

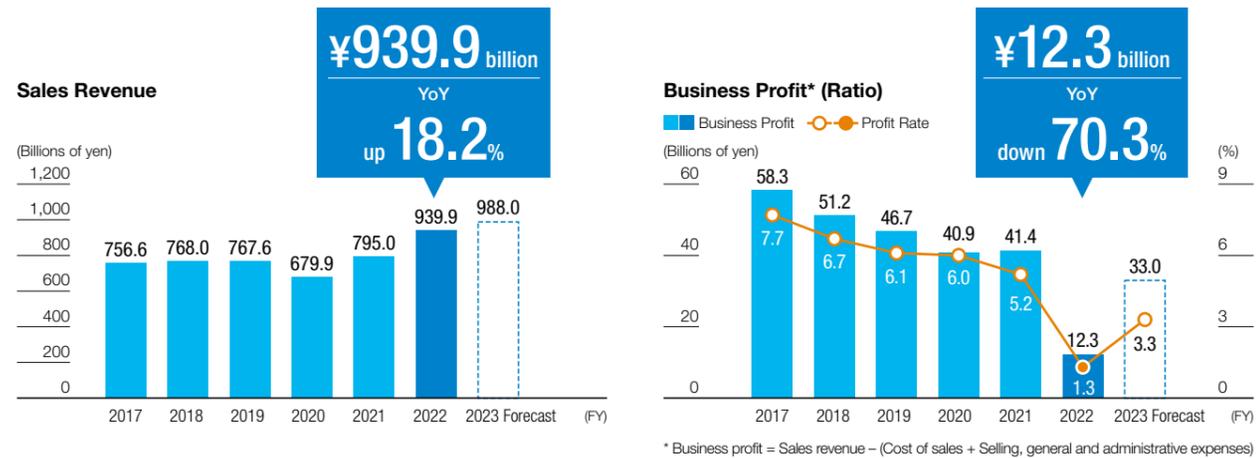
Tire Business

More Drive, More Joy

The Sumitomo Rubber Group manufactures and sells tires for use in various scenes of daily life all throughout society, including tires for passenger cars, trucks, buses, motorcycles and more.

Taking full advantage of many cutting-edge technologies, we manufacture and sell tires all over the world under two major brands: our pioneering DUNLOP Brand, which has always pursued greater safety and environmental performance, and our global FALKEN Brand, which caters to those who simply enjoy the thrill of the drive. Both brands have inherited the originality of John Boyd Dunlop, the veterinary physician who succeeded in commercializing the world's first pneumatic tire in 1888.

Results of Operations / Major Indicators



Sales Trends

Year-on-Year Comparison of Tire Sales Volume

		YoY	2020	2021	2022	
Domestic	Original equipment		83	96	98	
	Replacement		91	102	101	
Overseas	Original equipment		74	109	110	
	Replacement		91	110	90	
	Regional breakdown of replacement tire sales	North America		95	101	82
		Europe		86	118	95
		Asia		94	111	87
		Other		91	112	99
Total			88	107	96	
Total sales volume (millions of tires)			108.83	116.03	111.46	



Results Overview

Japan

Original equipment tires

Sales remained subdued as a result of automakers' ongoing production volume cuts due to such factors as global semiconductor shortages.

Annual sales fell short of those in the previous fiscal year, despite the present sales situation showing a minor recovery trend, slightly surpassing the previous fiscal year.

Replacement tires

Sales were almost on par with the previous fiscal year. As market awareness steadily grew, sales of all-season tires, which have been well received as products that provide safety and security no matter the season, surged. Winter tire sales for the year were almost on par with the previous year.

Overseas

Original equipment tires

Despite the negative impact of a decline in automobile production on the back of semiconductor shortages, sales recovered from a significant downturn accompanying the fallout from the COVID-19 pandemic in the previous fiscal year.

Replacement tires

In the Asia and Oceania region, sales were lower than in the previous year due to weak sales in China, partly affected by the country's Zero-COVID policy.

In Europe, sales were lower than in the previous year due to a slowdown in demand for tires, partly affected by ongoing inflation.

In the Americas, the product mix improved despite a decline in sales volume due to aggressive price increases and reduced sales of low-margin products in North America.

Topics

FALKEN "e. ZIEX," Our Most Fuel-Efficient Commercial EV Tire Ever, Launched in the European Market, Where Replacement EVs Are Rapidly Becoming the Norm (March 2023)

FALKEN "e. ZIEX" commercial EV tires have now been released in Europe, one of the world's largest electric vehicle (EV) markets alongside China, where DUNLOP "e. SPORT MAXX" tires were first launched in 2022.

There are three specific requirements for EV tires: lower rolling resistance, greater load capacity and quietness.

To create "e. ZIEX," we utilized our proprietary material development process to develop a rubber compound that enhances grip strength and fuel (energy) efficiency. Also, to achieve exceptional quietness, the tire incorporates our unique SILENT CORE (comprising specialized noise-absorbing sponges), while the tires' shape profile has been tuned to improve the uniformity of contact pressure for greater load capacity. Furthermore, we tailor our products to region-specific customer needs, for example, the tire offers improved driving performance on wet road surfaces, which is more in demand in the European market.



In order to respond to the future development of CASE and a sustainable society, we have specified in our new Midterm Plan that we will focus on a variety of products, including EV tires. By 2027, we aim to unveil the next generation of EV tires with a rolling resistance reduction of 30% and a 20% reduction in weight (compared with 2019).

By engaging in such activities, we are helping to create a sustainable society.

Tire Business

Accomplishing Reforms Based on Selection and Concentration to Return to a Growth Track

Hidekazu Nishiguchi

Representative Director and Managing Executive Officer
In Charge of the Tire Business and Automotive System Business



The Global Expansion of the Tire Business

In the 1980s, the Sumitomo Rubber Group began venturing into regions overseas, especially Asia, following in the footsteps of Japanese automakers pursuing global expansion. In 1999, we signed an alliance agreement with the U.S.-based Goodyear Tire & Rubber Company (Goodyear) and from that point were engaged in the sale of Dunlop brand tires in Japan and Asia, while Goodyear handled the sale of these tires in Europe and the United States. Over the ensuing years, Sumitomo Rubber Industries drew on this area-based sales structure, focusing on establishing production and sales bases in Asia and emerging nations outside Europe and the United States to pursue overseas business development. As a result, our overseas sales ratio grew from 25% in 2001 to 59% in 2015.

Then, in 2015, the alliance with Goodyear was dissolved. We have since shifted our focus to expanding our tire business in Europe and the United States through the marketing of Falken brand tires. This, along with the development and upgrading of local sales and service structures and the release of attractive products, has resulted in the steady enhancement of our market presence both in Europe and the United States.

Thanks to these and other initiatives, we achieved consolidated sales revenue of ¥1 trillion for the first time in fiscal 2022. Moreover, tire sales in North America have grown to account for around 20% of the overall figure, virtually on par with the proportion accounted for by domestic tire sales, while tire sales in Europe have expanded to account for about 15%. These accomplishments are, we believe, attributable to the success of our efforts to foster robust brand recognition and appreciation among customers and thereby win loyal users of Falken brand tires.

On the other hand, profit from the Tire Business has not grown in step with the stable expansion of sales and resulting growth in sales revenue. This is a major challenge confronting our Tire Business. The

root cause of this phenomenon is the age of the facilities in place at our USA Factory, which has a century-old history. We assumed ownership of this factory in 2015 in conjunction with the dissolution of the aforementioned alliance. We have since striven to upgrade its facilities and, to this end, have equipped it with unique Sumitomo Rubber Group technologies and raised its production capacities through facility updates and capital expenditures. Unfortunately, progress in effecting improvements in productivity stagnated due to a shift to a multiple small-lot production style and fallout from the COVID-pandemic, which temporarily made it impossible to dispatch staff reinforcements from Japan to enhance productivity. Right now, however, we are seeing the pace of productivity improvements gathering even more momentum than before thanks to the resumption of assistance from Japan.

Meanwhile, despite restoring the USA Factory to an improvement track, only a small proportion of its output is for local consumption. To address this situation, we began considering introducing a greater degree of factory automation in order to save on labor, which will reduce costs while raising the proportion of production for local consumption and strengthening our business in North America in a way that mitigates risks.

That being said, we intend to maintain an extremely tight grip on investment until 2025, which we are looking to as a turning point. Based on lessons learned over the course of past decade, we now believe that we can reclaim our place on the growth track only by lowering the break-even point, improving profitability, securing a robust volume of cash and setting aside surplus funds for investment. Accordingly, we will apply the principles of selection and concentration to lay the groundwork for growth lines of business until 2025. We will then go on to invest in measures to secure fresh growth for the Sumitomo Rubber Group as a whole.

Turning Point Set at 2025 under the New Midterm Plan

One feature of our new Midterm Plan is the identification of 2025 as a turning point. In other words, we are solidly committed to steadily developing the foundations needed for future growth from 2025 and are not postponing necessary measures to tackle issues. Although this time frame provides us with almost three years for preparation, we believe that it is crucial that we accomplish as much as possible

within the first two years of this period.

We are therefore tackling issues stipulated under the Midterm Plan at a blistering pace so that, once we reach that turning point in 2025, we will be able to reap the rewards of our current robust efforts to move the Sumitomo Rubber Group forward toward a phase of regrowth.

Enhancing the Presence of Falken Tires in Europe and the United States

With regard to tire sales in Europe and the United States, both of which constitute market regions of our focus, the presence of the Falken brand has strengthened and it is now seen by a growing number of users as a cool brand.

In Germany, the largest market in Europe, Falken is one of the official sponsors of 24h Nürburgring, the world's largest touring car race. This sponsorship boosts the brand's public recognition, with Porsche racing cars, painted in the iconic Falken colors, pitted against rivals in high-speed racing. Reflecting the success of marketing efforts like these, Falken has secured a position among the top Tier 2 brands in Europe. Furthermore, Falken tires are being chosen as original equipment for a growing number of new vehicles, including Porsche's Macan.

Meanwhile, in the United States, the world's largest tire market, we have seen robust growth in sales of the FALKEN WILDPEAK Series of 4x4/SUV tires. Falken tires are now one of most competitive candidates vying for top Tier 2 brand status in the North American market.

The Falken brand has thus secured a place among or near the top Tier 2 brands in both Europe and the United States. However, if it were to aim for Tier 1 ranking, augmenting our supply capacity would be essential, but initiatives like these take time.

Accordingly, we need to begin by updating the earnings structure of the Tire Business, including our operations in Europe and United States, to ensure our ability to steadily secure profit. To this end, we will strengthen our profit base by rallying our comprehensive capabilities for manufacturing, technologies, distribution and sales.



The FALKEN Motor Sports team entered the 24h Nürburgring race held in May 2023, with a Porsche 911 GT3R (992) No. 44, making it through to the finish line and placing 10th in the comprehensive rankings

Our Ideals regarding What We Should Look Like in the Future as a Tire Maker

The Sumitomo Rubber Group plans to enhance its responsiveness to the trend toward CASE (an acronym for "Connected, Autonomous, Shared & Services, Electric") and the growing public call for social sustainability. This will require further developing proprietary technologies, leveraging the SMART TYRE CONCEPT to advance tire performance and commercializing SENSING CORE Technology.

The SMART TYRE CONCEPT is a collective term that refers to various concepts underpinning Sumitomo Rubber Group tire technologies. By advancing these technologies, we will set ourselves apart from other companies in the fields of all-season tires, EV tires and SENSING CORE solutions, etc.

Next-Generation All-Season Tires Equipped with Active Tread

Our next-generation all-season tires equipped with Active Tread, one of the SMART TYRE CONCEPT technologies, are expected to become market-leading products.

We aim to expand the market for all-season tires by incorporating proprietary technologies. Active Tread will be key to the success of this endeavor.

The other day, I traveled to the Nayoro Tire Proving Ground (Hokkaido), with the aim of driving a car myself to confirm the on-ice performance of tires we are now developing. Summer tires are too hard for on-ice driving. On the other hand, studless tires are soft enough to drive on ice. I was able to confirm that our all-season tires can stably drive on ice.

I am just a layman, not a professional test driver. However, when I was on the ice track driving a car with next-generation all-season tires equipped with Active Tread technology, which ensures the natural softness of rubber is retained, I could feel a noticeable difference.

As we expect demand for all-season tires to grow, we plan to commercialize next-generation tires equipped with Active Tread in 2024 and thereby expand sales.



Tire Business

The use of conventional all-season tires is often associated with noise issues. Such tires are structured with tread grooves to claw for purchase on the slippery surface of snowy roads, with the extra treads making them much bulkier than summer tires. In contrast, Active Tread technology provides an advantage for on-ice driving performance as it curbs the tendency of rubber to harden, even in a

low-temperature environment. Thus, our all-season tires can achieve sufficient performance with fewer tire treads and less bulk, and this, in turn, means less noise. Accordingly, we consider our all-season Active Tread-equipped tires to be an optimal candidate for EV tires, which require products that support quiet driving.

Next-Generation All-Season Tires

Commercialize next-generation tires equipped with Active Tread technology in 2024



Setting Ourselves Apart via a Combination of Next-Generation EV Tires and Other Proprietary Technologies

Leveraging a combination of next-generation EV tires and other proprietary technologies, we will contribute to a future mobility society. Even as we steadily proceed with the commercialization of our EV tires, we will continue advancing technologies in this area. For example, we are working to enhance the energy efficiency and braking performance of these tires via the incorporation of Active Tread. In this category, we have identified reduction targets for rolling resistance and weight and are aiming for a 30% reduction in the former and a 20% reduction in the latter by 2027 compared with the 2019 levels. We intend to release next-generation EV tires equipped with these and other new technologies in 2027. We not only aim to advance tire performance but also aspire to contribute to a future mobility society on diverse fronts via the combination

of our SENSING CORE technology, which represents one of our unique areas of strength, SILENT CORE technology, which significantly improves quietness, and our Instant Mobility System (IMS) Tire Puncture Emergency Repair Kits, which accommodate tires equipped with SILENT CORE. We have overcome technological difficulties in securing compatibility between special noise-absorbing sponges—essential SILENT CORE technology components supporting the quietness of EV tires—and IMS Tire Puncture Emergency Repair Kits and are proceeding with the commercialization of combined products. We will continue to strive to set our EV tires apart by bringing to bear a combination of our strengths in various product areas and technologies, including SENSING CORE technology.

Advancement of EV Tire Technologies

- DUNLOP e-SPORT MAXX**: Lower energy consumption and higher braking performance thanks to the incorporation of Active Tread
- FALKEN e-ZIEX**: Advancement of performance sustaining technology
- FALKEN e-ZIEX**: Improvement in performance relative to Tire Life Cycle Assessment (LCA)
- FALKEN e-ZIEX**: Maintenance-free (SENSING CORE solutions)

The Release of Next-Generation EV Tires Scheduled for 2027

Targets for 2027 (compared with the 2019 levels)

30% reduction in rolling resistance 20% reduction in tire weight

SILENT CORE*¹

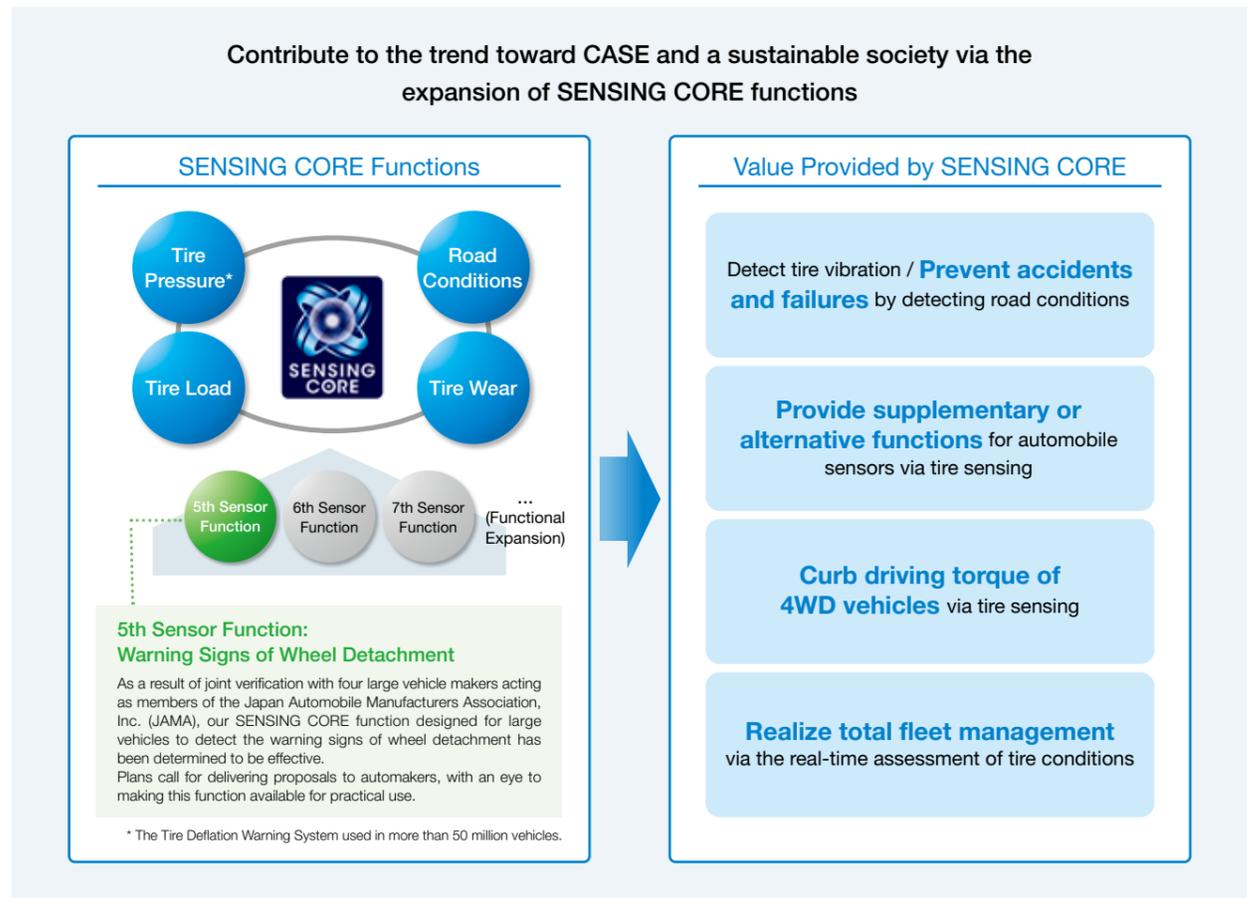
IMS*² compatible with SILENT CORE tires

*¹ Special noise-absorbing sponges
*² Tire Puncture Emergency Repair Kits

Becoming a Forerunner by Releasing Tires Capable of Notifying Drivers of Their Condition

Our proprietary SENSING CORE technology boasts four major functions backed by established technologies. These include a tire pressure detection function, which is currently being used in more than 50 million vehicles. In addition, we are striving to expand such new functions as those designed to detect the warning signs of wheel detachment. We believe that doing so will enable us to better contribute, in diverse ways, to the shift toward CASE and a sustainable society in the coming era. With this in mind, we are endeavoring to rapidly commercialize such new functions. With the abovementioned business foundations almost complete, we now think that our future success largely hinges on being able to allocate sufficient resources.

For example, our SENSING CORE function that detects the warning signs of wheel detachment has been determined to be effective in the course of joint development initiatives undertaken with large vehicle makers. This function detects any slight abnormality in tire rotation, which could occur when, for example, a nut securing the wheel loosens by a margin of as little as 1 millimeter, and issues an alert. Looking ahead, we will step up our initiatives to make this function available for practical use. Going forward, we will secure our business foundations in Europe and the United States to enable the commercialization of our sensing solutions. By doing so, we aim to ensure that these solutions are installed in not only new vehicles but existing vehicles by 2030.



As far as I know, only a handful of companies in the world are capable of providing tire sensing functions backed by software analysis, with Sumitomo Rubber Industries included among their ranks. Once our software is installed in a car, the driver can utilize any additional functions simply by updating it, making it extremely convenient. We provide tires that are essential to the act of driving an automobile. Not only that, by equipping them with the capability to acquire

various data and keep drivers apprised of their condition, we are able to deliver diverse value. This will, we believe, better position us to contribute to the trend toward CASE and a sustainable society. Accordingly, we aim to act as a forerunner in this area and are striving to accelerate the commercialization of our sensing solutions to develop them into the fourth business pillar of the Sumitomo Rubber Group.