

Risks, Opportunities and the Value Chain

To ensure sustainable growth, we steadily link medium- and long-term business opportunities to growth while working to identify and mitigate risk factors that could impair such growth. In this section, we provide a brief discussion of risks and opportunities related to changes in the business environment going forward as well as the strengths we will leverage for future business development along with the current status of our value chain and our initiatives to address issues the value chain is now confronting.

Tire Business

Management Issues	<ul style="list-style-type: none"> • Maximizing the results that we reap from the global business framework • Developing products to respond to local market needs and ever higher performance demands while expanding sales of advanced products • Developing businesses compatible with CASE and MaaS • Promoting ESG management
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Strengths	Growth Opportunities	Risks	Initiatives Undertaken by the Sumitomo Rubber Group
<ul style="list-style-type: none"> • The DUNLOP brand, which boasts over 130 years of history since commercializing the world's first pneumatic tire and has won public recognition throughout the world • Technologies supporting the development of fuel-efficient tires and an extensive lineup of such tires • A global business framework supported by three pillars (a global network of manufacturing, sales and service bases, a trilateral R&D network (Japan/USA/Europe) and a global supply network) • World-leading simulation and analysis capabilities utilizing state-of-the-art supercomputers and so on • Tire pressure sensing technologies installed in a cumulative total of 40 million vehicles • Biomass technologies nurtured in the course of developing fossil resource-free tires 	<ul style="list-style-type: none"> • Robust demand for large-diameter tires for SUVs and light trucks in developed countries • Growth in worldwide demand for tires, especially for EV tires • Growing demand for tires made with non-fossil natural resources and fuel-efficient tires due to the strengthening of environmental regulations applied to automobiles and ever-stronger public awareness regarding the need for environmental conservation on a global level 	<ul style="list-style-type: none"> • Increasingly intense global competition associated with the development of tires using a greater proportion of sustainable raw materials, tires with lower rolling resistance and other products • Economic stagnation due to pandemics and natural disasters • Intensifying market competition reflecting the rise of manufacturers from emerging countries • Jump in the price of raw materials and crude oil • Political instability and other geopolitical risks • A shift in demand for winter tires reflecting rises in global temperatures and decreases in snowfalls 	<ul style="list-style-type: none"> • Expanding sales of advanced tires, including those for SUVs, in response to growth in demand • Realizing SMART TYRE CONCEPT, which informs the development of innovative tires and peripheral services • Developing tires with a low environmental footprint • Promoting tire-related solutions businesses • Contributing to decarbonization through the provision of EV tires and fuel-efficient tires



	Product Development	Procurement	Production/Supply	Sales/After Services
Recognition of the Current Environment	<ul style="list-style-type: none"> • As it strives to realize a sustainable society, the tire industry is engulfed by increasingly intense global competition to develop products made with renewable resources that will enable it to break away from fossil resources and otherwise reduce the environmental footprint of tires through, for example, the use of recycled materials. • With CASE (an acronym for "Connected, Autonomous, Shared & Services, Electric") expected to become a key concept determining what the next generation mobility society will look like, tires equipped with more advanced functions will be sought after. These functions will include the Tire Pressure Monitoring System (TPMS) as well as those supporting value-added maintenance services designed to ensure safe and secure driving. 	<ul style="list-style-type: none"> • Natural rubber is a primary tire raw material. And, approximately 70% of the natural rubber produced worldwide is used for tires. The Para rubber tree, an abundant producer of best-quality latex in the form of the tree sap, originates from the South American Amazon river basin. The tree's current habitat stretches from the 15th parallel north to the 15th parallel south, forming the aptly nicknamed "rubber band," a tropical belt centered on the equator and particularly vulnerable to the effects of climate change. Today, about 80% of global rubber production volume is concentrated in Southeast Asia. • The social issues that must be addressed in connection with natural rubber procurement range from the effects of climate change and the industry's impact on forests and other natural ecosystems as well as biodiversity to the protection of human rights and labor rights. 	<ul style="list-style-type: none"> • Since the breakout of the COVID-19 pandemic, tire manufacturers have seen their facility utilization ratios become increasingly unstable due to the need to adjust their production in the face of a downturn in automobile production resulting from semiconductor shortages as well as due to stagnation in tire markets reflecting a growing public trend of restraint regarding outings. • Going forward, however, expanding our overseas production will remain essential to securing sustainable growth. Accordingly, it is important to develop human resources by, for example, instilling skills and passing down the know-how of experienced operators. • Looking ahead, we will also promote proactive initiatives to achieve carbon neutrality in tire manufacturing. 	<ul style="list-style-type: none"> • In tire marketing, the maintenance of an after-sales service structure is a matter of importance as is the development of a sales network. The Sumitomo Rubber Group has secured robust sales and service networks at home and abroad. The enhancement of these networks helps us raise our brand value while boosting our product capabilities and supporting our promotional activities.
Initiatives Undertaken by the Sumitomo Rubber Group	<ul style="list-style-type: none"> • Developing next-generation technologies and products through the application of the core SMART TYRE CONCEPT ▶p. 76 • Raising the ratio of sustainable raw materials (biomass and recycled raw materials)★ • Promoting solution businesses employing sensing technologies • Further strengthening our global development network ▶p. 21 • Developing tires incorporating noise-absorbing sponge "SILENT CORE" ▶p. 25 • Employing the "Fugaku" supercomputer to carry out rubber material simulations • Maintaining the No. 1 position in terms of the patent asset ranking for the rubber industry • Improving rubber quality 	<ul style="list-style-type: none"> • Upholding a Sustainable Natural Rubber Policy ▶p. 68 ★ • Promoting CSR procurement based on the Procurement Guidelines ▶p. 68 ★ • Promoting green purchasing ★ • Conducting surveys on the status of supplier initiatives to address environmental risks ★ 	<ul style="list-style-type: none"> • Reducing the environmental impact of factories ▶p. 69 ★ • Green logistics ★ • Maintaining complete zero landfill waste ▶p. 72 ★ • Pursuing same quality throughout the world • Expanding sales of retread tires and reusing waste tires 	<ul style="list-style-type: none"> • Developing and enhancing our global sales and service networks★ • Increasing brand value★ • Releasing commercial EV tires • Gathering customer feedback and making use of it to improve products and services★ • Expanding sales of fuel-efficient tires ▶p. 30

Note: Items that are also relevant to our Sports and Industrial and Other Products businesses are marked with ★

Risks, Opportunities and the Value Chain

Sports Business

Management Issues	<ul style="list-style-type: none"> Maximizing the results that we reap from the global business framework Developing products to respond to local market needs and ever higher performance demands Strengthening efforts towards enhancement of “DUNLOP” brand value and expanding the effect to the entire Sumitomo Rubber Group to generate synergies
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Strengths	Growth Opportunities
<ul style="list-style-type: none"> Providing products and services that are backed and differentiated by superior technical development capabilities, such as the utilization of state-of-the-art supercomputers Building brands and product appeal that have been refined at the most elite professional tour tournaments Practicing marketing that is thoroughly based on user needs and the global marketing capability to support that Expanding business opportunities following the acquisition of trademark rights to the “DUNLOP” brand throughout the world 	<ul style="list-style-type: none"> Raising awareness of health and fitness among citizens as the health-conscious millennial generation gains greater purchasing capabilities In golf, enhancing our presence in North America, the largest market In racket sports, leveraging the sales power we have cultivated in tennis balls, the brand power of Dunlop and our technical development capabilities, to grow sales Pursuing the diversity of value and potential to be found in sports so as to further enrich the customer’s sporting life Broadening the scope of operations to include AI- and IoT-based services aimed at assisting sporting activities

Risks	Initiatives Undertaken by the Sumitomo Rubber Group
<ul style="list-style-type: none"> A cautious consumer sentiment regarding spending for recreational activities due to a lingering sense of future anxiety amid economic instability induced by the COVID-19 pandemic Jump in the price of raw materials Deterioration in the outdoor sporting environment due to higher temperatures and other negative consequences resulting from climate change 	<ul style="list-style-type: none"> Developing & promoting sales of advanced products Expanding our Sports Business globally (Golf and Racket Sports Business) Developing products with even smaller environmental footprints by, for example, reducing the volume of plastics used in packaging and other materials Strengthening efforts towards the enhancement of “DUNLOP” brand value and expanding the effect to the entire Sumitomo Rubber Group to generate synergies Meeting growing demand for digital-driven services and products



Current Status of and Initiatives Undertaken by Our Value Chain

Recognition of the Current Environment	Initiatives Undertaken by the Sumitomo Rubber Group
<ul style="list-style-type: none"> Among the widespread effects of the COVID-19 pandemic, various sports events have been cancelled or postponed. At the same time, the general public’s health awareness has grown alongside a refreshed recognition of the role and importance of sports. Against this background, golf is attracting particular attention as sport that is played outdoors and that poses no problems concerning social distancing. This, in turn, has brought an increasing number of newcomers to the sport, causing demand for golf equipment to grow worldwide. However, the wellness business, including fitness club operations, is still being negatively affected by the COVID-19 pandemic due to the nature of fitness facilities in which users engage in indoor exercises. Accordingly, demand has yet to recover. We believe that, to help realize a sustainable society, we are being called upon not only to contribute to the resolution of environmental concerns but also to support mental and physical health for people in all ages. Through our Sports Business, we must thus strive to help people enjoy affluent lives as part of our corporate social responsibilities. 	<p>Product Development</p> <ul style="list-style-type: none"> Developing high-performance products sensitively designed to appeal to and help users feel a greater sense of joy in sports Developing products with even smaller environmental footprints, to this end enhancing product durability, developing biomass materials and incorporating recycled and other sustainable raw materials <p>Procurement/Production/Supply</p> <ul style="list-style-type: none"> Reducing the volume of plastics used by abolishing plastic lids for a portion of tennis ball packaging tubes Promoting energy-saving initiatives at factories and wellness business bases <p>Sales/Services</p> <ul style="list-style-type: none"> Accelerating initiatives to enhance the value of the “DUNLOP” brand in the golf business Ensuring the safe operation of sports gyms and the stable provision of wellness services designed to help senior citizens avoid the need for nursing care, with COVID-19 infection countermeasures thoroughly in place for these operations

Industrial Products Business

Management Issues	<ul style="list-style-type: none"> Enhancing research and development systems for high-value added products in terms of quality and functionality, based on rubber technology Accelerating efforts to seize growth opportunities in European and U.S. markets, in addition to maintaining conventional businesses centered in Japan and other Asian countries Constantly optimizing our business portfolio in line with changes in society
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Strengths	Growth Opportunities
<ul style="list-style-type: none"> Maintain a portfolio with a variety of proprietary technologies backed by our rubber technology nurtured in the course of operating the Tire Business Maintain a broad range of market contact points, particularly in business fields like infrastructure, disaster risk countermeasures, and healthcare that have strong affinity with our policy of contributing to society Moved the headquarters for the Rubber Parts for Medical Applications Business to Europe in 2020, building a global business framework to serve growth markets 	<ul style="list-style-type: none"> Sustained growth in demand for rubber parts for medical applications on the back of expansion in the global pharmaceutical market Growing needs for earthquake countermeasures reflecting ever stronger public awareness of natural disaster risks The emergence of new needs associated with the growing global trend toward sustainability along with the increasing importance of non-financial aspects of corporate activities Growing public hygiene awareness in the wake of the global COVID-19 pandemic

Risks	Initiatives Undertaken by the Sumitomo Rubber Group
<ul style="list-style-type: none"> Jump in the price of raw materials Pandemic-induced fluctuations in demand and the impact on supply chains Changes in government policies in addition to restrained investment policies adopted by the majority of private corporations 	<ul style="list-style-type: none"> Enhancing research and development systems based on rubber technology for the creation of high-value added products in terms of quality and functionality Constantly optimizing our business portfolio in line with changes in society Exploring new business fields that will better position us to meet future needs by fully taking advantage of the diverse resources afforded us by the Sumitomo Rubber Group’s wide-ranging operations Developing environmentally friendly products that, for example, use alternatives for organic solvents and incorporate biologically derived raw materials



Current Status of and Initiatives Undertaken by Our Value Chain

Recognition of the Current Environment	Initiatives Undertaken by the Sumitomo Rubber Group
<ul style="list-style-type: none"> In step with such trends as growing public awareness regarding sustainability, contributing to social sustainability through business activities is more important than ever. This includes the implementation of countermeasures against the pandemic. Given these circumstances, we deem it essential to accurately identify business fields and product development themes deserving our focus. 	<ul style="list-style-type: none"> We have positioned rubber parts for medical applications and vibration control dampers as priority operations requiring our constant focus as the former helps accommodate medical needs, while the latter contributes to countermeasures against earthquakes, typhoons and other natural disasters. We will strive to expand these operations on a global basis. In the infrastructure business, we are currently engaged in verification testing to curb the dispersion of microplastics* from artificial turf for sporting facilities. This testing is a pioneering project of its kind in the industry and is being conducted at public facilities in collaboration with the Ministry of the Environment and local governments. <p><small>*Small plastic pieces less than five millimeters in length</small></p>