

# 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

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|---------------------------------|--|
| <p><b>Management Issues</b></p> | <ul style="list-style-type: none"> <li>• Maximizing the results that we reap from the global business framework while improving profit in North America</li> <li>• Developing products to respond to local market needs and ever higher performance demands while expanding sales of advanced products</li> <li>• Developing businesses compatible with CASE and MaaS</li> <li>• Promoting ESG management</li> </ul> |
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| Strengths   | Growth Opportunities   | Risks  | Initiatives Undertaken by the Sumitomo Rubber Group   |
|---|--|--|---|
| <ul style="list-style-type: none"> <li>• 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</li> <li>• Technologies supporting the development of fuel-efficient tires and an extensive lineup of such tires</li> <li>• A global business framework supported by three pillars (a global network of manufacturing, sales and service bases, a trilateral R&amp;D network (Japan/USA/Europe) and a global supply network)</li> <li>• World-leading simulation and analysis capabilities utilizing state-of-the-art supercomputers and so on</li> <li>• Tire pressure sensing technologies installed in a cumulative total of 50 million vehicles</li> <li>• Biomass technologies nurtured in the course of developing fossil resource-free tires</li> </ul> | <ul style="list-style-type: none"> <li>• Robust demand for large-diameter tires for SUVs and light trucks in developed countries</li> <li>• Growth in worldwide demand for tires, especially for EV tires</li> <li>• 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</li> </ul> | <ul style="list-style-type: none"> <li>• 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</li> <li>• Economic stagnation due to pandemics and natural disasters</li> <li>• Intensifying market competition reflecting the rise of manufacturers from emerging countries</li> <li>• Major fluctuations in raw material and crude oil prices as well as maritime transportation fees</li> <li>• Political instability and other geopolitical risks</li> <li>• A shift in demand for winter tires reflecting rises in global temperatures and decreases in snowfalls</li> </ul> | <ul style="list-style-type: none"> <li>• Expanding sales of advanced tires, including those for SUVs, in response to growth in demand</li> <li>• Transitioning to a structure capable of securing earnings in North America</li> <li>• Realizing the SMART TYRE CONCEPT, which informs the development of innovative tires and peripheral services</li> <li>• Developing tires with a low environmental footprint</li> <li>• Promoting tire-related solutions businesses</li> <li>• Helping establish a circular economy</li> <li>• Contributing to decarbonization through the provision of EV tires and fuel-efficient tires</li> </ul> |

|   | Product Development  | Procurement   | Production/Supply  | Sales/After Services  |
|---|--|---|--|---|
| Recognition of the Current Environment              | <ul style="list-style-type: none"> <li>• As it strives to realize a sustainable society, the tire industry is being 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.</li> <li>• With CASE (an acronym for "Connected, Autonomous, Shared &amp; 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.</li> </ul> | <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> | <ul style="list-style-type: none"> <li>• We had to reduce production volume in light of such factors as auto-makers deciding to curb production on the back of semiconductor shortages as well as stagnation in demand in some regions due to deteriorating market conditions.</li> <li>• 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.</li> <li>• Looking ahead, we will also promote proactive initiatives to achieve carbon neutrality in tire manufacturing.</li> </ul> | <ul style="list-style-type: none"> <li>• 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.</li> </ul>  |
| Initiatives Undertaken by the Sumitomo Rubber Group | <ul style="list-style-type: none"> <li>• Developing next-generation technologies and products through the application of the core SMART TYRE CONCEPT</li> <li>• Developing tires equipped with Active Tread technologies</li> <li>• Promoting solutions businesses employing sensing technologies based on the TOWANOWA concept</li> <li>• Increasing the content of sustainable raw materials (biomass and recycled raw materials) used in our products★</li> <li>• Employing the "Fugaku" supercomputer to carry out rubber material simulations</li> <li>• Maintaining the No. 1 position in terms of the patent asset ranking for the domestic rubber industry★</li> <li>• Improving rubber quality</li> <li>• Further strengthening our global development structure</li> </ul>   | <ul style="list-style-type: none"> <li>• Upholding a Sustainable Natural Rubber Policy★</li> <li>• Promoting CSR procurement based on the Procurement Guidelines★</li> <li>• Conducting surveys on the status of supplier initiatives to address environmental risks</li> </ul>   | <ul style="list-style-type: none"> <li>• Improving the profitability of our factories by reducing fixed costs and reorganizing Stock Keeping Units (SKUs)</li> <li>• Reducing the environmental impact of factories★</li> <li>• Green logistics★</li> <li>• Maintaining complete zero landfill waste★</li> <li>• Pursuing same quality throughout the world</li> <li>• Expanding sales of retread tires and reusing waste tires</li> </ul>   | <ul style="list-style-type: none"> <li>• Developing and enhancing our global sales and service networks★</li> <li>• Increasing brand value★</li> <li>• Releasing commercial EV tires</li> <li>• Pursuing the possibilities of data utilization and the sustainable business model based on the TOWANOWA concept</li> <li>• Promoting the DX-driven streamlining of inventories★</li> <li>• Gathering customer feedback and making use of it to improve products and services★</li> <li>• Expanding sales of fuel-efficient tires</li> </ul> |

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

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| <b>Management Issues</b> | <ul style="list-style-type: none"> <li>Maximizing the results that we reap from the global business framework</li> <li>Developing products in response to local market needs and ever higher performance demands</li> <li>Strengthening efforts toward the enhancement of “DUNLOP” brand value and expanding the effect to the entire Sumitomo Rubber Group to generate synergies</li> </ul> |
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| Strengths   | Growth Opportunities  |
|---|---|
| <ul style="list-style-type: none"> <li>Taking full advantage of expertise accumulated via tire development and thereby providing products and services that are backed and differentiated by superior technical development capabilities, such as the utilization of state-of-the-art supercomputers</li> <li>Building brands and product appeal that have been refined at the most elite professional tour tournaments</li> <li>Practicing marketing that is thoroughly based on user needs and the global marketing capability needed to facilitate it</li> <li>Expanding business opportunities following the acquisition of trademark rights to the “DUNLOP” brand throughout the world</li> </ul>    | <ul style="list-style-type: none"> <li>Golf: Abundant opportunities for business growth in North America, the world’s largest market</li> <li>Tennis and other racket sports: Sales power we have cultivated in tennis balls, the brand power of Dunlop and our technical development capabilities</li> <li>Rising public awareness of health and fitness among citizens as the health-conscious millennial generation gains greater purchasing capabilities</li> <li>Pursuing the diversity of value and potential to be found in sports so as to further enrich the customer’s sporting life</li> <li>Broadening the scope of operations to include AI- and IoT-based services aimed at assisting sporting activities</li> </ul>  |
| Risks   | Initiatives Undertaken by the Sumitomo Rubber Group   |
| <ul style="list-style-type: none"> <li>A cautious consumer sentiment regarding spending for recreational activities due to a lingering sense of future anxiety on the back of growing geopolitical risks and resulting economic instability</li> <li>Jumps in the prices of raw materials</li> <li>Deterioration in the outdoor sporting environment due to higher temperatures and other negative consequences resulting from climate change</li> <li>Intensification of price competitiveness, with the production capacities of manufacturers around the globe exceeding demand</li> <li>Shrinkage of our market share due to the growing presence of foreign brands in the domestic market</li> </ul> | <ul style="list-style-type: none"> <li>Golf: Developing and expanding sales of advanced products under “XXIO,” “SRIXON” and “Cleveland Golf” brands, to this end upgrading their unique features to the fullest possible extent</li> <li>Tennis: Enhancing the brand value of “DUNLOP” by taking advantage of know-how regarding brand building in the field of golf equipment as well as our strong business foundations, which have enabled us to secure third place among tennis ball manufacturers worldwide</li> <li>Differentiating ourselves from other companies by developing products with lower environmental footprints</li> <li>Strengthening efforts towards the enhancement of “DUNLOP” brand value and expanding the effect to the entire Sumitomo Rubber Group to generate synergies</li> <li>Meeting growing demand for digital-driven services and products</li> </ul> |

### 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"> <li>Due to fallout from the COVID-19 pandemic, the general public’s health awareness has grown alongside a refreshed recognition of the role and importance of sports. Against this background, golf has attracted 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. Currently, however, market demand has plateaued. Meanwhile, the wellness business, including fitness club operations, have begun to see gradual recovery from previous stagnation due to the COVID-19 pandemic.</li> <li>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 the mental and physical health of people of all ages. Through our Sports Business, we must thus strive to help people enjoy affluent lives as part of our corporate social responsibilities.</li> </ul> | <p><b>Product Development</b></p> <ul style="list-style-type: none"> <li>Developing high-performance products sensitively designed to appeal to and help users feel a greater sense of joy in sports</li> <li>Developing products with even smaller environmental footprints, to this end enhancing product durability, developing biomass materials and incorporating recycled and other sustainable raw materials</li> </ul> <p><b>Procurement/Production/Supply</b></p> <ul style="list-style-type: none"> <li>Reducing the volume of plastics used by abolishing plastic lids for a portion of tennis ball packaging tubes made of PET while switching from shrink wrap-type plastic labels to paper labels</li> <li>Promoting energy-saving initiatives at factories and wellness business bases</li> </ul> <p><b>Sales/Services</b></p> <ul style="list-style-type: none"> <li>Accelerating initiatives to enhance the value of the “DUNLOP” brand in the golf business</li> <li>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</li> </ul> |

## Industrial Products Business

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|--------------------------|--|
| <b>Management Issues</b> | <ul style="list-style-type: none"> <li>Enhancing research and development systems for high-value added products in terms of quality and functionality, based on rubber technology</li> <li>Accelerating efforts to seize growth opportunities through business expansion centered on the Japanese and other Asian markets</li> <li>Constantly optimizing our business portfolio in line with changes in society</li> </ul> |
|--------------------------|--|

| Strengths  | Growth Opportunities   |
|--|--|
| <ul style="list-style-type: none"> <li>A robust R&amp;D structure backed by our rubber technology nurtured in the course of operating the Tire Business</li> <li>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</li> </ul> | <ul style="list-style-type: none"> <li>Sustained growth in demand for rubber parts for medical applications on the back of expansion in the global pharmaceutical market</li> <li>Growing needs for earthquake countermeasures reflecting ever stronger public awareness of natural disaster risks</li> <li>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</li> <li>Growing public hygiene awareness in the wake of the global pandemic</li> </ul>  |
| Risks  | Initiatives Undertaken by the Sumitomo Rubber Group  |
| <ul style="list-style-type: none"> <li>Jump in the price of raw materials</li> <li>Fluctuations in demand due to the global situation and the pandemic as well as the impact on supply chains</li> <li>Changes in government policies in addition to restrained investment policies adopted by the majority of private corporations</li> </ul>   | <ul style="list-style-type: none"> <li>Expanding production capacities for rubber parts for medical applications in response to growing demand</li> <li>Contributing to earthquake countermeasures via the introduction of vibration control dampers</li> <li>Constantly optimizing our business portfolio in line with changes in society</li> <li>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</li> <li>Developing environmentally friendly products that use, for example, alternatives for organic solvents and incorporate biologically derived raw materials</li> </ul> |

### 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"> <li>In step with such trends as growing public awareness regarding sustainability, contributing to social sustainability through business activities is more important than ever. The public call for sustainability is also growing stronger in the face of the evolving global situation and concerns over the pandemic. Given these circumstances, we deem it essential to accurately identify business fields and product development themes deserving our focus.</li> </ul> | <ul style="list-style-type: none"> <li>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.</li> <li>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.<br/><small>*Small plastic pieces less than five millimeters in length</small></li> <li>In the rubber glove business, we are focused on marketing natural rubber gloves that are environmentally friendly while planning to introduce product package labeling that indicates their carbon footprint.</li> </ul> |