

Review of Past Operating Results

Review of the Previous Midterm Plan

In 2020, the Sumitomo Rubber Group announced a Midterm Plan with the target year set at 2025. To achieve the goals of this plan, we have assiduously promoted a Companywide project to reinforce the foundations of our business. At the same time, we have striven to enhance our competitiveness via the development of our global business framework. This endeavor has included maximizing the effectiveness of production and marketing bases we have established in key market regions around the world by developing and expanding sales of advanced products finely tuned to meet customer needs.

As a result, in fiscal 2022 we found ourselves well ahead of schedule in meeting our sales revenue target of ¥1 trillion, which was set for 2025 under the Midterm Plan announced in 2020. On the other hand, although we had also aimed for business profit of ¥100.0 billion, an ROE of 10% and a D/E ratio of 0.5 times, these three targets are not likely to be met until 2026 or later due to radical fluctuations in the external environment.

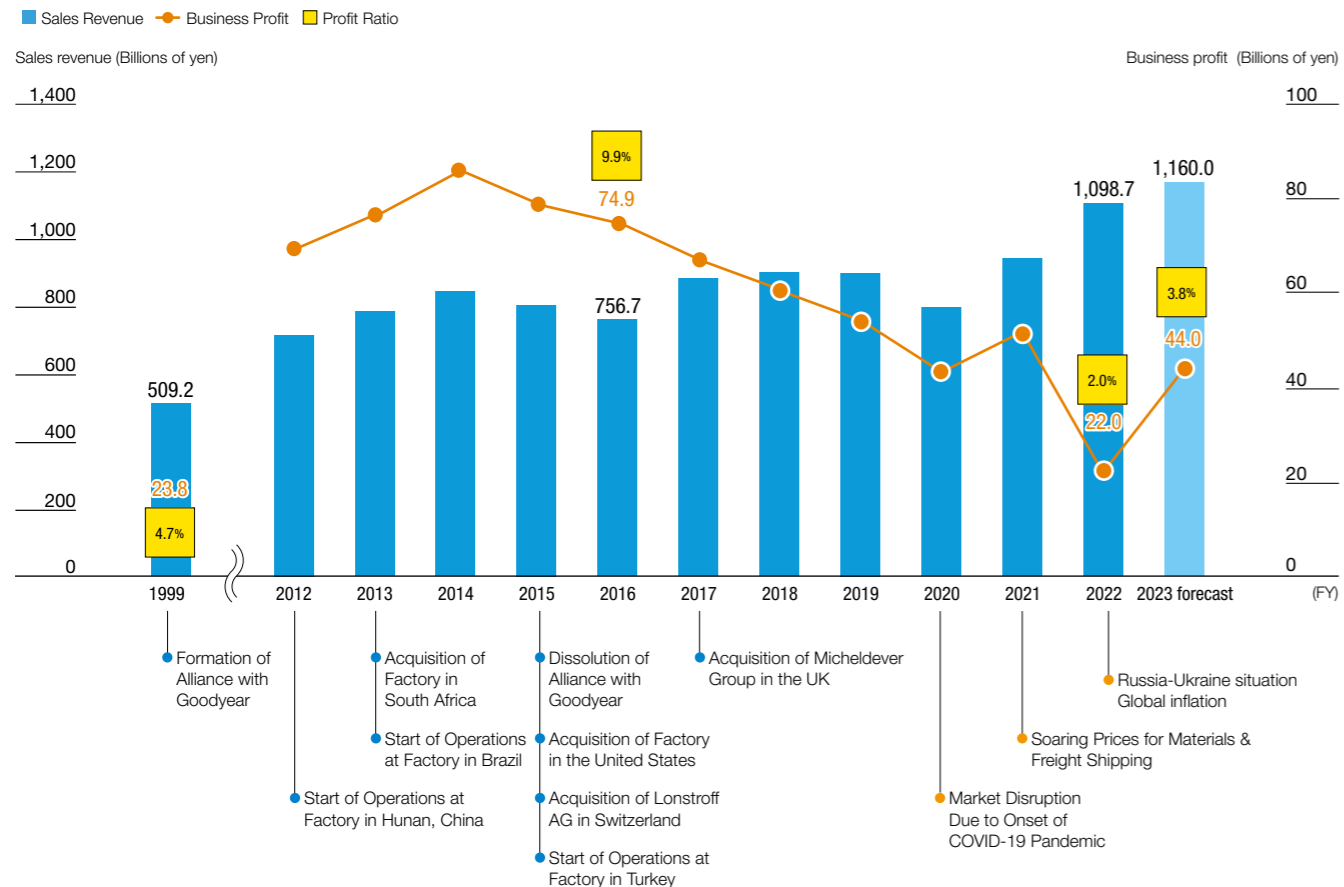
Thus, while we have achieved our target for sales revenue ahead of schedule, when it comes to profit and other indicators there are differences between meeting targets and getting results. To adapt to changes in the business environment, we have reorganized the current Midterm Plan, resetting the target year to 2027.

How Our Operating Results Have Evolved

After forming the alliance with U.S.-based The Goodyear Tire & Rubber Company in 1999, the Sumitomo Rubber Group promoted the expansion of overseas operations, targeting China and other emerging nations. This alliance was dissolved in 2015 and, since 2016, we have been focused on expanding our operations in Europe and the United States to establish an independent global business framework.

Although these efforts resulted in an increase in sales revenue, especially that from overseas operations, our investment in production and marketing structures has yet to come to fruition in the form of earnings growth. Moreover, profitability has declined due to radical changes in the external environment.

Trends in Sales Revenue and Business Profit



Note: -2014: Japanese Accounting Standards; 2015-: IFRS

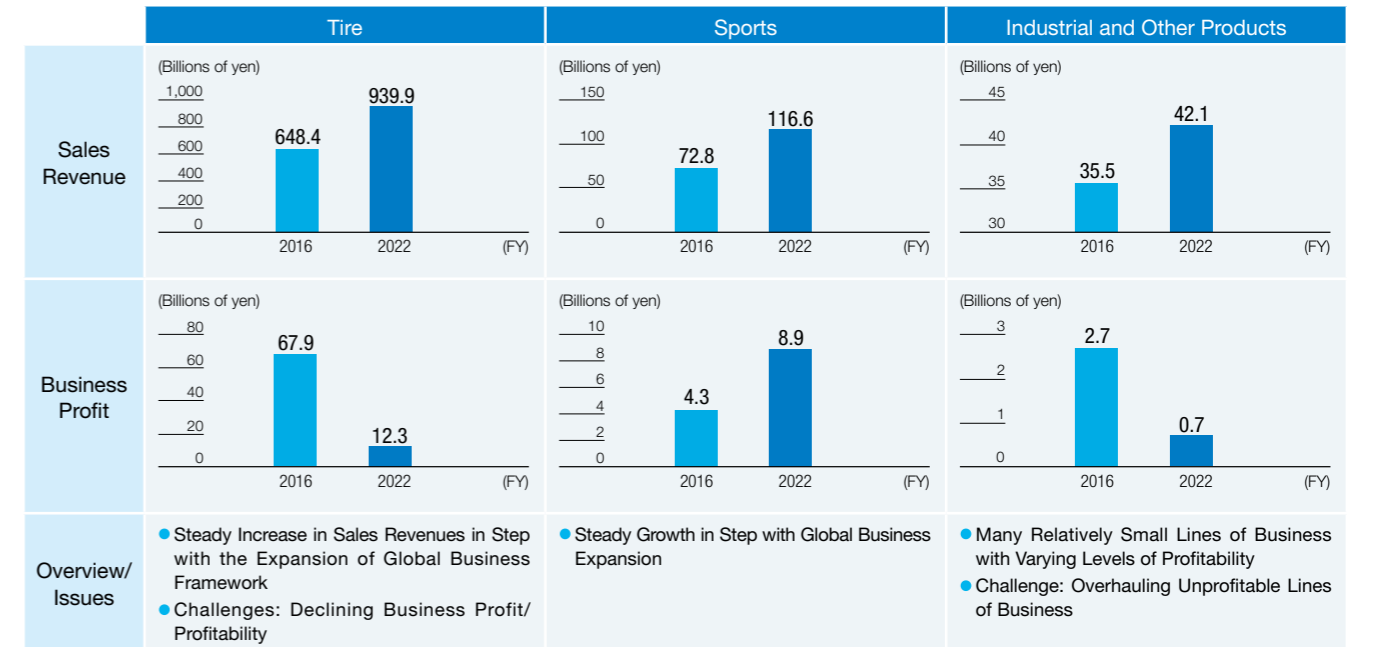
Improving Profit from the Tire Business Is Key

Looking at operating results by segment, the Tire Business has enjoyed steady growth in sales revenue in step with the development of the global business framework, but in more recent years has seen a decline in business profit. Accordingly, we consider improving profitability to be a major issue for the Tire Business. On the other hand, the Sports Business has been performing steadily thanks to the expansion of overseas businesses, despite temporarily stagnating in 2020, when the impact of the COVID-19 pandemic was profound.

The Industrial and Other Products Business maintains a large number of relatively small-scale operations whose profitability varies widely by business. Among these, operations with low profitability need to be revamped.

In summary, we have positioned **improving the profitability of our mainstay Tire Business as key** to the success of the new Midterm Plan.

Past Operating Results by Segment

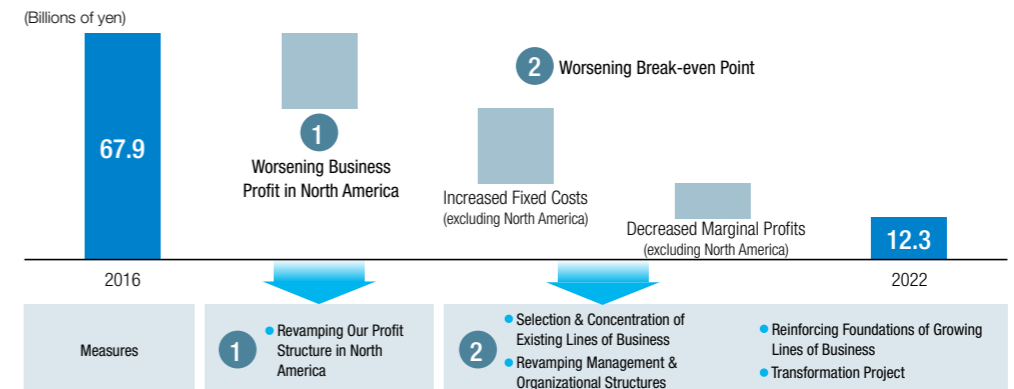


In the Tire Business, as we aim to shift to a structure focused on securing earnings in North America, improving the break-even point through the robust control of growth in fixed and variable costs is key

To date, in the course of developing the global business framework we have striven to accommodate needs in all market regions, to this end delivering a great number and variety of products. We have backed these endeavors with enhanced production, development, logistics, sales and service structures. These efforts have had the effect of raising fixed costs while rendering various aspects of our operations inefficient. Profitability has thus declined and the break-even point has deteriorated.

Looking at this from a historical perspective, our business profit has declined ¥55.6 billion from ¥67.9 billion in 2016 to ¥12.3 billion in 2022. This is generally attributable to the following two factors: (1) the decline in business profit from our operations in North America, which accounts for 40% of the decline; and (2) deterioration in the break-even point on the back of growth in fixed and variable costs, which accounts for the remaining 60%. The latter consists of growth in fixed costs and the lower marginal profit ratio on higher variable costs, with these two factors accounting for 40% and 20%, respectively.

Tire Business: Breakdown of Decline in Profits



To counter the circumstances described above, we will execute the selection and concentration of existing lines of business to improve the break-even point while pushing ahead with rebuilding our business management and organizational structure and strengthening the foundations of growing businesses. At the same time, we will promote the Transformation Project. We will thus focus on pursuing these endeavors until 2025, with the aim of securing a path toward achieving fresh growth from 2026 onward.