A Message from the Executive Director in Charge of Finance

Toward Providing Appealing Products at Best Cost

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Director and Senior Executive Officer

Midterm Plan Progress & Remaining Issues

The Midterm Plan that we announced in February 2020 set forth ambitious targets for the next five years: sales revenue of ¥1 trillion, business profit of ¥100 billion, an ROE of 10% and a D/E ratio within 0.5 times. Since then, we have made outstanding progress when it comes to sales revenue, which is now expected to surpass ¥1 trillion in the fiscal year ending in December 2022. Nevertheless, the onset of the COVID-19 pandemic shortly after the announcement of our Midterm Plan has brought enormous changes to the business environment, causing our profitability to fall short of our targets.

This is particularly the case with business profit. While we have made good progress according to our plans in many areas, the COVID-19 pandemic has led to massive fluctuations in demand while causing prices for raw materials and freight shipping to skyrocket, resulting in a significant gap between the business structure that we had envisioned in our initial plans and our present situation. For example, while we have succeeded in increasing sales of larger-sized passenger car tires, SUV and other tires with greater added value according to our plans, delays in making the transition to local production for local consumption and various other factors have driven up costs beyond what we had anticipated.

Prior to the pandemic, our group built up a global supply network with the acquisition of factories in South Africa and the United States while actively augmenting production capacity at our factories in Turkey, Brazil and elsewhere. This not only enabled us to prepare a robust lineup of products to cover a diverse array of customer needs but also equipped us with the supply capacity needed to fulfill those needs. However, the pandemic has upset the balance of our product mix, creating discrepancies that have had a pronounced impact on our overall profitability. The increase in delivery times between our production sites and sales regions has led to higher transport costs while delaying our efforts to recalibrate production with an eye toward products with higher profit margins. All of this has had the effect of driving up our total cost burden, especially when factoring in depreciation.

In response to these shifts, we are currently moving ahead with various improvements to restore balance to our product mix.

Toward Achieving Our Midterm Plan Target: D/E Ratio < 0.5 times

As our first priority is to revamp our earning capabilities, we are now being more selective with capital expenditures while simultaneously working to improve our return on each investment. At the same time, we are actively promoting DX (Digital Transformation) as a means of enhancing productivity on a per-employee basis so that we can maximize output without increasing personnel levels. This, in turn, will allow us to optimize personnel placement and allocate existing personnel to new lines of business.

The key to improving our D/E ratio lies not only in our ongoing efforts to improve our overall profitability in terms of our statement of income, but also in additional efforts to improve our working capital situation in terms of our statement of financial position. The idea here is to improve our overall capital efficiency, which will have the effect of compressing our gross assets and, ultimately, improving our D/E ratio.

Our previous policy called for improving our D/E ratio by means of increasing sales in order to generate more income. Moving forward, however, we will be focusing not only on quantity as a means of generating more income overall, but also on the quality of income. Therefore, we will be transitioning to a management style that places greater emphasis on statements of financial position and cash flows in addition to profit and loss so that we may consistently provide appealing products at best cost.

While we have not yet made a final decision on the new internal metrics that we will use for this transition, I personally would like to entrench ROIC Management throughout our group. While carefully monitoring Return on Invested Capital (ROIC) in each line of business, we will be making prudent decisions on the allocation of business resources (Personnel, Material, Capital) with an eye toward balancing growth potential and profit potential.

Overseeing 2 Task Forces Launched as Part of Our “Be the Change” Project

Since kicking off in 2020, our “Be the Change” Project has launched over ten task forces to tackle the challenges of “Reinforcing Our Foundation for Profitability.” These task forces are all hard at work in various areas to support our efforts to accomplish our Midterm Plan goals. I personally oversee two of the task forces: the Working Capital Task Force and the Decision-Making & Investment Decisions Task Force.

The Working Capital Task Force has set a target of generating ¥30 billion in new positive cash flows by the end of 2022. Our specific efforts to achieve this goal revolve around measures to “Curtail Inventories,” “Compress Trade Receivables” and “Optimize Trade Payables,” with a dedicated sub-task force assigned to each of these themes. Meanwhile, in addition to our Tire Business, we have formed dedicated teams to tackle the challenges of improving working capital in our Sports Business, our Industrial Products Business and Overseas Group companies.

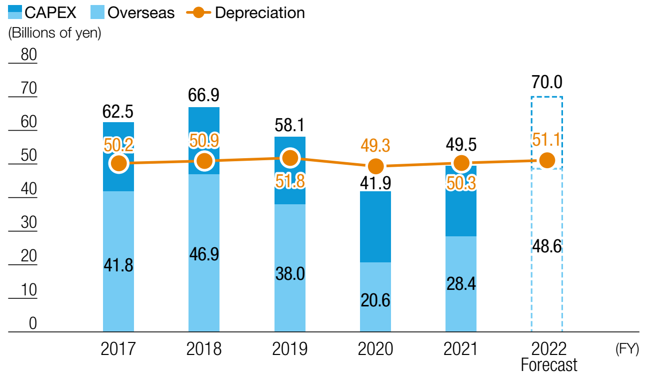
Judging from our results as of the end of March 2022, this task force is making solid progress toward achieving the above target, and all team members are working extremely hard, driven by strong motivation to reach this target by the end of 2022.

Meanwhile, as the person in charge of financial strategy for our entire group, I am now looking beyond improving working capital and setting my sights on improving profits for the year, which will also directly contribute to the improvement of our ROIC. Toward this end, one area that we are working on in particular is the optimization of our global tax strategy. For example, one way of optimizing our tax strategy to increase our post-tax profits would involve taking fuller advantage of tax incentives offered in Japan. Our Tax Team is exploring various possibilities in this area, while our Financing Team is also exploring various possibilities for optimizing financing and reducing FOREX risks. As profit for the year is a major component of ROIC, our Tax Team and Financing Team will be working with all due speed to come up with and implement global tax strategies and financing strategies that will serve to maximize it.

Meanwhile, the Decision-Making & Investment Decisions Task Force is currently looking into introducing new decision-making criteria for capital expenditures to complement our current payback period approach, IRR (Internal Rate of Return), the approach most compatible with ROIC. The task force is now working out such details as what hurdle rates to adopt, how to trace post-investment results and how best to visualize problems so that the lessons learned from past investments can be put to use in subsequent investments.

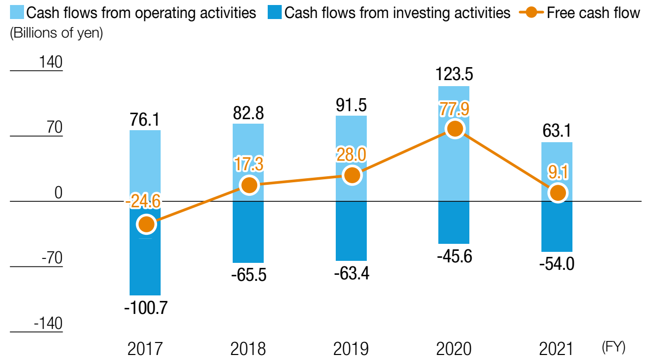
This task force is less concerned with generating profits than with building stronger foundations for our overall business management. Toward this end, the team also proposed ICP (internal carbon pricing) as a means of contributing to Groupwide efforts to achieve carbon neutrality. Their proposal has now been approved, and so we are currently in the process of preparing for the Groupwide implementation of ICP.

CAPEX and Depreciation Trends



*IFRS 16 (Lease) impact is not included from 2019.

Cash Flow Trends



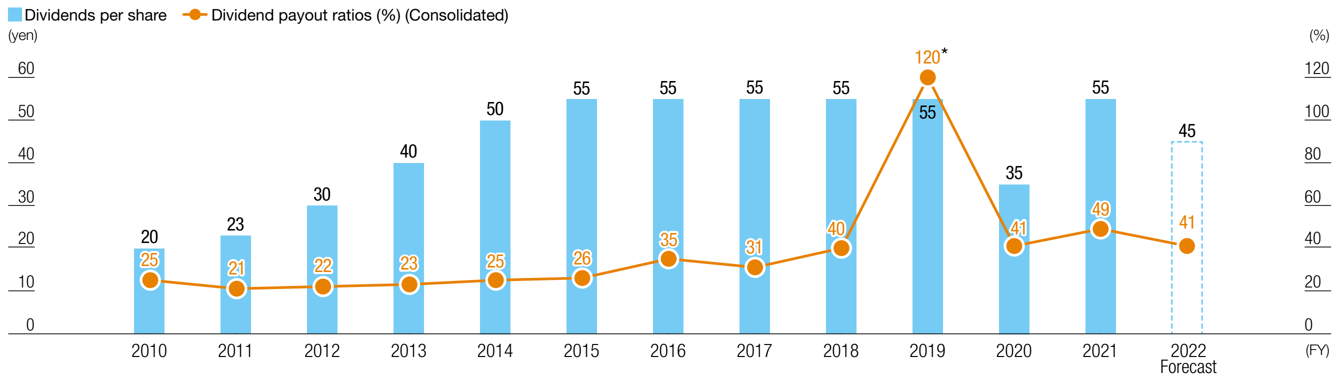
Policy on Returns to Shareholders

The Sumitomo Rubber Group has always considered shareholder returns to be one of the highest priorities of our overall management policy.

Basing our dividend payout ratios on our consolidated profits, our basic approach to shareholder returns revolves around the central premise that we will carefully assess our consolidated performance forecast for the current fiscal year while comprehensively reviewing our situation with respect to retained earnings, etc. so that we may continue to provide sure and steady dividends over the long run. Although this is not necessarily a commitment set in stone, we do tell investors at our regular financial announcements that we are aiming for dividend payout ratios of at least 40%. Our group has always endeavored to uphold these high standards when it comes to paying out steady dividends over the long term, and we have no intention of changing our thinking on investor returns in the future.

Right now, the global business environment is changing at a faster pace than we could ever before have anticipated. These days, simply keeping up with the pace of change is not enough; we have to get out ahead of our competitors if we are to set ourselves apart. While it may take some time for our efforts to produce results, we of the Sumitomo Rubber Group will continue to do our utmost to rise to the expectations of all of our stakeholders.

Dividends per Share (as of 2022)



*The exclusion of extraordinary impairment loss would result in dividend payout ratios of 48% for 2019.