Sumitomo Rubber Industries, Ltd.

Financial Results Briefing for Nine Months Ended September 30, 2024

November 8, 2024

Event Summary

[Company Name]	Sumitomo Rubber Industries, Ltd.	
[Company ID]	5110-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for Nine Months Ended September 30, 2024	
[Fiscal Period]	FY2024 Q3	
[Date]	November 8, 2024	
[Number of Pages]	39	
[Time]	09:00 – 10:35 (Total: 95 minutes, Presentation: 28 minutes, Q&A: 67 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	4	
	Satoru Yamamoto	President and CEO, Representative Director
	Hidekazu Nishiguchi	Director, Managing Executive Officer
	Naoki Okawa	Director, Senior Executive Officer
	Hitoshi Hino	Executive Officer, General Manager of Accounting & Finance Headquarters
[Analyst Names]*	Kazunori Maki	SMBC Nikko Securities
	Shinji Kakiuchi	Morgan Stanley MUFG Securities
	Tairiku Sakaguchi	Mizuho Securities
	Wataru Ishimoto	Nomura Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Nakayama: Thank you very much for your patience, ladies and gentlemen. We will now hold the Sumitomo Rubber Industries, Ltd. financial results briefing for nine months ended September 30, 2024. My name is Nakayama from the Investor Relations Office of Sumitomo Rubber and I will serve as today's moderator. Thank you very much. Let me begin by introducing today's attendees. Satoru Yamamoto, President and CEO, Representative Director of Sumitomo Rubber.

Yamamoto: My name is Yamamoto. Thank you very much.

Nakayama: Next, Hidekazu Nishiguchi, Director, Managing Executive Officer.

Nishiguchi: My name is Nishiguchi. Thank you very much.

Nakayama: Naoki Okawa, Director, Senior Executive Officer.

Okawa: My name is Okawa. Thank you very much.

Nakayama: Hitoshi Hino, Executive Officer, General Manager of Accounting & Finance Headquarters.

Hino: My name is Hino. Thank you very much.

Nakayama: Today's briefing will be conducted in accordance with the materials posted on our website, which will also be projected on the screen. First, Mr. Yamamoto, President and CEO, will give an overview of the financial results and explain current major initiatives, and then Mr. Okawa, Senior Executive Officer, will explain the details of the financial results. After the presentation, we would like to take your questions. Thank you very much. Mr. Yamamoto will now begin the presentation.

Yamamoto: I am President Yamamoto. Thank you very much for taking time out of your busy schedule today to attend our financial results briefing for nine months ended September 30, 2024. I will now give an overview of the results for Q3 of FY2024 and explain our current major initiatives.

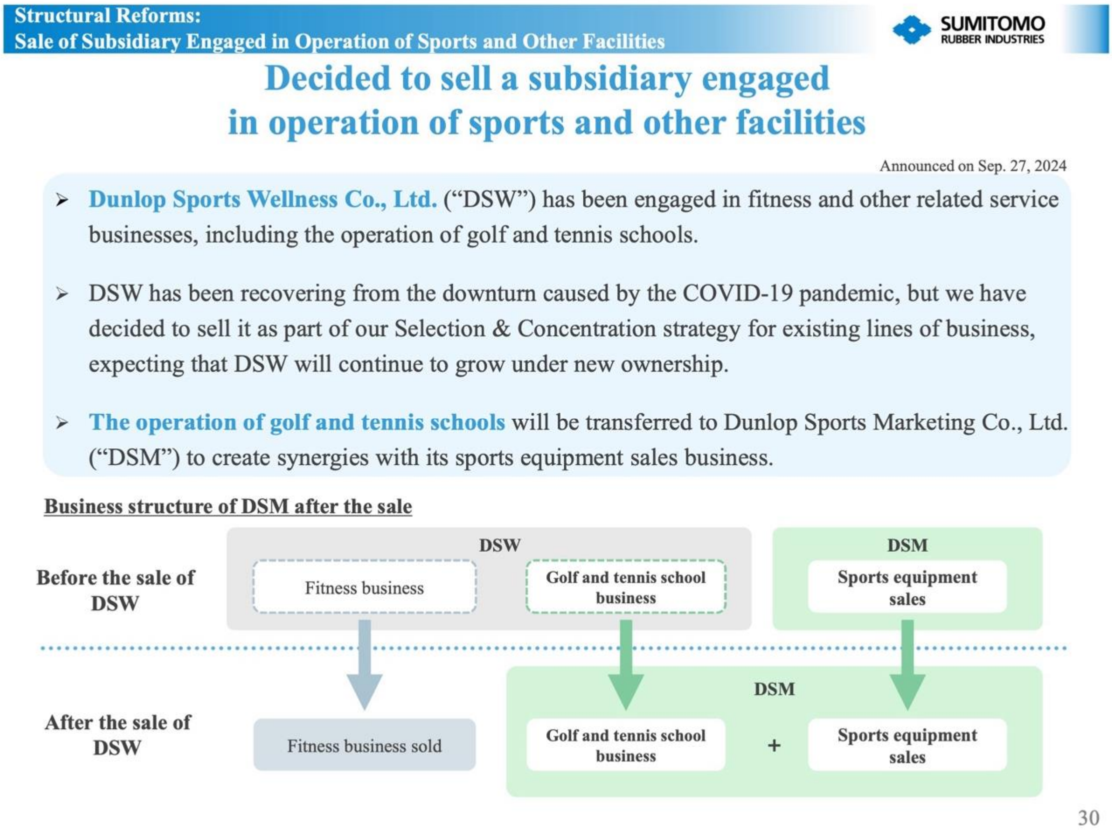
I would like to turn to slide six. In Q3 of FY2024, our group's sales revenue and business profit both reached record highs. Business profit also improved by 2.1 percentage points YoY to 7%. On the other hand, impairment losses associated with structural reforms were recorded, resulting in operating profit of JPY11.5 billion, much lower than previously forecast, and quarterly income of JPY4 billion.

Sales revenue and profit from the tire business and sales revenue from the sports business reached record highs. In the tire business, although the cumulative sales of tires from January to September decreased YoY, sales still went up thanks to the increased sales in the domestic market, especially for high-inch, high value-added products, and the continued growth in sales of the FALKEN and WILDPEAK series, our flagship products for pickup trucks and SUVs, in the North American market.

In the sports business, sales of golf clubs increased in the main market of North America, in addition to the launch of XXIO 13 at the end of last year. We will also launch the SRIXON ZXi series on November 9 to accelerate the sales growth of golf clubs in the future. Sales of tennis products increased in Japan.

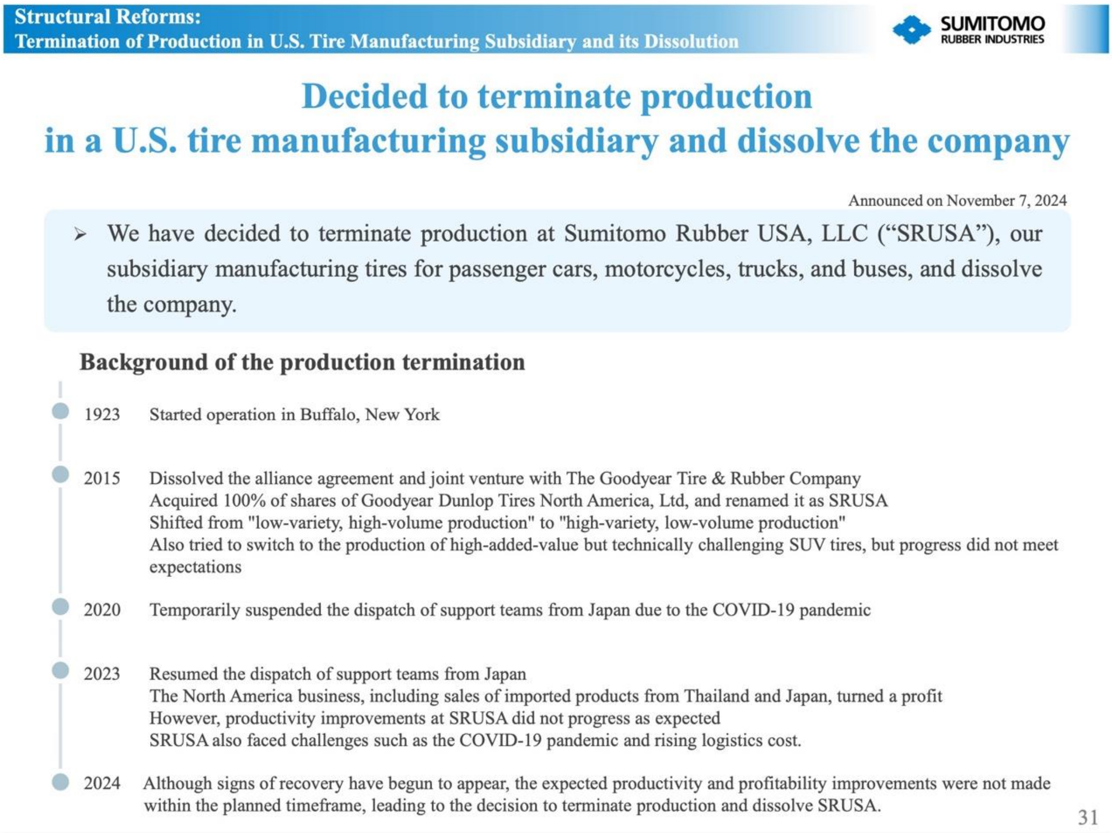
In the industrial & others business, sales decreased due to the sale of a medical rubber products subsidiary in Europe at the end of January, but the profit margin of the segment still improved due such factors as the improvement of sales resulting from this sale. With regard to our current major initiatives, we have completed the structural reform of six of our approximately 10 existing businesses and products, including the North American business, which is our highest priority, as planned in 2024.

Meanwhile, sales of SYNCHRO WEATHER, the next-generation all-season tire equipped with our proprietary Active Tread Technology, began on October 1 and are off to a good start. If equipped with SYNCHRO WEATHER tires, which themselves change their performance to suit road conditions, you can continue driving on snow-covered roads without panicking in the event of a sudden snowfall. They have the same or better performance as summer tires on dry and wet roads, making them highly satisfactory to our customers. We will expand sales by promoting the replacement of summer tires with SYNCHRO WEATHER.

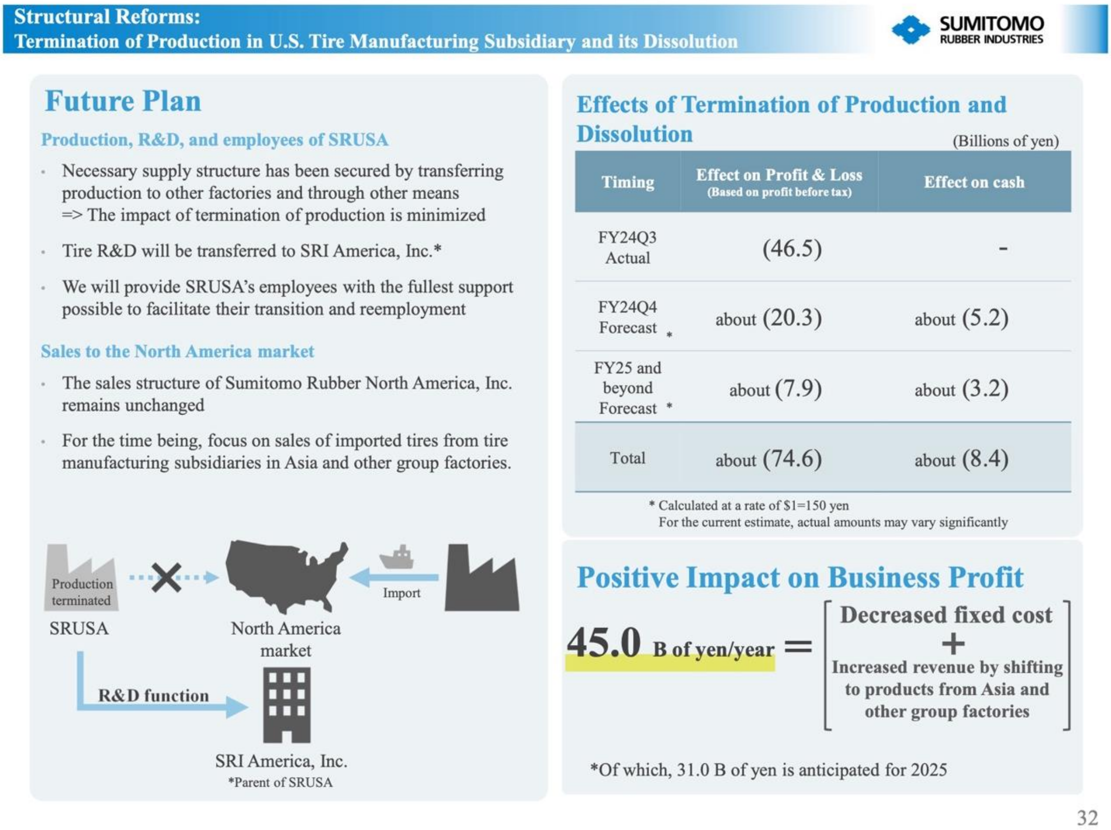


Please see slide 30. Dunlop Sports Wellness, our subsidiary that operates sports facilities, has been working to improve service quality and management efficiency after business conditions deteriorated due to the impact of the COVID-19 pandemic. Although it is currently on a recovery track, we have decided to transfer all shares to a new shareholder as part of our structural reform efforts.

Among the businesses of Dunlop Sports Wellness, the golf school and tennis school businesses will be transferred to Dunlop Sports Marketing to continue their operations since Dunlop Sports Wellness has synergies with Dunlop Sports Marketing's sports business. With our unique comprehensive services that combine lessons, fittings, and merchandise sales that allow customers to take lessons, get fitted for our golf clubs and tennis rackets, and then use them if they like them, we will spread the appeal of golf and tennis and create more fans of our brand.

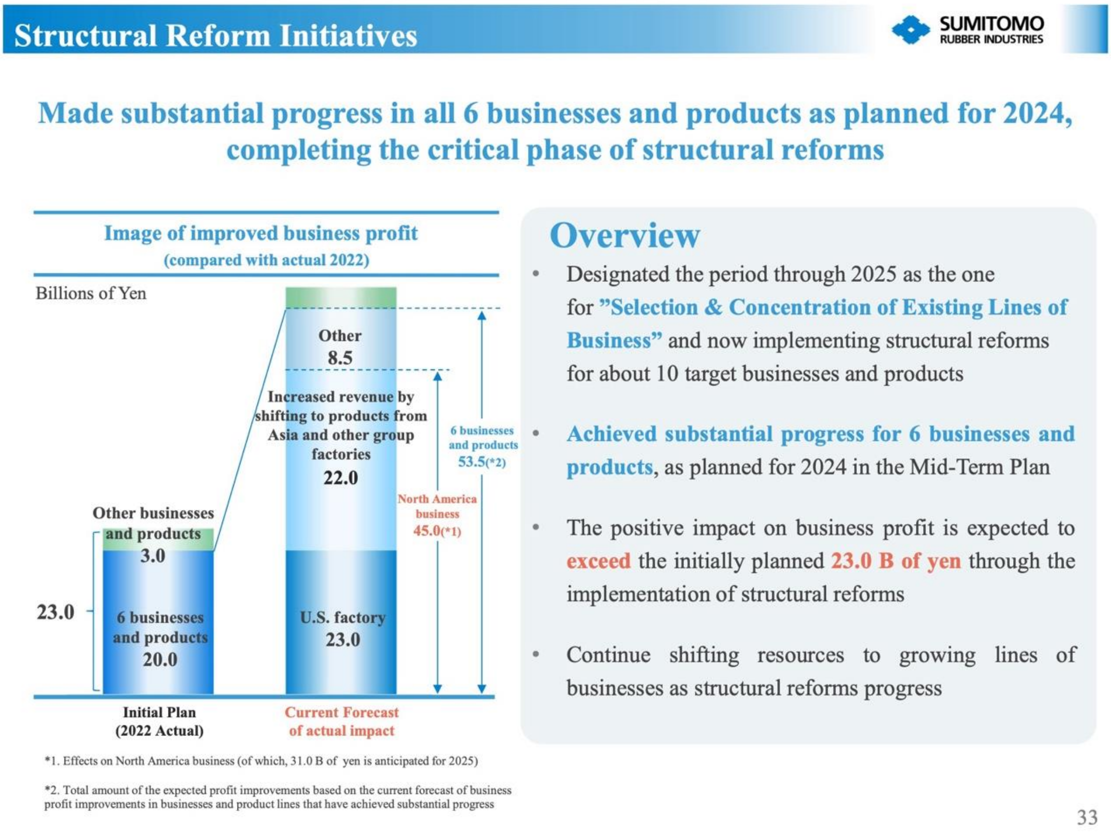


Please see slide 31. With regard to the structural reform of our North American business, we have been working to improve the productivity of our tire manufacturing subsidiary, Sumitomo Rubber USA, since 2015, but we have decided to terminate production at Sumitomo Rubber USA and dissolve the company after determining that improvements in productivity and profitability were not made within our timeframe.



Please see slide 32. Tires sold in the North American market will be concentrated on imported tires manufactured at group factories in Asia and elsewhere. Although losses will be incurred temporarily in the termination and dissolution of production at Sumitomo Rubber USA, the effect of the improvement in business profit is expected to be approximately JPY45 billion per year compared to the actual results in 2022. We anticipate the effect to be approximately JPY31 billion in 2025. We will link this to the future growth of our North American tire business and the Group as a whole.

Tire R&D conducted at Sumitomo Rubber USA will be transferred to SRI America, which will then continue R&D in North America. The sales structure of Sumitomo Rubber North America, our sales subsidiary in North America, will remain unchanged. In North America, sales of our flagship products, the FALKEN and WILDPEAK series, have exceeded the growth in demand, and we will continue to expand sales in North America.



Please see slide 33. We have set the period up to 2025 as a period of selection and concentration of existing lines of businesses and have been promoting structural reforms since 2023. We had initially expected that the promotion of structural reforms would improve business profit by JPY23 billion compared to the actual results in 2022, the first year under the plan. However, due to the withdrawal from the gas pipe business, the sale of our medical rubber subsidiary in Europe, the sale of our sports facility operation subsidiary, the structural reforms in North America which we have been working on as our top priority, and a total of six businesses including two other businesses, we now expect the effect of the structural reforms to improve business profit by up to JPY53.5 billion.

【Forecast】 Consolidated Financial Results (2024 Annual)

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

	Revised Forecast 2024	Actual 2023	YOY	Aug. 7th 2024 Forecast 2024	Feb. 14th 2024 Forecast 2024
Sales Revenue	**1,200.0**	1,177.4	102%	1,200.0	1,200.0
Business Profit (%)	**80.0** **6.7%**	77.7 6.6%	103%	80.0 6.7%	80.0 6.7%
Operating Profit (%)	**5.0** **0.4%**	64.5 5.5%	8%	61.0 5.1%	61.0 5.1%
Profit	**1.0**	37.0	3%	41.0	37.0
ROIC *1	**6.0%**	5.7%		5.7%	5.7%
ROE	**0.2%**	6.3%		6.1%	5.7%
ROA *2	**6.3%**	6.2%		6.1%	6.2%
D/E Ratio	**0.5**	0.5		0.5	0.5

*1. ROIC : Net Business Profit After Tax / Invested Capital
*2. ROA : Business Profit / Total Assets

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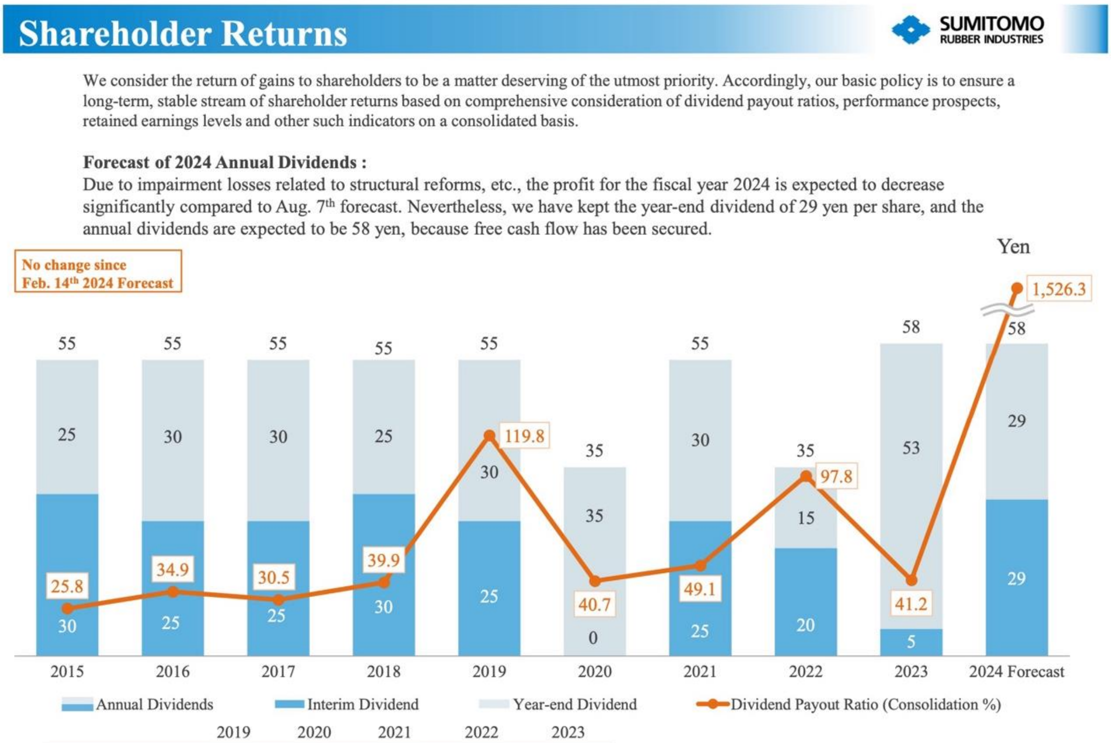
Please see slide 16. For the full year of FY2024, we forecast sales revenue of JPY1.2 trillion, 102% YoY; business profit of JPY80 billion, 103% YoY; operating profit of JPY5 billion; and net profit of JPY1 billion. Operating profit and net profit are expected to decrease significantly due to the impact of structural reforms.



	2019	2020	2021	2022	2023
Total Shareholder Return	107.1%	75.2%	101.3%	102.5%	136.2%
Dividend Yield *	4.1%	3.9%	4.7%	3.0%	3.8%

Please see slide 29. We plan to pay a year-end dividend of JPY29 for 2024, as initially forecasted, for an annual dividend of JPY58. This fiscal year, we have recorded impairment losses in line with the completion of structural reforms, so we expect our net profit to decrease significantly. However, we have made a comprehensive judgment that the structural reforms are a positive step to improve our business performance, and that the outlook for improved performance in the next fiscal year and beyond, the level of retained earnings, and the status of free cash flow, among other factors, so we have decided to leave the dividend amount that we had initially announced unchanged. We will continue to aim for a consolidated dividend payout ratio of 40% or more and will strive to pay stable dividends whenever possible.

This concludes my explanation. Thank you very much.

Nakayama: Next, Mr. Okawa, Senior Executive Officer, will explain the details of the financial results for Q3 of the fiscal year ending December 31, 2024.

Okawa: My name is Okawa. Thank you for participating in our financial results briefing today. We thank all of our stakeholders for their continued support. I would like to take this opportunity to express my deepest appreciation.

Consolidated Financial Results (2024 Jan.-Sep.)

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

	2024 Jan.-Mar.	vs 2023	2024 Apr.-Jun.	vs 2023	2024 Jul.-Sep.	vs 2023	**2024 Jan.-Sep.**	**vs 2023**	2023 Jan.-Sep.
Sales Revenue	291.4	105% +14.6	295.7	104% +11.3	287.9	99% (1.6)	**874.9**	**103% +24.2**	850.7
Business Profit (%) *1,3	23.2 8.0%	291% +15.2	19.1 6.5%	210% +10.0	19.2 6.7%	77% (5.7)	**61.5 7.0%**	**147% +19.5**	42.0 4.9%
Operating Profit (%) *3	20.7 7.1%	266% +12.9	21.3 7.2%	235% +12.2	(30.5) -	- (55.1)	**11.5 1.3%**	**28% (30.0)**	41.4 4.9%
Profit *2,3	24.8	620% +20.8	13.9	331% +9.7	(34.7)	- (53.7)	**4.0**	**15% (23.2)**	27.2

*1. Business Profit : Sales Revenue – (COS + SGA)
*2. Profit : Profit attributable to owners of parent
*3. Accounting adjustments have been applied since 2nd quarter, 2022, as pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies".

The above notes apply throughout this report.

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I will now explain the details of the financial results for Q3 of FY2024. First, please see slide seven. As shown in the blue box, consolidated financial results for January to September 2024 are sales revenue of JPY874.9 billion, business profit of JPY61.5 billion, operating profit of JPY11.5 billion, and quarterly profit of JPY4 billion.

While sales revenue and business revenue reached record highs, operating profit and quarterly profit decreased YoY due to the recognition of impairment losses associated with the implementation of structural reforms of six businesses and products in FY2024, as we had previously promised.

On the other hand, the business profit margin improved from 4.9% last year to 7% this year, and although the impact of the weak yen is a major factor, the effects of our previous efforts to improve profitability are gradually becoming apparent.

Consolidated Sales Revenue / Business Profit by Reportable Segment (2024 Jan.-Sep.)

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

		2024 Jan.-Mar.	vs 2023	2024 Apr.-Jun.	vs 2023	2024 Jul.-Sep.	vs 2023	2024 Jan.-Sep.	vs 2023	2023 Jan.-Sep.
Sales Revenue	Tires	244.1	106%	252.0	104%	252.7	101%	**748.8**	**104%**	720.6
	Sports	36.7	103%	34.9	107%	26.1	90%	**97.7**	**100%**	97.3
	Industrial & Other	10.6	92%	8.8	84%	9.1	84%	**28.5**	**87%**	32.9
	Total	291.4	105%	295.7	104%	287.9	99%	**874.9**	**103%**	850.7
Business Profit	Tires	18.3	945%	15.7	201%	17.1	78%	**51.2**	**161%**	31.9
	Sports	4.2	77%	2.7	281%	1.0	39%	**7.9**	**89%**	8.9
	Industrial & Other*	0.7	117%	0.6	210%	1.1	344%	**2.4**	**201%**	1.2
	Total	23.2	291%	19.1	210%	19.2	77%	**61.5**	**147%**	42.0

*The elimination of inter-segment transactions is included.

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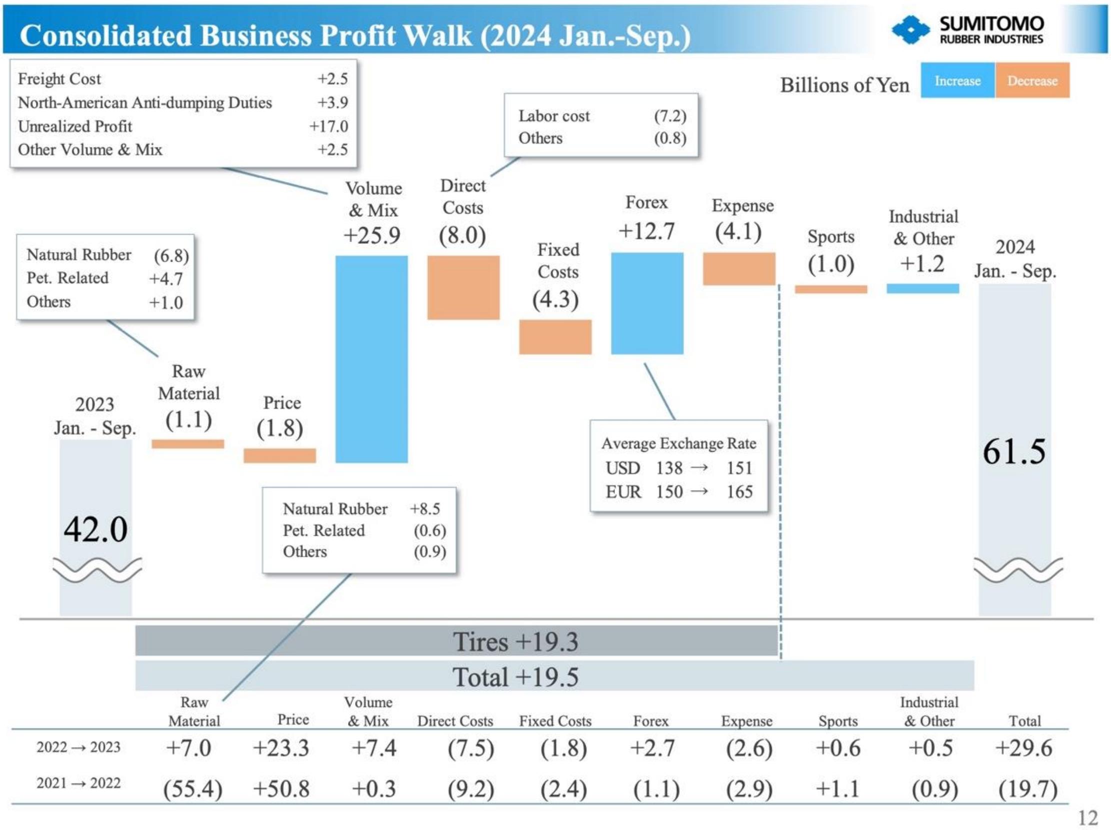
Please see slide nine. Sales revenue and business profit per segment for the January to September period are shown in the blue box. Sales revenue in the tires segment stood at JPY748.8 billion, 104% YoY, and business profit at JPY51.2 billion. Although unit sales decreased YoY, both sales revenue and business profit reached record highs in the January to September period.

Under these conditions, sales revenue in the sports segment came to JPY97.7 billion, 100% YoY, and business profit was JPY7.9 billion, 89% YoY. Sales revenue reached a record-high level, partly due to the effect of the weak yen, but business profit declined due to a drop in profit in the golf business caused by the deteriorating sales environment.

On the other hand, in the industrial & others segment, sales revenue decreased 87% YoY to JPY28.5 billion and business profit increased 201% YoY to JPY2.4 billion due to the sale of a European manufacturing and sales subsidiary for medical rubber products at the end of January.



Please see slide 12. This shows an analysis of the factors that contributed to the YoY increase or decrease in business profit for the January to September period. The volume & mix increased by JPY25.9 billion, with the details shown in the speech balloon in the upper left corner. Of this, ocean freight was up JPY2.5 billion owing in part to contract unit prices being settled at a low level. Antidumping duties in North America increased by JPY3.9 billion owing partly to refund associated with sales price optimization in Q1 and Q3.

Unrealized profit jumped JPY17 billion, indicating a large difference from the negative impact recorded in the previous fiscal year. Other volume & mix rose by JPY2.5 billion, so despite sales volume being on the negative side, mix was still positive.

Direct costs dipped by JPY8 billion due to labor costs in Turkey and other factors. Fixed costs also dropped JPY4.3 billion due to the same factors. The yen weakened against many currencies in addition to the US dollar and euro, adding JPY12.7 billion to the exchange rate. Expenses decreased by JPY4.1 billion, mainly due to increased expenses for advertising, sales expansion, and DX.

As a result of the above, the tire business as a whole increased profit by JPY19.3 billion. After adding the JPY1 billion decrease in the sports business and the JPY1.2 billion increase in the industrial & others business, the total profit of the entire company went up by JPY19.5 billion.

Consolidated Statement of Profit & Loss

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

	2023 Jan.-Sep.	2024 Jan.-Sep.	vs 2023 Jan.- Sep.
Sales revenue	850.7	**874.9**	+24.2
Cost of sales	(629.7)	**(614.9)**	+14.9
Selling, general and administrative expenses	(179.0)	**(198.6)**	(19.6)
Business profit	42.0	1 **61.5**	+19.5
Other income	1.9	2 **3.5**	+1.6
Other expenses	(2.4)	3 **(53.5)**	(51.1)
Operating profit	41.4	**11.5**	(30.0)
Financial income	10.3	4 **7.9**	(2.3)
Financial expenses	(5.2)	5 **(11.8)**	(6.6)
Equity in earnings of affiliates	(0.0)	**0.0**	+0.1
Profit before tax	46.5	**7.7**	(38.8)
Income tax expenses	(18.7)	**(1.0)**	+17.6
Non-controlling interests	(0.6)	**(2.6)**	(2.0)
Profit	27.2	**4.0**	(23.2)

Main factor

1 **Business profit**
Refer to page.6 to 12 for details

2 **Other income**	Actual	vs 2023
Non-operating profit	2.2 B of yen	+0.9 B of yen
Other extraordinary profit	1.0 B of yen	+0.7 B of yen

3 **Other expenses**		
Impairment losses, etc. related to termination of production and dissolution of a U.S. factory	(46.5) B of yen	(46.5) B of yen
Loss on sale of a subsidiary	(3.2) B of yen	(3.2) B of yen
Non-operating expenses	(1.8) B of yen	(0.6) B of yen

4 **Financial income**		
Gain on net monetary position	5.0 B of yen	(2.6) B of yen
Interest received	2.4 B of yen	+0.3 B of yen

5 **Financial expenses**		
Interest expenses	(5.2) B of yen	(0.5) B of yen
Foreign exchange loss	(4.9) B of yen	(4.5) B of yen

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Please see slide 13. I will talk about the items under business profit in the consolidated statements of profit and loss. In the quarter under review, business profit was JPY61.5 billion and quarterly profit was JPY4 billion, resulting in a decline of JPY57.5 billion below business profit. The main factor behind this was the JPY53.5 decline in other expenses, as shown in item three.

As shown on the details on the right side of the slide, it mainly due to impairment losses and restructuring costs, including minus JPY46.5 billion due to the termination of production at the North American tire manufacturing subsidiary and minus JPY3.2 billion due to the sale of Dunlop Sports Wellness.

We expect to continue to incur losses related to North America in Q3 and beyond, but we also expect to see a continuous improvement in our business profits in the next fiscal year and beyond that significantly exceed our losses.

Consolidated Statement of Financial Position

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

	As of Dec. 31, 2023	As of Sep. 30, 2024	vs Dec. 31, 2023
Current assets	624.7	**638.5**	1 +13.8
Non-current assets	642.0	**632.9**	2 (9.1)
Total assets	1,266.7	**1,271.4**	+4.6
Current liabilities	331.1	**334.0**	+2.9
Non-current liabilities	294.2	**300.2**	+6.0
Total liabilities	625.3	**634.2**	3 +8.9
Total equity attributable to owners of parent	624.1	**619.5**	4 (4.6)
Non-controlling interests	17.3	**17.7**	+0.4
Total equity	641.4	**637.2**	(4.2)
Total liabilities and equity	1,266.7	**1,271.4**	+4.6
Equity ratio	49.3%	**48.7%**	(0.5)P

Main factor

	vs Dec. 31, 2023
1 Current assets	
Inventories	+33.5 B of yen
Other current assets	+22.6 B of yen
Trade and other receivables	(21.5) B of yen
Cash and cash equivalents	(20.3) B of yen
2 Non-current assets	
Tangible assets	(27.5) B of yen
Deferred tax assets	+10.7 B of yen
Intangible assets (including goodwill)	+4.5 B of yen
Other financial assets	+3.3 B of yen
3 Total liabilities	
Interest-bearing debt	+17.9 B of yen (310.9 → 328.8)
Trade and other liabilities	(16.1) B of yen
Other current liabilities	+15.1B of yen
Income tax payable	(6.3)B of yen
4 Equity	
Dividends paid	(21.6) B of yen
Foreign currency translation adjustment	+12.1 B of yen
Profit	+4.0 B of yen

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Please see slide 14. This is our consolidated balance sheet. Total assets amounted to JPY1,271.4 billion, an increase of JPY4.6 billion from the end of the previous fiscal year owing to such factors as the surge in the valuation of assets in foreign currencies due to the weak yen, despite the contraction of our assets following the implementation of structural reforms. The ratios of liabilities and equity were almost half, with the equity ratio standing at 48.7%, down 0.5 percentage points from the end of the previous fiscal year.

【Forecast】Consolidated Financial Results (2024 Annual)

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

	Revised Forecast 2024	Actual 2023	YOY	Aug. 7th 2024 Forecast 2024	Feb. 14th 2024 Forecast 2024
Sales Revenue	**1,200.0**	1,177.4	102%	1,200.0	1,200.0
Business Profit (%)	**80.0** **6.7%**	77.7 6.6%	103%	80.0 6.7%	80.0 6.7%
Operating Profit (%)	**5.0** **0.4%**	64.5 5.5%	8%	61.0 5.1%	61.0 5.1%
Profit	**1.0**	37.0	3%	41.0	37.0
ROIC *1	**6.0%**	5.7%		5.7%	5.7%
ROE	**0.2%**	6.3%		6.1%	5.7%
ROA *2	**6.3%**	6.2%		6.1%	6.2%
D/E Ratio	**0.5**	0.5		0.5	0.5

*1. ROIC : Net Business Profit After Tax / Invested Capital
*2. ROA : Business Profit / Total Assets

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Please see slide 16. This is our consolidated financial results forecast for FY2024. As shown in the blue box, we forecast sales revenue of JPY1,200 billion, 102% YoY, and business profit of JPY80 billion, 103% YoY. However, after factoring in losses associated with the completion of structural reforms, we expect operating profit to be JPY5 billion and net profit JPY1 billion, representing significant decreases from the previous year and from the Q2 forecast.

As a result, ROIC and ROE for the current fiscal year are expected to be 6% and 0.2%, respectively. Please note that our company's ROIC is calculated based on business profit, which is equivalent to operating profit under Japanese standards, while ROE is calculated based on net profit for the current period, which includes impairment losses and other items, so there is a somewhat large difference between the two figures.

【Forecast】 Consolidated Sales Revenue / Business Profit by Reportable Segment (2024 Annual)

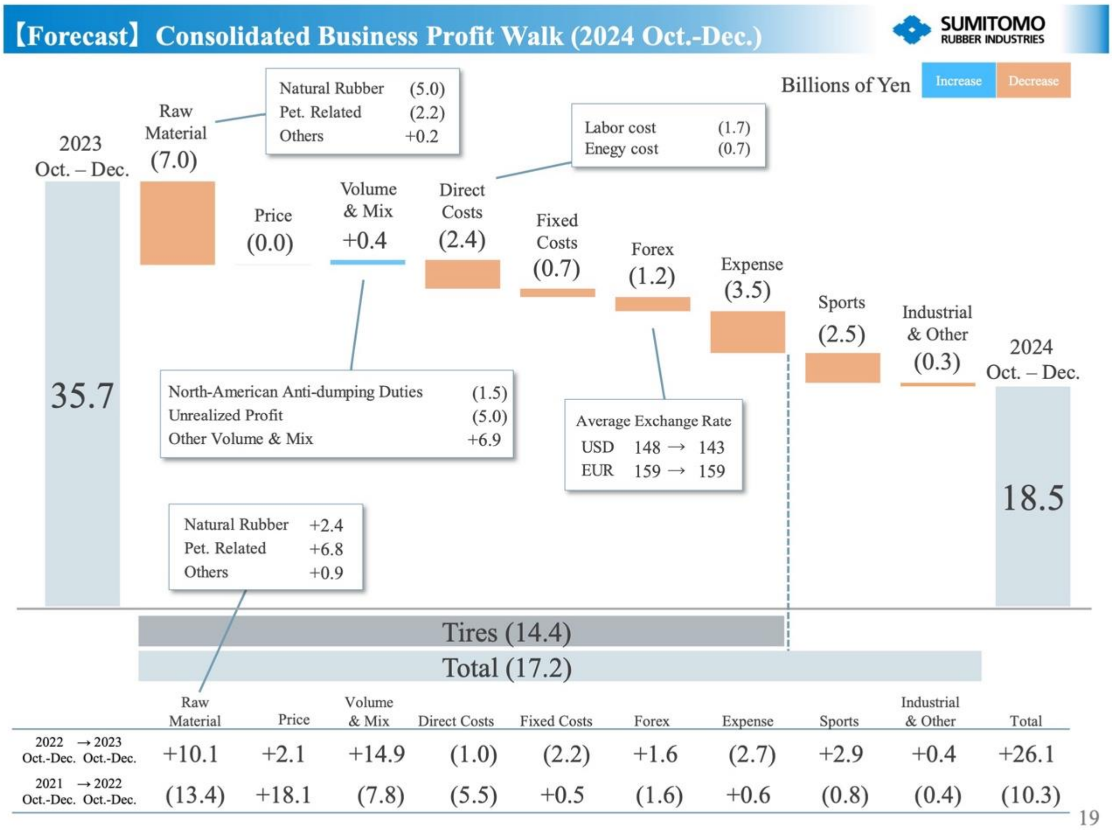
SUMITOMO RUBBER INDUSTRIES

Billions of Yen

		Revised Forecast 2024	Actual 2023	YOY	Aug. 7th 2024 Forecast 2024	Feb. 14th 2024 Forecast 2024
Sales Revenue	Tires	**1,032.5**	1,006.4	103%	1,030.0	1,033.0
	Sports	**129.5**	126.6	102%	132.5	131.5
	Industrial & Other	**38.0**	44.4	86%	37.5	35.5
	Total	**1,200.0**	1,177.4	102%	1,200.0	1,200.0
Business Profit	Tires	**68.5**	63.6	108%	67.5	66.5
	Sports	**9.0**	12.5	72%	10.0	11.0
	Industrial & Other *	**2.5**	1.6	155%	2.5	2.5
	Total	**80.0**	77.7	103%	80.0	80.0

*The elimination of inter-segment transactions is included. 18

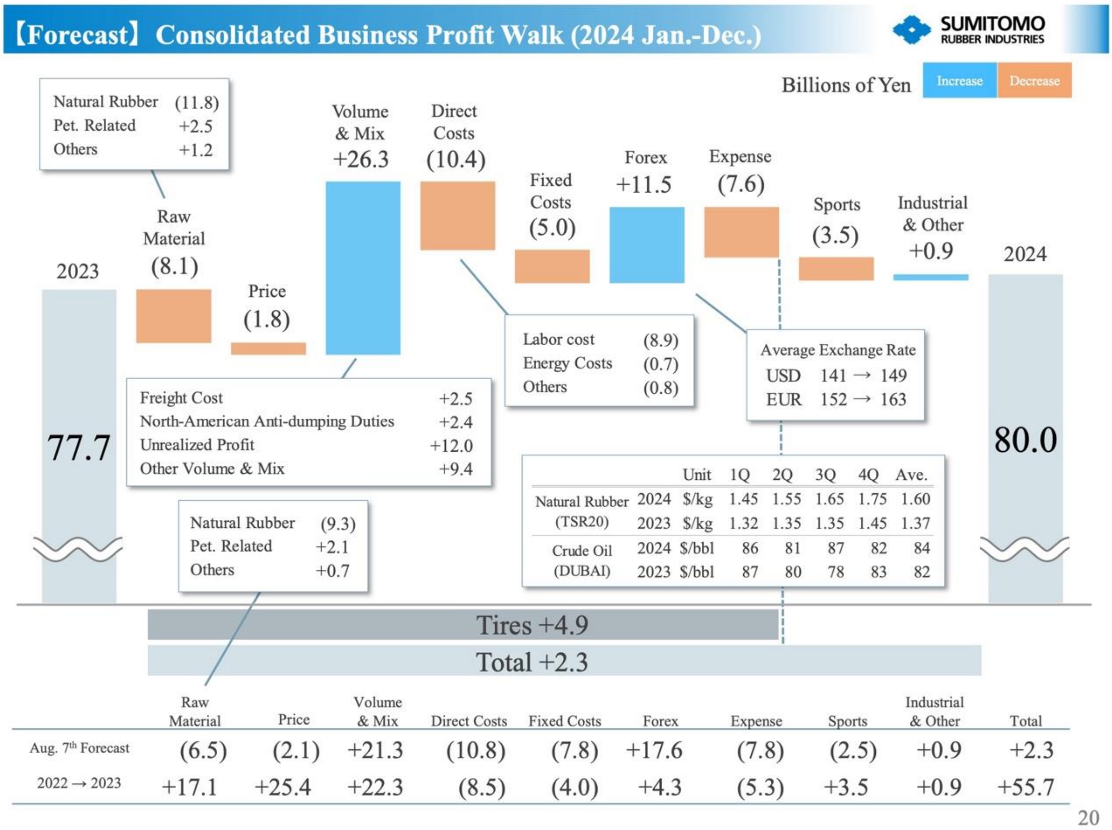
Please see slide 18. Sales revenue per segment and business profit forecast for FY2024. The fourth line from the bottom of the blue box is the business profit of tires, and it is expected to increase by 5% to JPY68.5 billion from JPY63.6 billion in FY2023 results shown right next to it. Below that, we forecast lower profit in sports and higher profit in industrial & others.



Please see slide 19. This is an analysis of the factors that will contribute to the YoY increase or decrease in business profit for the October to December period. First, we expect natural rubber to drop JPY5 billion and petroleum-related materials by JPY2.2 billion, amounting to a total decrease of JPY7 billion. Volume & mix are plus JPY400 million. The breakdown is as shown in the speech balloon below. North American anti-dumping duties dropped JPY1.5 billion YoY, partly because some of the effects of the tariff rate reductions were factored in at the end of the previous year. Unrealized profit was decreased by JPY5 billion owing in part to inventory stockpiling in preparation for the termination of production at the North American tire manufacturing subsidiary. As for the other volume & mix, despite the reduction in volume, an increase in the mix was factored in, so we expect other volume & mix to climb by JPY6.9 billion.

Direct costs are expected to be decrease by JPY2.4 billion due to increased labor and energy costs, while fixed costs will drop by JPY0.7 billion due to indirect labor costs. With regard to expenses, we have factored in a JPY3.5 billion decrease due to increased advertising expenses and DX expenses for the new ERP system, resulting in a projected minus JPY14.4 billion decline for the tire business as a whole.

It will be minus JPY2.5 billion in the sports business due to the deteriorating market conditions in North America and South Korea, as well as increased expenses for future business development. Industrial & others is expected to be minus JPY0.3 billion, and the total company-wide profit is expected to be minus JPY17.2 billion. We will minimize this decrease in profit while controlling costs as much as possible toward the end of the fiscal year.



Please see slide 20. This is an analysis of the factors that contribute to the increase or decrease in business profit for FY2024 from the previous year. This is the total from the January to September and October to December increase and decrease analysis I explained earlier. Business profit is expected to increase by JPY2.3 billion to JPY80 billion in the current year from JPY77.7 billion in the previous year. See the table on the lower right for the changes in the unit prices of raw materials, natural rubber and crude oil.

Consolidated Business Profit Analysis by Factors

SUMITOMO RUBBER INDUSTRIES

Billions of Yen

Year	Period	Business Profit	vs Previous Year	Raw Material	Price	Volume & Mix	Direct Costs	Fixed Costs	Forex	Expense	Sports	Industrial & Other
2023	Jan.-Mar.	8.0	(6.8)	(4.5)	+10.8	(8.9)	(3.9)	(0.7)	(0.3)	(1.0)	+1.5	+0.2
2023	Apr.-Jun.	9.1	+9.7	+1.2	+8.1	+4.1	(2.6)	(0.0)	+0.6	(0.8)	(1.3)	+0.4
2023	Jul.-Sep.	24.9	+26.7	+10.3	+4.4	+12.2	(1.0)	(1.1)	+2.4	(0.8)	+0.4	(0.1)
2023	Oct.-Dec.	35.7	+26.1	+10.1	+2.1	+14.9	(1.0)	(2.2)	+1.6	(2.7)	+2.9	+0.4
2023	Annual	77.7	+55.7	+17.1	+25.4	+22.3	(8.5)	(4.0)	+4.3	(5.3)	+3.5	+0.9
2024	Jan.-Mar.	23.2	+15.2	+3.8	(0.1)	+11.1	(2.2)	(1.4)	+5.3	(0.2)	(1.2)	+0.1
2024	Apr.-Jun.	19.1	+10.0	(0.3)	(1.4)	+7.5	(2.7)	(1.8)	+7.6	(0.9)	+1.7	+0.3
2024	Jul.-Sep.	19.2	(5.7)	(4.6)	(0.3)	+7.3	(3.1)	(1.1)	(0.2)	(3.0)	(1.5)	+0.8
2024	Oct.-Dec.	18.5	(17.2)	(7.0)	(0.0)	+0.4	(2.4)	(0.7)	(1.2)	(3.5)	(2.5)	(0.3)
2024	Annual	80.0	+2.3	(8.1)	(1.8)	+26.3	(10.4)	(5.0)	+11.5	(7.6)	(3.5)	+0.9
vs Aug 7th Forecast			+0.0	(1.6)	+0.3	+5.0	+0.4	+2.8	(6.1)	+0.2	(1.0)	+0.0

21

Please continue to slide 21. Here, I will discuss the Q2 forecast shown at the bottom of the table, which are items that differ significantly from the previous announcement. In a nutshell, we will aim for further increase in profit, although the impact of reduced profit caused by the appreciation of the yen will be offset by the effects of improvements in mix in terms of volume & mix. The total amount for the entire company will be the same as previously announced.

Tire Sales Volume (Comparison %)

SUMITOMO RUBBER INDUSTRIES

vs Previous year	2023 Actual					2024 Jan.-Sep. Actual, Oct.-Dec. Forecast					Aug. 7th 2024 Forecast		
	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Annual	Jan.-Mar.	Apr.-Jun.	**Jul.-Sep.**	Oct.-Dec.	**Annual**	Jan.-Jun.	Jul.-Dec.	Annual
Domestic O.E.	112%	121%	108%	108%	112%	78%	90%	**87%**	90%	**87%**	84%	92%	88%
Domestic Rep.	98%	108%	89%	97%	98%	86%	97%	**108%**	108%	**100%**	92%	111%	102%
Overseas O.E.	101%	108%	92%	101%	100%	90%	89%	**89%**	86%	**88%**	89%	90%	90%
Overseas Rep.	87%	94%	97%	96%	93%	100%	93%	**99%**	103%	**99%**	96%	105%	101%
Details: North America	81%	92%	109%	100%	95%	107%	86%	**98%**	104%	**99%**	96%	102%	99%
Details: Europe	90%	85%	100%	91%	92%	102%	105%	**90%**	96%	**98%**	103%	98%	101%
Details: Asia	91%	104%	89%	92%	94%	93%	89%	**103%**	114%	**99%**	91%	114%	102%
Details: Others	85%	93%	91%	102%	92%	100%	93%	**104%**	98%	**99%**	96%	106%	101%
Total	94%	101%	96%	99%	97%	93%	93%	**97%**	99%	**96%**	93%	102%	97%
Total Tire Sales (000 Units)	26,450	26,860	26,850	28,190	108,360	24,610	24,870	**26,090**	28,030	**103,600**	49,490	56,000	105,480

22

Please see slide 22. This shows the YoY changes in the unit sales of tires. As shown in the lower blue box in the middle of the blue box, unit sales of tires during the period from July to September totaled 26.09 million, 97% YoY. By market, domestic new car sales were 87% due to production cutbacks by some OEMs, and domestic after-market sales were 108% due to a decrease in sales in the July to September period of the previous year, which was related to the price hike implemented in July last year. Overseas new car sales increased steadily in North America, while sales continued to decline in Southeast Asia at 89%, especially for Japanese OEMs. Overseas sales stood at 99%, which, by region, break down to 98% in North America, 90% in Europe, 103% in Asia, and 104% in the rest of the world.

In North America, sales of the WILDPEAK series, our flagship products, remained strong, but overall sales in North America decreased due to the strong sales in the previous year and the impact of the increase in low-priced imported tires and other products. In Europe, sales declined due to supply shortages caused by the strike at the factory in Turkey. Now although sales increased in Asia and other regions, overall sales in overseas markets were lower than the previous year.

Next, these are the annual sales volume for FY2024. We expect the volume to reach 103.6 million units, a 4% decrease YoY, as shown under the blue box on the right. By market, domestic new car sales is 87% of the previous year's level due to the impact of Japanese OEM production cutbacks. Overseas new car sales is 88% due also to Japanese OEM production cutbacks in China and Southeast Asia. In the domestic market, we expect sales to exceed the previous year's level in H2 thanks to the launch of the next-generation all-season tire, SYNCHRO WEATHER, in October. We also anticipate full-year sales to be 100%, on par with the previous year, by recovering the decline in H1. Overseas sales will be 99%. By region, it will be 99% in North America, 98% in Europe, 99% in Asia, and 99% in other regions, roughly on par with the previous year. Compared to the Q2 forecast on the far right, we expect a slight decrease in the annual total.

Tire Volume by Category (Comparison %)

SUMITOMO RUBBER INDUSTRIES

vs Previous Year	Actual 2023 Jan.-Sep.				Actual 2023 Jan.-Dec.			
	O.E.	Rep.	Total	Composition ratio	O.E.	Rep.	Total	Composition ratio
Passenger Tires	104%	95%	98%	88%	105%	96%	98%	88%
Advanced Tires *1	115%	104%	108%	38% *2	117%	103%	108%	38% *2
Truck & Bus Tires	111%	82%	84%	3%	112%	83%	85%	4%
Motorcycle, Industrial & Other Tires	110%	81%	91%	9%	103%	85%	92%	9%
Total	105%	93%	97%	100%	105%	94%	97%	100%

vs Previous Year	Actual 2024 Jan.-Sep.				2024 Jan.-Dec. Forecast			
	O.E.	Rep.	Total	Composition ratio	O.E.	Rep.	Total	Composition ratio
Passenger Tires	**89%**	**96%**	**94%**	**88%**	88%	99%	96%	88%
Advanced Tires *1	**97%**	**100%**	**99%**	**40%** *2	96%	101%	99%	39% *2
Truck & Bus Tires	**103%**	**93%**	**94%**	**3%**	108%	94%	95%	4%
Motorcycle, Industrial & Other Tires	**77%**	**102%**	**91%**	**9%**	80%	103%	93%	9%
Total	**88%**	**97%**	**94%**	**100%**	88%	99%	95%	100%

< Advanced Tires Composition Ratio by Year > *2

		2022 Actual	2023 Actual	2024 Forecast
Advanced Tires *1	O.E.	44%	50%	54%
	Rep.	31%	33%	34%
	Total	35%	38%	39%

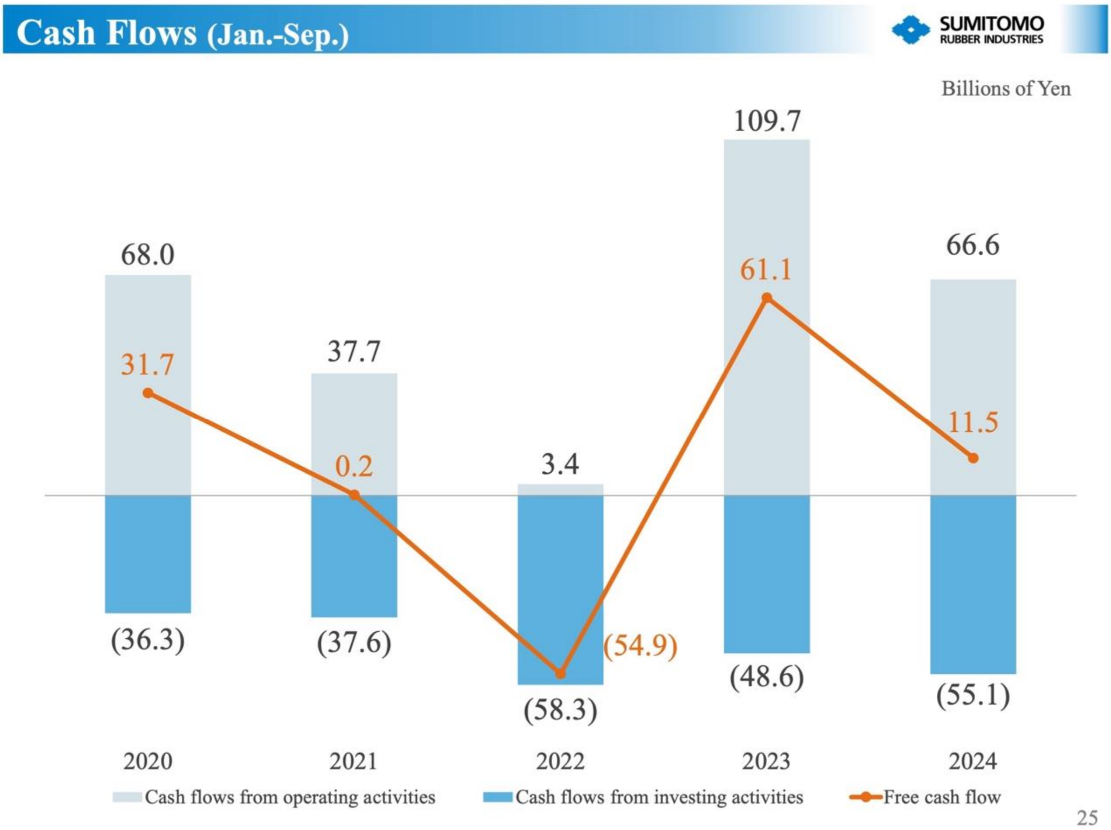
*1.Advanced Tires: Primarily for SUVs and Passenger car tires with a size of 18" or larger

*2.Composition Ratio to Passenger Tires

23

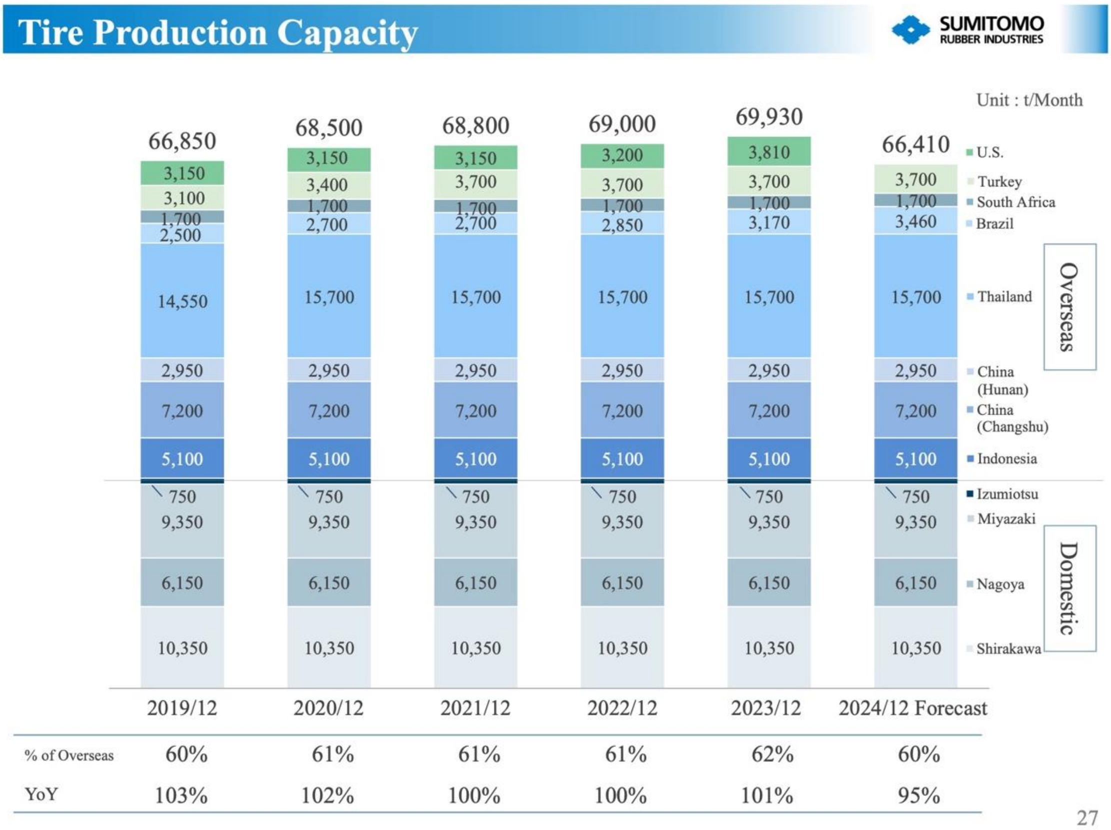
Please see slide 23. In the blue box, the composition ratios of the January to September 2024 results shows that passenger car tires accounted for a huge chunk of the total at 88%, of which advanced performance tires accounted for 40%.

Looking at the changes in the composition ratio of advanced performance tires by fiscal year at the bottom of the slide, our forecast is that it will be 39% for the year, an increase of 1 percentage point over the previous year's results.

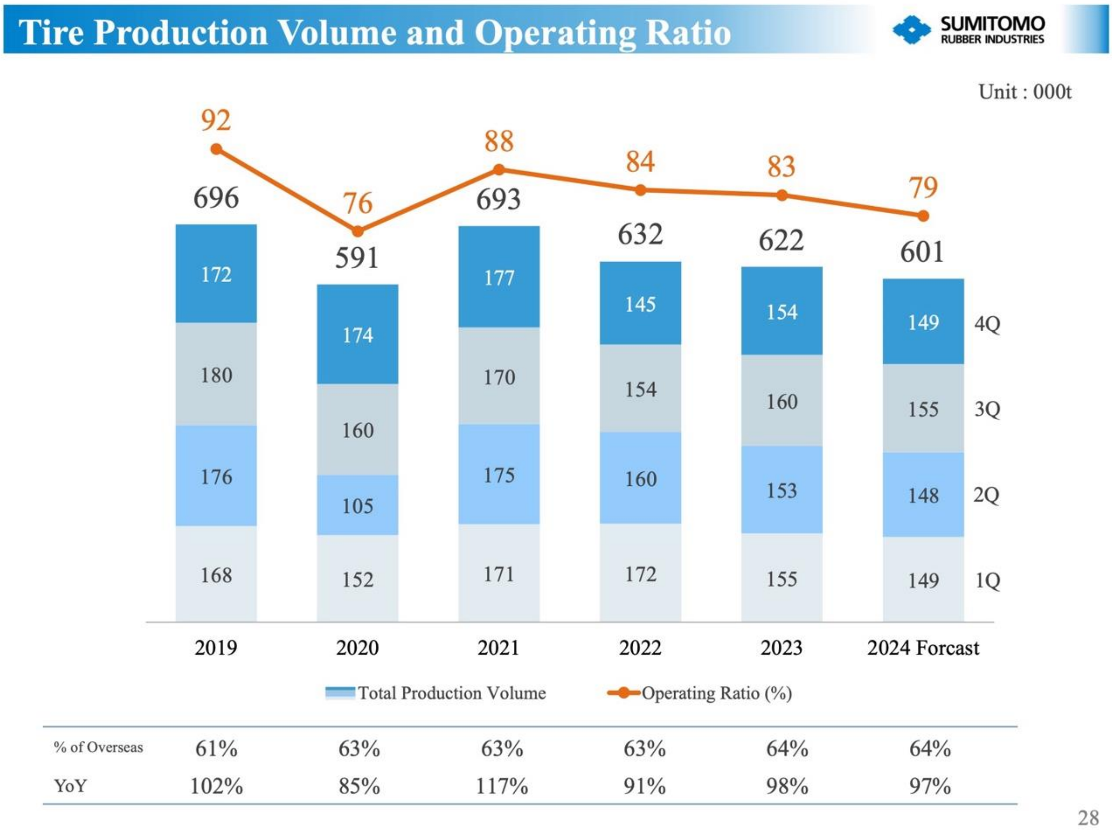


Please continue to slide 25. These are the changes in our cash flow. On the far right, our cash flow for operating activities for January to September 2024 is plus JPY66.6 billion. Although the business profit margin increased due in part to efforts to improve profitability, it still decreased by JPY43.1 billion versus the previous year owing to the increase in working capital resulting from the temporary increase in inventory stockpiling.

Cash flow for investing activities stood at JPY55.1 billion, up JPY6.5 billion YoY due to increased investment in DX-related intangible assets in addition to capital expenditures. As a result, net free cash flow was plus JPY11.5 billion, a decrease of JPY49.6 billion YoY. The majority of the amount incurred from the implementation of structural reforms are related to the write-down of fixed assets, and there is no impact on cash.



Please see slide 27. As for our tire production capacity, at the end of 2024, we will produce 66,410 ton per month, a decrease of 5 percentage YoY, due to the termination of production at our US tire manufacturing subsidiary.



Finally, please see slide 28. This slide shows the changes in facility operating ratio and tire production volume. The annual production volume for FY2024 on the far right is projected to reach 601,000 tons and the annual operating ratio will be 79%, with production volume to shrink compared to the Q2 forecast due to declining sales.

Our shareholder return policy and structural reform initiatives from slide 29 onward have been explained by President Yamamoto earlier, so I will conclude my explanation. Thank you very much.

Question & Answer

Nakayama [M]: Okay, now we would like to take your questions. Please provide the name of your company and your name followed by the question. We are very pleased to see so many of you here today. We are sorry, but we will limit you to two questions at a time. Now, Sakamaki of BofA Securities, please speak.

Sakamaki [Q]: Good morning. I am Sakamaki from Bank of America. Thank you for today. And last night, you made a very important announcement. I am sure it was very difficult for you to make that decision. Two questions from me. First is about the effects of business improvement shown on page 32 of the material presented by Mr. Yamamoto. I wonder if there will be any opposition from Buffalo USW or others if the factory is actually closed. I am actually wondering how far this can be properly implemented.

Also, the effect of this improvement would be JPY20 billion if only the deficit was eliminated, but the figure appears to be much larger at JPY45 billion. You are aiming to make JPY31.5 billion next fiscal year, so if we break it down a little more and just eliminate the deficit, I think it will probably be around JPY20 billion next fiscal year. So, I wonder if this incorporates the effect of the Thailand factory doing well based on the operating ratio of factories exporting from Thailand.

I would like to know more about the breakdown of this JPY45 billion. What kind of calculations did you make and what is its viability? I actually think that there is a possibility of opposition or resistance if you close the factory, so I would appreciate some elaboration on this page regarding the company's ability to implement the plan.

Yamamoto [A]: Thank you. I will answer the first question regarding the reaction of unions and so on. I would like to Mr. Okawa to answer the second question. This will involve negotiations with the union and other parties, but this was resolved at the board of directors meeting on November 7, and we promptly disclosed the information and notified the union at the same time. We have set up a contact point for inquiries and are currently negotiating with the union regarding the terms of the dismissals. However, our relationship with the union has always been very good and we have been able to operate our business accordingly, so we do not believe there are any major concerns at this time.

We are firmly aware that this is a difficult decision, and we intend to make our utmost efforts to take care of our employees. We will continue to negotiate with the union by providing generous financial compensation, such as termination benefits and retention payments, extending various types of insurance, and providing outplacement services, which we believe are even more important. The second question will be answered by Mr. Okawa.

Okawa [A]: I understood your question to be about the degree of achievement and the contents of business improvement shown on page 33. As you can see here, the first thing is that closing the North American factory will eliminate a deficit of over JPY20 billion. The factory itself will negotiate with the union, but I think it will take about a year and a half to go through various processes. So, we expect that the JPY20 billion effect will definitely be seen over the next year and a half.

On the other hand, although we have not explained it before, by closing North America, we will promote imports from Thailand and Japan. There is also a very large cost difference. The large difference in unit price is not entirely due to imports from North America, but from Thailand and other factories as well. As a result, the factory's operating ratio will rise and further increases will be achieved. According to our calculations, if there are no problems with Trump, the goods will be transported properly and the number of units produced will be as we expected, we will definitely achieve the JPY22 billion.

However, we have already increased imports from Thailand this year due in part to this situation, so we have calculated that only JPY31.5 billion will be achieved in the next fiscal year, and as I mentioned earlier, it will take about 18 months to close the factory, so taking its effect into account, we estimate that we will have get the approximately JPY31.5 billion in the next fiscal year. We believe that without major problems, this is a sure way to reap the benefits. That is all.

Nishiguchi [A]: I would like to add something as well. Mr. Okawa explained that the current deficit of about JPY25 billion and the allocation benefits from Thailand and Japan would result to a total of JPY45 billion, but I would like to add something because I think that we will all have tariff problems and freight rate problem after this.

First of all, since we are going to change the supply system by exporting to the US from places including Asia, one of the issues would be the freight rate problem, ocean freight rates, and cost issues. We have considered this in the process of making this difficult decision. Although we are already beginning to see its results in H2, we have concluded a strategic partnership agreement with a certain shipping company. We have decided on a major framework by building a win-win relationship that will ensure the delivery of goods and prevent major fluctuations in freight rates. We believe that the negative effects of the ups and downs of the major freight rate problem can be avoided this way.

In fact, looking ahead to next year, we expect that the current approach will produce negative effects related to freight rates. However, the new strategic partnership agreement will help us cut the freight rates, so we can reduce their negative impact to about one-sixth next year. With those effects, even if we close the Buffalo factory and switch 100% to exports, I think the risk can be avoided to some extent.

The other issue is tariffs, and there are two types of tariffs. As for the anti-dumping duties applied by Thailand, we have been able to reduce them to almost zero base through our efforts over the past three years, and I believe that we will continue to see the effects next year and beyond.

The other is the tariffs imposed by Trump, who has just become president, but this has happened once before. Even if they impose this, we will be able to absorb this to some extent by raising prices, improving the mix through internal efforts, and reducing expenses. I would have to say, though, that we are not sure how much we can solve the problem. We believe that we can maximize the profit effect by improving costs through allocation changes and controlling the negative effects of freight rates. That is all I have to add.

Sakamaki [Q]: Thank you. As for my second question, I want to confirm how we should think about your business performance for the current and next fiscal year. Your business profit is unchanged this time, but considering the effect of seasonality or winter tires, I have the impression that it is a bit conservative that the business profit will not increase much in Q3 and Q4. So, I want to know again what to consider this fiscal year, such there will be a downturn or upturn here.

I believe that the current fiscal year will be the launching pad for the next fiscal year, and that there will be positive factors such as the effect of this improvement of a little over JPY30 billion and the settling down of the strike in Turkey. Assuming that the unrealized inventory will probably stabilize, how much profit increase can you expect even if the burden of the one-sixth freight rates or whatever Mr. Nishiguchi mentioned earlier becomes negative? I would appreciate it if you could summarize what you think of the current year's performance figures and next year's by building up the items as far as you can see them now. That is all.

Okawa [A]: Regarding the situation for this fiscal year, we are well aware that winter tire sales are originally expected in Q4. However, the current demand environment is not very good and the summer has been hot this year and winter has not yet really arrived, so we have been somewhat conservative in our estimates. In this sense, I honestly feel that the figures for this fiscal year will probably converge to this level to some extent. Regarding the next fiscal year, there are some strategic issues, so Mr. Nishiguchi will provide the explanation.

Yamamoto [A]: First, I would like to talk about the next fiscal year, including our enthusiasm, and then I will ask Mr. Nishiguchi to discuss the details. Although there are many uncertain factors such as how raw materials, mainly natural rubber, will fluctuate in the next fiscal year; by completing structural reforms in six business in 2024 and achieving our goal, we can expect a significant effect of increased profits as I explained earlier.

We have also been making solid progress in building a foundation for growth. Thanks to your support, SYNCHRO WEATHER is off to a good start. In addition, the sensing core business will also be launched, and with the effects of that included, we would like to aim for a business profit in the three-digit billion yen range. With regard to our enthusiasm and the details, Mr. Nishiguchi, general manager of our tire business division, will explain them.

Nishiguchi [A]: Mr. Okawa and President Yamamoto have talked about this, but I would like to report on the details. First, just to add a little something to my earlier view of the October to December period, please see slide 22. October to December, or Q4 is the most profitable quarter for tires business, but as you can see here, new car sales, both domestic and overseas, are expected to remain in a very difficult spot in Q4.

On the other hand, we are doing our best in the domestic and overseas replacement markets from October to December. First of all, and as you can see, winter in Japan has been mild, but sell-in is progressing steadily in September and October. Snow finally fell and accumulated in Sapporo yesterday, which means that the sell-out has finally started. It may be delayed, but we expect that the sell-in inventory will begin to sell off in Sapporo and the northern Tohoku area. However, we still expect there will be some downward pressure.

However, for us, demand for all-season tires will be on the rise in November, December, January, and February toward March, and we expect to be able to cover this demand with our new SYNCHRO WEATHER products, as well as increase the percentage of our product mix. With this, we anticipate domestic sales to be in line with our initial plan.

In addition, I think it is generally well known that in the global market, the market position for general-purpose sizes has been taken by inexpensive Asian and Chinese products, and we have also been affected by this. However, among the overseas markets shown here, we believe that we will be able to increase sales in North America and Asia, including China, in Q4.

The reason for this is that the WILDPEAK series in North America is performing well, and this year we have actually changed from A/T3W to A/T4W as our new product. This is not just a new product with improved wear performance, as we have also expanded the sizes. We have been able to add about 16 sizes in the WILDPEAK series, which roughly covers 90% of the sizes mainly demanded in the market. This has been showing effects, so and we are factoring in the fact that we will be able to extend growth in Q4 into next year.

In China, our tires have also been affected by the struggles of Japanese automobile manufacturers, but although general-purpose sizes in the area of replacement have been negatively affected, our high-inch EV tires, e.SPORT MAXX, are finally beginning to be accepted in the market. We are now receiving orders for more than 10,000 units per month, so we have set these figures because we are confident that we will be able to increase orders for tires 19 inches and larger. Although this is not an optimistic figure, I would like you to take JPY80 billion as a figure that we have a good feeling about with only three months remaining in the current fiscal year.

As for the next fiscal year, as Mr. Yamamoto mentioned, we will send the maximum amount of high value-added products to North America now that we have completed the painstaking structural reforms in the US, the first step in the process. In addition, we will work hard to make SYNCHRO WEATHER more, and since we have expanded our new product line and sizes of our high-inch products starting H2, we are going to make a minimum commitment of three-digit billion for the next year, for a full year. That is all.

Sakamaki [M]: Thank you very much.

Nakayama [M]: Thank you very much, Sakamaki. Now, Mr. Maki of SMBC Nikko Securities, please state your question.

Maki [Q]: Thank you. I am Maki from SMBC Nikko Securities. Thank you very much. I think there is very significant progress. Can you tell us a little more, especially in the area of structural reform? Looking at the slide on page 33, which the president explained to us, what is the sales assumption for the improvement effect, or the JPY22 billion in improved earnings that will be achieved by shipping products from Asia?

In short, is it correct to say that what has been produced in the US up to now is expected to be transferred directly to Asia and sent from there? Also, for example, I believe you have negotiated with various OEMs for motorcycles, and I wonder if there are any changes in quantity or price fluctuations in this area. I would like to know more about this JPY22 billion, like its premise.

Based on that, how much of this JPY22 billion is expected to contribute to the JPY31 billion improvement next year? In short, this part of the market is influenced by market conditions, such as the shipping costs mentioned earlier, and competition with Asian products in the US, among other factors. Under what assumptions are you putting this JPY22 billion in JPY31 billion? Can you tell us a little more about this base idea in terms of sales and its contribution to the next fiscal year? Thank you.

Nishiguchi [A]: I am Nishiguchi and I will answer. I understood your question to be about the JPY22 billion base effect of the profit improvement in the Asia and other areas of the Group on page 33. Simply put, this is what comes out first in the cost benefit from moving from the current cost of making products in the US to the Asian group factories, Asian and Japanese factories.

If we assume that the selling price will remain at the current level and that all products manufactured in the US will be produced at the Group's factories in Asia, we will simply assume that allocation costs will be JPY22 billion from the current deficit costs. There will be the issue of freight and tariffs, as I mentioned at the beginning, but we intend to avoid the risks on these two points as I mentioned earlier. And as for your second question, regarding the JPY31 billion this year, I would like to ask Mr. Okawa to explain this.

Okawa [A]: I think you are asking for a little more detail on this JPY31 billion, so let me explain. First, if the factory closes 100% on a freehand basis and we import 100% from Thailand and Japan, all on a freehand basis, the amount will be JPY45 billion. In addition to this, as I mentioned earlier, we will close Buffalo in 2026, and by then the cost will drop by about JPY20 billion to JPY23 billion in the process of closing Buffalo, so not all of this will appear in 2024.

Also, since we have already built an inventory, the Buffalo inventory will be cleared from now on. The problem is that the effects of this will not be felt in FY2024, and some of the allocations will not be 100% next year, so it will be about JPY10 billion. So we are looking at about minus JPY10 billion versus the JPY22 billion. Also, the JPY23 billion deficit of Buffalo, around JPY4 billion will not appear next year, so our computation is that it will JPY45 billion minus JPY14 billion, which would be JPY31 billion.

This is based on the current tariffs as mentioned by Mr. Nishiguchi and the ocean freight rates from our strategic partnership, so if these assumptions were to break down, or if the exchange rate were to suddenly change significantly, we understand that we would have to rework this calculation separately. But for now, we believe that this JPY31 billion figure will come out under these assumptions. That is all.

Nishiguchi [A]: Also, I would like to explain a little about the motorcycle part of your question, Mr. Maki. For motorcycle tires, we mainly produce tires for Harley-Davidson, America's iconic motorcycle, at the Buffalo factory. We have a market share of over 70%, and we have very large customers and sources of profits, but we will transfer the production of these tires to the Thai factory, as well as the those approved by Harley-Davidson, so we will transfer all these parts to Thailand. This is also where the cost advantage of this factory's cost difference allocation comes into play.

Maki [Q]: Thank you. If we speak in terms of current market conditions, then, for example, if we assume conventional sales, how the allocations progress against that next year, and can you see the timeframe of unrealized returns? When considering the overall market situation, will there still be competition in the US next year, and are these sales assumptions reasonable when viewed from the business side? Is it OK to assume that this area will almost be the same as this year? Could you also comment on those?

Nishiguchi [A]: Looking at the North American business, the softening of market conditions was incorporated into H2 due to a price attack by a third-party tire manufacturer in June of this year as well. Although prices right now have not fallen to the expected level, we are seeing a softening trend in passenger car tire prices. On that basis, it will remain unchanged next year. As for how prices will decline from now on, there are still some unknowns regarding prices due to the tariff issue and protectionist policies, so our sales forecast is JPY22 billion based on the current situation.

On the other hand, as I mentioned earlier, the improvement in the mix of our product lineup is due to the new SYNCHRO WEATHER in Japan, the e.SPORT MAXX in China, and the size expansion of the WILDPEAK series in the US. As shown in the material distributed to you, the ratio of what we call high value-added products has finally risen from 38 points last year to 40% from January to September. We are confident that these improvements in the mix of our products will cover a considerable portion of the decrease in volume and price.

Maki [Q]: Thank you. We understand that you are considering extending the deteriorating situation in H2. My second question is about SYNCHRO WEATHER. You mentioned earlier that orders are piling up, butI think Mr. Nishiguchi was also enthusiastic about things picking up in one fell swoop toward next year or the year after next, to say 1 million units. So, is the trend of orders actually on that kind of line? Actually, I was wondering if it would be an added bonus if these would work next year, so please include your view on this.

Yamamoto [A]: Thank you for your question. Thanks to your support, SYNCHRO WEATHER is now very well received. We have also made a major change in the way we sell our products and have now set up certified stores. Given training, we had set a goal of 8,000 stores this year, but now more than 13,000 certified stores are selling our products. First of all, we plan to reach our goal of 1 million units by 2026. In the case of sales of 1 million units, we believe that we can generate at least JPY10 billion in marginal profit. It is important to expand the sizes of the product to achieve this.

We are starting this year with 40 sizes, but next year, we will add 68 sizes, in two installments. We are planning to increase the number of sizes by 13 in 2026 to 111 sizes, and we will continue to work toward achieving this goal of 1 million units. For more information, Mr. Nishiguchi who handles the business will provide additional information.

Nishiguchi [A]: We announced this anticipated new product in July and started selling and delivering it in October. Thanks to the response that is more positive than we expected, sales are progressing. A major factor is that it is necessary to properly explain these products to customers, and the establishment of the certified store system for the first time is working in that regard. Another important point is that we have been able to standardize our sell-in prices across the country at the suggested retail price, so that certified stores can recommend this product to their customers with confidence and persuasiveness.

We also tried to advertise using Ohtani to show that we are serious about expanding this product in Japan. This seems to have had a great impact on our customers, with some customers specifically purchasing the product because of Ohtani. There is also a synergistic effect with how dealers are more likely to recommend the product, so we have been able to reach more customers with this product than we had intended.

As Mr. Yamamoto just mentioned, the future expansion of sales will be in the area of capturing more demand through size expansion. The Japanese market is roughly 40 million summer tires and aftermarket. And 20 million for winter tires. We would like to convert these summer tires to all-season tires. In Europe, there is already a 25% shift to all-season tires from summer and winter over the past 15 years.

Japan has four very similar seasons, and if we can expand the market for all-season tires by about 20% in Japan, it will be a very large market. So, we would like to expand our business there with the advantage of being the pioneer. So far, we see it as being very well received, more so than we expected.

Yamamoto [A]: When I met and talked directly with investors in the UK during our overseas IR, I was told by investors in the UK that they have high expectations for this Active Tread Technology, SYNCHRO WEATHER, and asked when they would be rolled out in the US. We are now in the process of introducing more advanced versions of the Active Tread Technology for Europe and the US, with 2027 as one of our targets. This is still a long way off, but I just want to add that.

Maki [Q]: Thank you for your detailed explanation. I just have one point. Just a quick confirmation, does the JPY10 billion marginal profit calculation you mentioned earlier mean that it would be that much mix higher if you changed summer to all-season, or would it be this much if you sold it purely in the normal way? Let me just verify that.

Nishiguchi [A]: This is purely selling it, and we are giving it at marginal profit for the all-season only. We do not deduct from the marginal profit for replacing summer tires with all-season tires, so it is a simple all-season only portion.

Maki [M]: I understand. Thank you very much.

Nakayama [M]: Thank you, Mr. Maki. Now, Mr. Kakiuchi of Morgan Stanley MUFG Securities, we would like to take your questions.

Kakiuchi [Q]: I am Kakiuchi from Morgan Stanley Securities. Thank you. My first question is about the figure related to US structural reform, which is JPY46.5 billion in structural reform expenses. I would like to ask what is inside that figure. Inside that JPY46.5 billion.

Okawa [A]: I am Okawa and I will explain. The JPY46.5 billion raised in Q3 is mainly due to impairment losses on fixed assets. In other inventories, products can be used as they are, but since we will stop manufacturing, we also have to write down the impairment losses for raw materials and work-in-progress. Therefore, please understand that the JPY46.5 billion increase in Q3 was almost entirely due to impairment and valuation losses. That is all.

Kakiuchi [Q]: I understand. So you are saying it is non-cash. Does that mean that from next year onwards, you will be involved in the termination of people, Q4?

Okawa [A]: There will be some cash in Q4. Although labor expenses will be incurred, the main part of this is still subject to negotiations with the union. The situation is very fluid, but our calculations are based on the assumption that negotiations will actually begin in Q4 and thereafter and cash will be generated.

Kakiuchi [Q]: I think the facilities at the Buffalo factory will be transferred to Thailand and other countries, so you will be dealing with facilities that have been depreciated or impaired to almost zero value, right? Is it then correct to say that there is no need for additional investment in Asia or other areas?

Okawa [A]: I think you make a good point. With impairment, we are not taking everything with us. Of course, old equipment is no longer useful, so we are naturally planning to transfer overseas all usable equipment from recent investments. In that case, if we manufacture products using depreciated equipment, we can further improve productivity and competitiveness, but we have not incorporated this effect into the plan. That's why I think you made a good point. That is all.

Kakiuchi [Q]: I understand. When it comes to the overall global capacity of your company, Buffalo is about 5% to 6% in the capacity graph earlier. Is it correct to say that with regard to the ratio of the portion to be brought to Thailand and the portion to be brought to Japan, majority will be brought to Thailand? Or is Japan going to take it in its own stride?

Okawa [A]: It will mainly be Thailand, but we are also considering Indonesia somehow. Please think that it would likely be just those two places.

Kakiuchi [Q]: I understand. So Japan will not have much.

Okawa [A]: Yes.

Kakiuchi [Q]: I understand. Thank you very much. Do you incur much in terms of transfer costs for those equipment?

Okawa [A]: Transfer costs are of course included.

Kakiuchi [Q]: So you are including those as well.

Okawa [A]: Yes.

Kakiuchi [Q]: I understand. Thank you very much. For my second question, regarding the sale of Goodyear's Dunlop brand, Goodyear made various comments in the media after the announcement of the financial results that they would not sell at a discount. I don't think we can get an answer as to how much progress has been made in that respect, but I don't think there has been any change in stance. It has been about a year since Goodyear announced its intention to sell, so I would like to hear about your company's approach to this matter, and anything else you can share with us.

Yamamoto [A]: I am sorry to say that since Goodyear is also a competitor, I cannot make any specific comments. However, for us, the Dunlop brand is now owned by Goodyear in Europe, the US, and Austraria, so we are not able to expand our business. We are of course interested in using the Dunlop brand in this area, as it is a premium brand and will naturally facilitate our development for further growth. I'm sorry, but my answer is the same as the last one, but I can't give you any more information. I will refrain from commenting.

Kakiuchi [M]: I understand. I will ask again when something is decided about that, even though your company may not be involved. Thank you very much.

Yamamoto [M]: Thank you very much.

Nakayama [M]: Thank you very much, Mr. Kakiuchi. Now, Mr. Sakaguchi of Mizuho Securities, please ask your question.

Sakaguchi [Q]: I am Mizuho Securities' Sakaguchi. Thank you. Two questions, please. First is about changes in this year's results compared to the previous year. I would like you to explain a little more about the background behind the plus JPY5 billion in volume & mix on page 21 of the slides.

If we look purely at the volume & mix, I understand that this is a factor in the increase in profits of about JPY5.9 billion compared to the previous year. I think it is mainly due to the effects of WILDPEAK, which you introduced, and EV tires in China. In terms of volume, however, the forecast has been revised downward by about 1.9 million units in H2 compared to the previous year, so this appears to be a significant factor. I also believe that this matter will extend to next year, so it would be helpful if you could explain in a little more detail the background behind this. Thank you.

Hino [A]: I am Hino and I will answer this question. As shown on page 21 in comparison with the previous year, this is the reason why volume & mix is at plus JPY5 billion. The positive effect of the shift to Thailand and other allocations is a major factor in the mix ratio, and as mentioned earlier by Mr. Nishiguchi, the fact that we are producing a certain amount of advanced performance products is also a positive factor.

On the other hand, as you know, the volume has slightly decreased from the original forecast, but these are on the plus side. In addition, as mentioned earlier, there is also the impact of the strategic ocean freight rate contract, which is also on the plus side compared to the initial level, resulting in an increase in the total amount compared to the previous year. That is all.

Sakaguchi [Q]: I understand. So volume is minus, pure mix is plus, and as the major factor, the fact that the effects of the allocations are already in place from this quarter as you mentioned, has quite an impact, right?

Hino [A]: Yes. I think you can interpret it that way.

Sakaguchi [Q]: I understand. Thank you very much. My second question is about structural reforms. Your company is really committed to structural reforms and is aiming for a business profit in the three-digit billion yen next year, or 8% in terms of margin. In other words, the 7% target indicated in the medium-term plan will be achieved about two years ahead of schedule.

After that, what sort of thing are you aiming for? I believe that you have made various reforms, including actual sales initiatives, and that you are making considerable progress, but how should we envision what will happen next? Is there an image? I wonder if you could tell us a little bit about the direction you have in mind, President Yamamoto. That is all. Thank you.

Yamamoto [A]: Beyond this structural reform, what kind of company will Sumitomo Rubber grow into? We are in the midst of a contentious debate about what kind of company we are aiming for. Now that we have completed our structural reforms, our growth strategy is sprouting from the various preparations we have made. What kind of market and what kind of economy are we looking at 10 years from now? Although it is difficult to predict 10 years into the future, we are gathering as much information as we can and discussing what we need to do now to prepare for the future, while organizing various teams.

Naturally, we are now in the process of planning a scenario for further growth while achieving the goals of our current medium-term plan ahead of schedule. I am sure there will be another time when I can share this with you all, and I will explain the details at that time. We are steadily moving toward the completion of our growth strategy, so I hope you will wait a little longer for that time.

Sakaguchi [Q]: Thank you very much. In terms of not leaving any negative aspects to future generations, I believe that you have entered a phase in which the implementation of these measures is showing concrete results, so I would like to know how SYNCHRO WEATHER and Sensing Core, which have been introduced, will contribute to your business results and how they will be used for the next growth phase as you mentioned. I am hoping that you will be able to talk about what phase you are entering and how the overall corporate value will increase, as well as the timeframe, including quantitative aspects. That is all. Thank you very much.

Yamamoto [M]: Thank you very much.

Nakayama [M]: Thank you for your question, Mr. Sakaguchi. Now, Horio of Nikkei, you may now ask your question.

Horio [Q]: Thank you. My name is Horio from Nikkei. First of all, I would like to ask you to tell us about North America. With regard to your strategic partnership, which Mr. Nishiguchi also talked about earlier, I would like to know again the background behind finding value in exporting from Asia this time instead of local production for local consumption.

Nishiguchi [A]: To be honest, the tire business is quite costly because of logistics costs, so I think a business model based on local production for local consumption is better. However, in North America, it was a truly difficult decision that took many years to make. Even though we were able to improve productivity, volume, and yield, the rising cost of labor and other factors made it look like the total amount would not become very economical. So, we were forced to make this decision.

From this perspective, sourcing is to be brought from Asia, so it is not a decision to contrast Asia and North America and say that one has more advantages than the other. Rather, it would have been for the best if we could have continued as is in North America. However, as Mr. Yamamoto mentioned, we were unable to make improvements in accordance with the expected timeline, so we made this decision as part of our structural reforms. In this sense, we will continue to do business by getting our products out of Asia, and at the same time, we will do our utmost to avoid the risks associated with freight rates and tariffs.

Horio [Q]: Thank you very much. So, for the time being, is it correct to say that you are going ahead with the plan announced this time, rather than with the new factory?

Nishiguchi [A]: Yes, that's right. For the time being, we intend to continue in this manner. However, in the future, while we are still in the process of formulating a company-wide strategy, and as asked earlier, we will summarize such aspects of our future vigorous active plans when we are able to report on them in a separate summary.

Horio [Q]: Thank you very much. I would also like to know a little more about your strategic partnership. It may be difficult to say since this is part of the contract with the shipping company, but how is the contract structured, for example, is it annual, and in what areas is the risk avoided? Can you tell us as much as possible?

Nishiguchi [A]: This is not an Ultra C type of content, but it is a win-win situation for both parties. For the shipping company, stable cargo is ensured, and for us, we have two freight rate problems in particular. One is that the freight unit price fluctuates, and when the market price becomes high, the unit price is greatly affected.

There is also this thing, but most of all, we suffer negatively when it comes to ocean freight rates, so we have to rely on merchant vessel types in spots when we can't carry cargoes. This cost was three to five times higher. We are now in a position to have almost all of our cargo transported by the ship we have a regular contract with, which is a great advantage for us. For their side, they will be able to secure cargo for multiple years rather than just one year, and since there will also be the emergence of new ships in the future in the industry, this is something that we can both work on as a partnership.

Horio [Q]: Thank you very much. Am I correct in understanding that you have already concluded a firm contract to send tires from Asia to North America on an annual basis for several years?

Nishiguchi [A]: Yes. That is correct.

Horio [M]: Thank you very much.

Nakayama [M]: Thank you very much, Horio. Next, Mr. Ishimoto from Nomura Securities, please state your question.

Ishimoto [Q]: Thank you. I am Ishimoto of Nomura Securities. Thank you very much. I would like to ask two questions. First of all, regarding North America, you mentioned earlier that it would take about a year and a half for the closure. Of course, I think it is a human issue that needs to be carefully addressed, but I would like to know more about the specific areas that are likely to take time, and I would also like to know more about the specifics.

For the time being, you are saying that you will concentrate on sales of imported tires manufactured in Asia, but I would like to confirm whether you are really okay with the loss of such manufacturing in the Americas. Since you are still leaving the research and development function in the US, please reiterate your manufacturing philosophy in that area.

Okawa [A]: I will explain only the first half. There are two factors that contribute to the 1.5 years required. One is the disposal of real estate, land and plant in Buffalo. As explained earlier, we can take usable machinery to Asia and dispose of what we cannot use, but we will have to sell real estate at an appropriate price or take other measures. That is one.

The other is the transfer of employee pensions. In consideration of the future lives of our employees, we must transfer the pensions to a solid location to protect their lives, and experts agree that this will take a little over a year. In light of that, we have set our target at 1.5 years. That is all.

Nishiguchi [A]: Regarding the latter part, as mentioned earlier, I believe that local production for local consumption is the best for the tire business, so we have made this decision and will start with the Asian group. But eventually, we will have factories in the vicinity of North America again. That is one way to think of it. However, we assume that the environment will have changed considerably by the time we build the next one. First of all, in 2025, we will promote digital management in our operations, and our ERP base system will be renewed, as well as our MES system for factories. It will be a factory based on those things. That and a factory that is carbon neutral.

Also, it will be a factory that incorporates smart automated processes in the face of very high labor costs. In addition to these requirements, we are considering a factory that will incorporate equipment that will enable us to produce higher value-added products through the renewal of facilities. Therefore, when this takes shape, we would like to consider making a large investment at that time, including allocation, and this is what we are thinking about in terms of manufacturing. That is all.

Ishimoto [Q]: Thank you very much. Second, could you tell us about shareholder returns? I am wondering if you have changed your forecast for dividends this fiscal year. On the other hand, I think you are talking about structural reforms and that you are over the hump, so I think it is becoming somewhat easier to see cash allocations and the like. I want to ask you to confirm your approach to shareholder returns in the future and whether there will be any changes. That is all.

Yamamoto [A]: Thank you. Our policy is to pay stable dividends to shareholders over the long term. As I explained to you today, we have been promoting structural reforms this year, and we expect a significant decrease in net income for the full year due to the recording of an impairment loss. However, these structural reforms are a positive step to improve our business performance, and also gives us a firm outlook for improved business performance from next fiscal year onwards.

Based on a comprehensive assessment of the level of retained earnings, free cash flow, and other factors, we have decided to maintain the dividend amount as initially announced and to pay the dividend as initially planned. Our policy is to continue to pay stable dividends to shareholders, and to maintain a consolidated dividend payout ratio of 40% or more, as much as possible.

Ishimoto [Q]: I understand. I believe that we will also see earnings growth and profit recovery in the next fiscal year, so I would like to confirm your approach to retained earnings in this area again. Thank you very much.

Yamamoto [M]: Thank you very much.

Nakayama [M]: Thank you for your question, Mr. Ishimoto. Now, Shimizu of Japan Rubber Weekly, please ask your question.

Shimizu [Q]: My name is Shimizu and I am from Japan Rubber Weekly. Thank you very much. Thank you very much for today. I would like to ask you one question. While advanced performance products are growing, 60% of the products are still what your company calls general-purpose products. I know that not only your company but also other tire manufacturers are struggling a lot with low-priced tires, so how do you see the future of the competition in areas other than advanced performance tires? Can you please tell us about that?

Nishiguchi [A]: If we really go by inches, the 16 or even 17 inches now will enter, but in these areas and below that, competition with Asian and Chinese products is becoming very tough. First of all, even if we went with those from Japan, we have discontinued the sale of the lowest-priced general-purpose tires since October. As price competition in this kind of zone is nothing more than a red ocean, our general policy is to make a bold move to stop engaging here.

Although there will certainly be a decline in volume as a result of this, this part of the cost will also be reduced because of the sales incentive for the total number of units contracted for sale, which will lead to a decline in overall variable costs. In addition, as we are reducing our overall volume, we will simultaneously be reconsidering how we allocate our factories, which will include both direct and indirect reductions in fixed costs. We would like to clarify our policy of withdrawing from the red ocean early and focusing on higher value-added products. That is all.

Shimizu [Q]: If so, the operating ratio is still 79% this year, and if the volume declines further, how should we look at the balance between the factory and the operating ratio? Should we assume that the production capacity of the factory will be dropped accordingly in the future?

Nishiguchi [A]: Yes, that's right. We have talked internally about the fact that we are no longer going to have an operating ratio near 100 again if we go with the equipment we have now as is. In addition, the recent large decrease in operating ratio is due to the decrease in new car sales and production of tires for new car manufacturers, which has had a significant impact in the short term. Therefore, we would like to change our approach to operation by replacing factory equipment from general-purpose equipment-sized space with high value-added equipment, depending on the degree of recovery in these areas and the transfer of equipment to high value-added equipment.

Shimizu [M]: Thank you very much.

Nakayama [M]: Thank you for your question, Shimizu. As we are approaching the scheduled end time, we will end with the next question. Mase of Nikkan Kogyo Shimbun, you may now have the floor.

Mase [Q]: Sorry for being the last-minute question. I am Mase from Nikkan Kogyo. I would like to ask you about foreign exchange. In early August, the yen appreciated sharply to JPY141 to the US dollar, but it has recently weakened and is now back in the JPY150 to the US dollar range. How do you view these exchange rate trends? I would like to ask you about the impact on your business and performance. Also, I would like to ask again about the impact of a JPY1 change against the US dollar.

Okawa [A]: I will explain then. The fluctuation of the exchange rate this year has made it very difficult for us to assess our business performance. Since overseas exports currently account for more than 70% of our business, we expect that a weaker yen will typically improve the profitability of our business. However, since we will be taking a large impairment loss in North America, a stronger US dollar will ultimately result in a deterioration of our business performance. Although a weaker yen is usually a very positive thing, we are in a very difficult situation because of the impact of the impairment loss on our business performance.

At the moment, we are assuming that the annual value of the US dollar is about JPY150, although it is JPY149. In the case of normal business, a depreciation of the yen by roughly JPY1 would add about JPY200 million. The same is true for the euro, where a depreciation of the yen by about JPY1 results in a positive business profit of about JPY200 million.

In the future, with the closure of our factory in the US, the buying and selling situation will change again, so the impact amount will change each time. For now, we are thinking about the situation as it is, so as a business, business profits will be positive due to the weak yen, but the weak yen will make the situation somewhat difficult due to the impairment losses in the US. We will take all of these factors into consideration and think about our performance with an eye on next fiscal year. That is all.

Mase [Q]: Thank you. Lastly, President Yamamoto, I know you mentioned tariffs earlier, but I would like to ask you again how the Trump presidency will affect your US business. Thank you.

Nakayama [A]: To summarize your current question, you are asking how he thinks of the tariff impact from a Trump presidency, correct?

Mase [Q]: Yes.

Yamamoto [A]: Thank you for your question. With the new Trump administration in office, we also expect that protectionist policies will be deployed. We are aware that there are tariffs as in the past, as well as immigration control risks. On the other hand, we know that there are some policies that will have a tailwind, such as the suspension of the promotion of EVs and the continuation of tax reductions.

Tariffs are flat 10% or even 20% under the current policy, which will naturally affect business profits. However, I would like to refrain from commenting on the specific amount of impact. As explained by Mr. Nishiguchi earlier, even if tariffs and ocean freight rates increase significantly, we believe that the low cost of Asian factory products will make them more profitable than those produced in the US up to now. Regarding immigration measures, we believe that the impact of revocation of work permit status of illegal immigrants will be negligible since our US factory will be closed.

As for whether the promotion of EVs will come to a halt, there is a possibility that the market share of Japanese new car manufacturers, to whom we are very grateful, will be maintained, and there will be opportunities to increase sales in such areas. Furthermore, if the large-scale tax cuts continue, they will also have a tax effect on our company, so we will keep a close eye on this while closely monitoring the policies of President Trump. We will also keep on carefully considering the impact of the risk on our company and how to respond to it while assuming a variety of scenarios and continue to move forward with measures. That is all.

Mase [M]: Thank you very much.

Yamamoto [M]: Thank you very much.

Nakayama [M]: Thank you for your question, Mase. Now it is time for the scheduled end of the meeting. This concludes the financial results briefing for nine months ended September 30, 2024, of Sumitomo Rubber. Thank you for taking time out of your busy schedule to join us today.

Yamamoto [M]: Thank you very much.

[END]

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Document Notes

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