance of financial information, including fact books and shareholder communications Providing information via website and other media Results briefings, etc. 	Number of shareholders: 41,177 (as of December 31, 2020) Number of institutional investors we engaged in dialogue: 9
Employees	<ul style="list-style-type: none"> Providing information through internal newsletters, intranet, etc. Consultation with labor-management councils and employee representatives Compliance consultation service Round-table discussions with president to exchange views with management Integrated Report questionnaire, etc. 	Number of employees (as of December 31, 2020) Sumitomo Rubber Group: 39,298; Sumitomo Rubber Industries: 7,371 (male employees: 6,530, female employees: 841)

Topics

In June 2020, the Izumiotsu Factory concluded a temporary evacuation agreement with Izumiotsu City to provide its premises as shelters in the event of a disaster. Specifically, the factory will open its gymnasium, parking lot and bathing and other facilities to evacuees. An agreement of this kind is at the vanguard of community contribution on a nationwide basis. In September 2020, the factory carried out evacuation drills in the presence of Osaka Prefectural Governor Hirofumi Yoshimura and, in November, executed drills for the installation of a temporary shelter in tandem with city officials and residents of neighboring communities. Also, during the period from May 2020 to March 2021, the factory donated disinfectants to the city which, in turn, distributed them to local elementary and middle schools.

Going forward, we will work hand in hand with members of neighboring communities to ensure that robust countermeasures are in place in preparation for disasters.



Enhancing Our Brand Capabilities

Our brand capabilities constitute one of essential elements supporting growth in corporate value. For us to take full advantage of the Dunlop brand and maximize business outcomes, we need to make collective efforts that rally all kinds of Group resources. With

this in mind, in April 2017 we acquired rights to the global use of trademarks of Dunlop brand sports goods. Furthermore, in January 2018, we executed a business integration with Dunlop Sports Co. Ltd. Going forward, we will strive to create synergies through relevant operations in both the Tire Business and Sports Business, thereby enhancing the value of the Dunlop brand.

Tire Business	Sports Business	Industrial and Other Products Business
<p>A pioneering brand focused on achieving both superior safety and environmental friendliness</p> <p>Since the 1888 commercialization of the world's first pneumatic tire produced by J. B. Dunlop, the Dunlop brand has served as an important component of the history of automobiles and evolved in step with advances in tire technologies. As a pioneering brand, Dunlop is always focused on creating products that are friendly to the global environment and, to this end, employed state-of-the-art simulation technologies in an effort to realize superior driving safety, environmental friendliness and fuel efficiency.</p> <p>A global brand for all those who love driving</p> <p>Founded in 1983, the Falken brand has been producing replacement tires via the application of technologies that it has long nurtured in the course of supporting major motor sports. Guided by an uncompromising commitment to quality, Falken continues to create products designed to deliver a fun of driving. In line with its brand statement "ON THE PULSE," Falken is currently serving an increasingly broad range of market regions, starting from Europe—an area well known for delivering harsh judgments on quality—and extending to the United States, India, China and Australia, thereby securing greater presence as a global brand originated from Japan.</p>	<p>In the Sports Business, the "DUNLOP" brand was the first in Japan to produce golf and tennis balls and has also released innovative products supporting the history of golf and tennis. With "DUNLOP" as a starting point, we have developed the "XXIO," "SRIXON," "Cleveland Golf" and other unique brands, acting as a supplier of sporting gear for a number of top-notch players who compete in major events around the globe.</p> <p>Other aspects of the Sports Business include the wellness business, which includes sports club operations; the sports school business, which oversees golf and tennis schools; and the management of golf courses and tournaments. In these ways, we take an aggressive, multifaceted approach to our operations aimed at supporting sports activities.</p>	<p>Based on our rubber technology, we create a variety of products for industrial use and other applications. Our target markets currently range from industrial infrastructure, medical, and living essential to healthcare fields in line with our efforts meet the ever more diverse needs of society. The potential of our offerings backed by cutting-edge technologies is attracting attention from customers worldwide.</p> <p>Vibration control dampers</p> <p>Flooring materials</p> <p>Athletic facilities</p>

Natural Capital (realization of a low-carbon, recycling-oriented society)

Bounties of the Earth, such as natural rubber, which are an element of natural capital, constitute key management resources for sustainable growth. Based on this awareness, the Group is working to conserve the environment and to use finite energy resources effectively while contributing to the realization of a low-carbon, recycling-oriented society.

Environmental Indicators

Global Network of Production & Sales Bases	2016	2017	2018	2019	2020
CO ₂ emissions (business activities) (kt-CO ₂ e)	1,011	1,036	1,073	1,095	1,018
Waste disposal (kt)	17.4	16.6	22.2	32.3	30.7
Water usage (1,000 m ³)	13,774	14,523	14,373	14,047	13,068
Wastewater (1,000 m ³)	11,438	10,824	10,909	10,969	10,934
Organic solvents used (t)	1,045	1,055	1,573	1,603	1,328
Number of trees planted* (1,000 trees)	71.8	43.5	51.4	38.7	19.2

*Not including the provision of seedlings

Creating a Low-Carbon Society

In response to the problem of climate change, the Group is working to reduce its products' CO₂ emissions over their entire life cycles, from raw material procurement to final disposal.

In addition to taking steps to reduce CO₂ emissions during the use of a tire, which accounts for approximately 85% of its life-cycle CO₂ emissions, in 2018 we began working with raw material suppliers to ascertain and reduce their CO₂ emissions. Also, in terms of reducing CO₂ emitted in the course of business activities (Scopes 1 & 2), we are working on initiatives involving switching fuel types, installing cogeneration systems, promoting general energy-saving activities, and utilizing renewable energy from solar power and other green energy sources.

Building a Recycling-Oriented Society

In response to the problem of waste, we are taking steps to control the amount of waste generated, to convert it to something of value, and to promote recycling. As part of these efforts, since 2010 we have been striving to achieve zero emissions at our major bases both in Japan and overseas by reducing landfill waste to zero and moving to 100% reuse of resources.

To conserve water resources, we are making efforts to reduce water usage and promoting recycling. In 2019, the Turkey Factory achieved a wastewater recycling rate of 100%. Our natural rubber processing factory in Thailand also recycles 100% of its wastewater. Our plans call for extending wastewater recycling to other factories, including those in China.

Greening Initiatives

We are promoting greening initiatives at our sites and the areas surrounding them, both in Japan and overseas. On the subject of promoting biodiversity, the Company is involved in such programs as the "Acorn Project," the goal of which is to conserve genetic biodiversity, and in the creation of biotopes.

Promoting Environmental Footprint Management

In order to reduce emissions of chemical substances, we are implementing measures to cut the release and transfer of chemicals subject to PRTRs, as well as conducting activities to reduce the amount of organic solvent waste produced.

Sustainable Natural Rubber Policy

On November 16, 2018, we announced our "Sustainable Natural Rubber Policy" with the aim of making natural rubber a sustainable resource. In line with this policy, we seek to resolve issues in regions where natural rubber is produced, such as environmental problems caused by the destruction of forests, and human rights problems in the working environment.

In September 2020, we participated in the second General Assembly of the GPSNR* as one of 64 member corporations and organizations. Looking ahead, we will update our Sustainable Natural Rubber Policy to reflect a policy framework approved by this General Assembly.

*Global Platform for Sustainable Natural Rubber