

TOP COMMITMENT



Achieving a Quick Performance Turnaround through “Selection and Concentration” to Provide “Greater Joy and Well-Being” for All of Our Stakeholders

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A New Midterm Plan for a Fresh Start Toward Improving Our Profitability

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2022 was a year full of headwinds and hardships for the Sumitomo Rubber Group.

Many restrictions remained in place due to the COVID-19 Pandemic, while prices for maritime freight shipping skyrocketed, automakers scaled back production output in the face of protracted global semiconductor shortages and a new round of lockdowns in China brought markets to a standstill. These unfavorable market conditions were further compounded by the sudden outbreak of war in Ukraine, which sent raw materials prices soaring even as the world was still reeling from rapid inflationary trends. All of this had a decidedly negative impact on our business performance, pushing our annual business profit downward compared to 2021.

Meanwhile, in spite of an extremely inhospitable business environment, the Sumitomo Rubber Group reached a major milestone as our annual sales revenues surpassed 1 trillion yen for the first time in its history. Thus, in 2022 we were able to achieve one of the key targets set forth in our previous Midterm Plan, several years ahead of schedule. This achievement is made all the more significant because of our unwavering belief that sales revenues represent the sum total of all of the trust that is placed

in our group by all of our many customers all over the world.

Recognizing that our greatest challenges for the future will involve building up strong business foundations to allow for an agile response to a rapidly changing business environment while turning our fortunes around to get our profits back on track, we have decided to make a fresh start with a new Midterm Plan from this year.

Under our new Midterm Plan, between now and 2025, we will be focusing our efforts on structural reforms with a focus on the “selection and concentration” of our existing lines of business. At the same time, we will be laying the groundwork for our growing lines of business while sowing the seeds for a brighter future all around. We will then be poised to enter a new stage of growth from 2026 onward, driven by the practice of DX-driven management, the optimization of our business portfolio and the further expansion of our growing lines of business. Thus, through our new Midterm Plan, we will take active steps toward fully living up to Our Philosophy.

As the President of Sumitomo Rubber Industries, I am fully committed to following through on structural reforms over the next three years so that we will be fully prepared to take our next big step forward.

From Uniform Concentration across the Board to Selection and Concentration

The Sumitomo Rubber Group has spent many years expanding its global business, initially focusing on China as well as markets in developing countries worldwide. Since the dissolution of our global alliance and joint ventures with The Goodyear Tire & Rubber Company in 2015, we have stepped up our efforts to expand our business in Europe and North America as part of an aggressive push to establish a truly global business framework. Thanks to these efforts, we have made great strides when it comes to increasing our overall sales revenues, especially in overseas markets.

At the same time, however, we have not managed to reap commensurate returns on our investments in expanding our global manufacturing and sales infrastructure. As a result, our profitability has been trending downward for several years, and recent major changes in the external business environment have only accelerated this decline in our fortunes.

In the course of building up a formidable global business framework, we have developed and launched a vast array of products to meet the needs of as many markets and customers as possible.

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However, in order to support this increasingly extensive lineup of products, we have also had to expand our infrastructure for development, manufacturing, logistics, sales, aftermarket service and so forth. All of this infrastructure increases our fixed costs while also creating various inefficiencies throughout our business, which, in turn, puts a great deal of strain on our profitability. We believe that this series of events is what is ultimately behind our worsening break-even point (BEP) as of late.

In response to this state of affairs, we launched “Be the Change (BTC),” a Groupwide project to reinforce the foundations of our business in January 2020. In the three years since then, we have been actively working to enhance our organizational framework and reinforce our foundation for profitability, and these efforts are already beginning to produce tangible results. Indeed, our efforts to enhance our organizational framework have revitalized cooperation across departmental boundaries and fostered a spirit of challenge throughout our group. Meanwhile, the 180 departments participating in our efforts to reinforce our foundation for profitability have so far generated over 7,000 improvement measures, which are now being surely and steadily implemented throughout our group.

At the same time, we expect to finish the overhaul of our core systems by 2025, thereby laying the groundwork for the practice of DX-driven management, which is another key step toward a brighter future for our group.

Under our new Midterm Plan, we will be building on this momentum in order to complete the transition from our past stance of uniform concentration across the board for the sake of building a global business framework toward selection and concentration in the interests of optimizing our overall business portfolio.

As a first step toward optimizing our business portfolio, we have carefully analyzed our existing lines of business in terms of market growth potential as well as ROIC (Return on Invested Capital) in order to classify each business unit into one of two categories: businesses in need of profit improvement and structural reforms and businesses with high growth potential and profitability. Moving forward, we will be reining in investments in the former category while enacting thoroughgoing measures to improve their profitability. At the same time, we will also be making proactive investments toward further increasing the profitability of the latter.

As this represents a major policy shift for our group, we have been holding events at each of our bases of operations so that we may explain these new initiatives to all of our employees in the hope that they will come to fully understand and appreciate our new Midterm Plan. This, in turn, will not only accelerate the plan’s implementation, it will also increase the surety of its success while raising awareness of ROIC as a key indicator for overall business performance. And when it comes to selection and concentration, we are also engaging in active dialogue with all concerned business units as we work toward consensus on the future direction of each current and upcoming project.

Carrying out our new Midterm Plan will mean facing various lingering issues from our past without any further delay. Our corporate executives will play a leading role in our efforts to tackle these issues head-on as we all forge ahead to overcome them together. We will also be considering possibly shuttering or selling off individual business units. All options are on the table, and we will be sure to make timely announcements to the public as we make these kinds of decisions moving forward.

Working to Improve the Profitability of Our Tire Business

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The Sumitomo Rubber Group views our Tire Business in North America as both our greatest challenge and our top priority. In this

light, I would now like to explain how we plan to approach this key market on two fronts: exporting tires from our production



bases in Japan and the rest of Asia to supply the North American markets and local production for local consumption at our factory in the United States.

First, when it comes to tire exports, skyrocketing prices for maritime freight shipping have put a major damper on our profitability in the region over the past few years. However, freight shipping prices are now coming down, so our profitability is already beginning to improve.

Our plans for North America call for us to set ourselves apart from the competition by introducing high-value added products, especially focusing on tires for SUVs.

Our share of the U.S. market for passenger car and light truck tires has been steadily growing, and we intend to continue introducing products designed to appeal to North American consumers in order to enhance the brand presence of FALKEN Tires and thus make this the No. 1 brand in the Tier 2 segment of this key market.

Meanwhile, our efforts to improve productivity at our USA Factory ran into significant hurdles with the onset of the COVID-19 Pandemic, which prevented us from sending support teams from Japan. However, with the pandemic now in the rearview mirror for much of the world, we have been able to step up our

New Midterm Plan Focal Points for Our Sports Business & Industrial Products Business

Sports Business ▶ P.41-P.44

Industrial Products Business ▶ P.45-P.48

Our Sports Business was hit hard by the COVID-19 Pandemic in 2020 and saw its fortunes decline for a time. However, its performance has since made a remarkable recovery, driven by a steady recovery in major golf markets as well as general rise in health awareness.

The Sumitomo Rubber Group views the Sports Business as a line of business that can provide the joy and thrill of sports to people of all stripes all over the world, so we are striving to do just that through the business activities of our Sports Business.

Driven by our growing presence in North America, the largest golf market in the world, our Golf Business aims to increase our share of the global market for golf clubs and golf balls to 15% in the coming years, which will make us the world’s third largest manufacturer of golf equipment. As the North American golf market is so large that it has ripple effects around the globe, we will be focusing our efforts on supporting sponsored pro golfers and leveraging their accomplishments on the pro golf tour to generate buzz and promote sales while at the same time revamping our sales and service network in the region and continuing to launch new and appealing products, all with the aim of doubling our sales in North America in the coming years.

Meanwhile, our Tennis Business will be working to increase both sales and profits through continued efforts to increase our brand value, backed by our proven track record as the No. 1

support. Right now, support teams from Japan are currently working with local factory staff to move forward with ongoing efforts to improve productivity. At the same time, we are working to improve the profitability of our USA Factory and considering various options with an eye toward completing drastic reforms over the next couple of years with the aim of getting the factory in the black by the year 2025. In addition, we have begun considering the possibility of constructing a new production base in North America from 2026 in order to increase the rate of local production for local consumption with an eye toward mitigating future risks. For the time being, we will be focusing our efforts on shoring up our overall investment capacity so that we will be in position to make these kinds of major investments down the line.

Looking beyond North America, we will also be undertaking management and organizational reforms throughout our global Tire Business with an eye to enhancing the overall efficiency of our business and improving our bottom line. In the interests of augmenting the earnings power of our Tire Business, we will be introducing flatter organizations and trimming our tire lineup while taking full advantage of advanced digital infrastructure to optimize material costs, logistics, production and so forth.

supplier of tennis balls used in the ATP Tour for four years running as well as our reputation as the official supplier of tournament balls for the Australian Open.

The Sumitomo Rubber Group views the Industrial Products Business as a line of business that can support safer, more comfortable societies while contributing to greater overall well-being in daily life for all. With this in mind, we will be focusing in particular on vibration control dampers and rubber parts for medical applications in the interests of better living up to Our Philosophy.

Our MIRAIE Series already boasts the No. 1 share of the Japanese domestic market for vibration control dampers for new wooden housing. Moving forward, we will continue working to advance the proprietary rubber technology behind MIRAIE in order to protect buildings, bridges and warehouses in addition to detached housing while also aggressively expanding in overseas markets. MIRAIE has also been installed in Kumamoto Castle and various other historic buildings throughout Japan. In this way, our Industrial Products Business is contributing to the preservation of Japanese cultural heritage.

Meanwhile, we will continue to leverage our proprietary high-value-added rubber technology in order to expand our foothold in the global market for rubber parts for medical applications, thereby contributing to the creation of societies with greater safety, comfort and well-being for all.

Accelerating Our Efforts to Live Up to Our Philosophy

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▶ P.49-P.52

Our Philosophy defines Our Purpose thusly: “Through innovation we will create a future of joy and well-being for all.” Toward fulfilling Our Purpose, we will be focusing on bringing about the next evolution in tires through our SMART TYRE CONCEPT with

particular emphasis on building up and expanding new and growing lines of business, such as our SENSING CORE Business.

Our Tire Business will be focusing on Advanced Tires and tires for electric vehicles (EVs) in particular. The performance demands

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of EVs include energy efficiency, quiet running, being lightweight, high load-bearing capacity and more, and so we will be working to establish the technologies needed to create tires that fulfill all of these demands. We already possess technologies that can respond to many of the demands of EV. For instance, our DWS (Deflation Warning System) has been installed in over 50 million vehicles worldwide to date. We developed the world's first tires to feature specialized noise-absorbing sponges. We also pioneered emergency tire puncture repair kits with the development of our IMS (Instant Mobility System). By combining these proprietary technologies, we will be able to provide one-stop solutions to meet EV performance needs. In this same way, we will continue working to set ourselves apart from the competition, bringing together our various unique products and technologies in order to comprehensively respond to the needs of EV.

Another advanced technology that we have developed as part of our SMART TYRE CONCEPT is Active Tread technology, which adjusts the properties of rubber itself in response to temperature and road conditions in order to provide optimal performance on wet roads as well as dry roads, snowy roads and even icy roads. Moving forward, we will make further contributions to the Mobility Society of the Future by incorporating this innovative technology in all-season tires, with plans to launch next-generation all-season tires featuring Active Tread in 2024. And this is just the beginning.

With the establishment of our new SENSING CORE Business, we will be able to turn the various data that SENSING CORE

gleans from tires into something of value by utilizing this data to provide greater safety and peace of mind for all drivers. SENSING CORE is proprietary software that monitors wheel rotation speeds in order to extrapolate information and detect changes in tire status, road conditions and beyond. SENSING CORE grew out of a desire to monitor and detect tire and road conditions without having to install hardware-based sensors. Our SENSING CORE Business is already up and running, with several automobile manufacturers now licensing the software to provide added functionality in new vehicles. SENSING CORE is already capable of detecting tire pressure, wear, load and road conditions (such as slipperiness). More recently, we have been working to expand its functionality by analyzing slight irregularities in wheel rotation speeds with extremely high precision in order to detect the warning signs of wheel detachment. This new function is receiving a great deal of attention from throughout the automotive world, and the functionality of SENSING CORE will only continue to grow with future developments.

SENSING CORE technology presents limitless possibilities for future applications as part of our growing Solutions Service Business, especially once linked up with the various assets that our current and future business partners will bring to the table. We will continue working to proliferate our advanced technology and build up our Solutions Service Business with the aim of turning this into a line of business that generates some 10 billion yen in annual business profit by the year 2030.

**Progress of Our Long-Term Sustainability Policy:
“Driving Our Future Challenge 2050”**

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The Sumitomo Rubber Group has been making sure and steady progress on each of the action points set forth in the Long-Term Sustainability Policy that we announced to the world back in 2021: “Driving Our Future Challenge 2050.”

When it comes to our endeavors related to the environment, we have been working diligently to reduce our CO₂ emissions toward accomplishing our goal of achieving carbon neutrality (Scopes 1 and 2) by the year 2050. As part of these efforts, our Shirakawa Factory (Location: Fukushima Prefecture) is now working to utilize hydrogen as a next-generation energy source in order to make carbon neutral tire manufacturing a reality.

The manufacture of tires typically relies on two different energy sources, electric power and natural gas, the latter of which is used to heat boilers in order to produce steam for the tire curing process. Thanks to solar panels, it is already possible to introduce carbon neutral electric power. However, finding a carbon neutral fuel to heat boilers for steam has long posed a major challenge. Tackling the problem, Shirakawa Factory initiated a proof of concept involving the use of hydrogen as a heat source for boilers in 2021. By using hydrogen boilers in tandem with solar panels, Shirakawa Factory recently succeeded in achieving the carbon neutral (Scopes 1 and 2) mass production of tires for the first time in Japan. Since January 2023, Shirakawa Factory has been manufacturing FALKEN AZENIS FK520 tires primarily bound for the European market using only energy generated by hydrogen boilers and natural clean energy generated by solar panels. While Shirakawa Factory has only introduced carbon neutral

manufacturing to one production line so far, we are planning to expand this initiative to all of the production lines at Shirakawa Factory and then to all of our factories in Japan in the coming years.

In addition to hydrogen energy, we are also pushing forward with active efforts to promote the use of renewable energy at all of our facilities worldwide. We installed large-scale solar power generation equipment at our factories in China in 2022 and at those in Thailand in 2023.

As our next step, we unveiled our “TOWANOWA” business concept in March 2023, setting forth a vision to guide our efforts to create our own unique Circular Economy Business Model for society and for the environment. We will also be creating new solutions services backed by our proprietary SENSING CORE technology with an eye toward creating a circular economy business for the world of 2030, 2050 and beyond as only the Sumitomo Rubber Group can accomplish. ▶ P.56-P.58

When it comes to our endeavors for society, we are pushing ahead with wholehearted efforts to achieve the milestone targets of our Long-Term Sustainability Policy for the year 2030, including promoting health & productivity management, revamping our efforts to enhance our organizational framework as part of our BTC project activities, actively promoting Diversity & Inclusion (D&I), augmenting our supply chain management and more. These efforts are already producing many tangible results that are bringing us ever closer to the accomplishment of our targets.

We are hard at work on overhauling our internal policies and systems in order to foster a corporate climate that is conducive to



D&I. These proactive efforts are already beginning to garner attention from society at large while earning us various accolades. In 2021, we received an “Eruboshi” (L-Star) certificate for our efforts to promote female participation and advancement in the workplace. In 2022, we received a “Gold Certificate” in that year’s PRIDE Index, which highlights companies that work to support the LGBTQ+ community and other sexual and gender minorities. That same year, we also received a “Hyogo WLB (Work-Life Balance) Certificate” from Hyogo Prefecture. More recently, we received a “Hyogo-Kobe Mimosa Certificate,” which is given out jointly by Hyogo Prefecture and the City of Kobe in recognition of local companies that are making strides toward promoting the participation and advancement of women in the workplace.

Throughout our group, there is now a palpable sense that our corporate climate is shifting toward greater receptiveness to D&I and its promotion. Having initiated D&I activities as part of a special project launched in February 2019, we next established a dedicated organization for the promotion of D&I in April 2022. Over the past few years, we have pushed ahead with the enactment of various policies and measures at a brisk pace, including issuing a Top Commitment on D&I, providing employees with education on unconscious biases, establishing a mentoring program to support women in their career development, implementing various support systems to allow employees to balance the needs of work and childcare or nursing care and more. All of these efforts are already bringing about real change throughout our group. For instance, more and more men in our workforce are now taking paternity leave, and we just promoted four women to the rank of General Manager in January 2023.

At the same time, however, I am also well aware of the fact that we still have many more challenges to overcome. For example, one of the major benchmarks for the empowerment of women in the workplace is the ratio of management positions that are held by women, and our group still falls short in terms of this metric. In order to transform ourselves into a corporate group that empowers

all of our diverse employees to thrive, we will need to acknowledge and overcome our unconscious biases with respect to gender roles and attributes and various other systemic issues in terms of our ways of thinking and organizational culture. At the same time, we will also need to overhaul systems and work environments that have a tendency to lead to overwork. Accordingly, we will be working to reform our corporate climate and create systems and work environments that promote highly productive and efficient work while also continuing to promote D&I on all fronts. ▶ P.73-P.76

When it comes to our efforts to augment our Corporate Governance, we revised our Agenda Criteria for Meetings of the Board of Directors in 2022 with an eye toward ensuring that the Board will have ample time to carefully discuss important matters with long-term perspectives. At the same time, we have also been working to expand the sharing of information with Outside Directors as part of our efforts to enhance the overall effectiveness of our Board of Directors. When we were formulating our New Midterm Plan, we made sure to engage in an active exchange of ideas and opinions with Outside Directors and Auditors at meetings of the Board of Directors and other deliberative bodies. ▶ P.77-P.85

I believe that the chief aim of our New Midterm Plan can only be to bring us closer to living up to Our Philosophy. The Sumitomo Rubber Group is, above all else, a manufacturer, and so we see it as our mission to manufacture and provide products and services that “create joy and well-being for all through innovation.”

We will be working to create working environments that enable us to harness the myriad strengths of our diverse talent pool while building and expanding on our collective strength through teamwork and marshalling this strength to overcome whatever changes or challenges we may face.

I look forward to working together with all of the employees of the Sumitomo Rubber Group as we move ever closer to fully living up to Our Philosophy so that we may enhance our corporate value and so contribute to greater “joy and well-being” for all of our stakeholders.