

# Consolidated Financial Results for the Fiscal Year Ended December 31, 2015 [Japanese GAAP]



February 12, 2016

Company name : Sumitomo Rubber Industries, Ltd.  
 Stock exchange listing : Tokyo Stock Exchange  
 Code number : 5110  
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 Scheduled date of ordinary shareholders' meeting : March 30, 2016  
 Scheduled date of commencing dividend payments : March 31, 2016  
 Scheduled date of filing annual securities report : March 31, 2016  
 Supplementary documents for financial results : Yes  
 Financial results briefing session : Yes (for institutional investors)

(Amounts of less than one million yen are rounded to the nearest unit.)

## 1. Consolidated Financial Results for Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended								
December 31, 2015	848,663	1.3	77,067	(10.6)	78,894	(10.3)	55,834	4.9
December 31, 2014	837,647	7.3	86,251	11.9	87,968	17.9	53,206	18.8

(Note) Comprehensive income: Fiscal year ended December 31, 2015 : ¥ 29,671 million (decrease of 69.2%)

Fiscal year ended December 31, 2014 : ¥ 96,356 million (decrease of 2.9%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets ratio	Operating income to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2015	212.85	-	13.3	8.3	9.1
December 31, 2014	202.82	-	14.3	9.6	10.3

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended December 31, 2015 : ¥ 5,562 million

Fiscal year ended December 31, 2014 : ¥ 4,674 million

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2015	936,154	453,768	45.3	1,615.81
December 31, 2014	973,587	446,960	42.5	1,575.82

(Reference) Equity: As of December 31, 2015 : ¥ 423,857 million

As of December 31, 2014 : ¥ 413,374 million

## (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of fiscal year
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2015	86,995	(32,991)	(50,554)	53,521
December 31, 2014	108,941	(71,584)	(32,507)	53,584

## 2. Dividends

	Annual dividends					Total dividends (Annual)	Payout ratio (Consolidated)	Ratio of dividend to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen			
December 31, 2014	-	20.00	-	30.00	50.00	13,116	24.7	3.5
December 31, 2015	-	25.00	-	30.00	55.00	14,428	25.8	3.4
Fiscal year ending December 31, 2016 (Forecast)	-	30.00	-	25.00	55.00		25.3	

## 3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	390,000	0.3	31,000	6.0	29,500	(5.0)	25,000	25.0	95.30
Full year	860,000	1.3	80,000	3.8	77,000	(2.4)	57,000	2.1	217.29

### Notes:

#### (1) Changes in Significant Subsidiaries during the Fiscal Year Ended December 31, 2015

(changes in specified subsidiaries resulting in changes in scope of consolidation) : Yes

Newly consolidated: 1 company

(Company name: Goodyear Dunlop Tires North America, Ltd.)

Excluded from the scope of consolidation: - companies (Company names: -)

#### (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards : Yes

2) Changes in accounting policies other than 1) : None

3) Changes in accounting estimates : None

4) Retrospective restatement : None

(Note) For details, please refer to page 24 of the attached documents, "5. Consolidated Financial Statements, (5) Notes on Consolidated Financial Statements, Changes in Accounting Policies."

#### (3) Total number of issued shares (common stock)

##### 1) Total number of issued shares at the end of the period (including treasury stock)

December 31, 2015 : 263,043,057 shares

December 31, 2014 : 263,043,057 shares

##### 2) Total number of treasury stock at the end of the period

December 31, 2015 : 724,513 shares

December 31, 2014 : 720,365 shares

##### 3) Average number of shares during the period

Fiscal year ended December 31, 2015 : 262,320,318 shares

Fiscal year ended December 31, 2014 : 262,325,228 shares

**(Reference) Summary of Non-Consolidated Financial results****Non-Consolidated Financial Results for Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)****(1) Non-Consolidated Operating Results** (% indicates changes from the previous corresponding period.)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2015	452,906	(2.3)	23,375	(31.0)	29,397	(31.4)	44,689	39.6
December 31, 2014	463,375	3.2	33,874	(0.4)	42,870	0.6	32,019	(18.9)

Fiscal year ended	Net income per share	Diluted net income per share
	Yen	Yen
December 31, 2015	170.36	-
December 31, 2014	122.06	-

**(2) Non-Consolidated Financial Position**

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2015	683,685	277,168	40.5	1,056.61
December 31, 2014	677,750	250,978	37.0	956.75

(Reference) Equity: As of December 31, 2015 : ¥277,168 million

As of December 31, 2014 : ¥250,978 million

**\* Presentation regarding the implementation status of auditing procedures**

These financial results are outside the scope of the auditing procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, auditing procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

**\* Explanation of the proper use of financial results forecast and other notes**

The earnings projections and other forward-looking statements herein are based on certain assumptions made in light of the information currently available to Sumitomo Rubber Industries, Ltd. (the "Company") and its group companies (collectively, the "Group") and do not constitute any promises by the Company that they will be realized. Actual results could differ significantly from these forecasts due to changes in various factors surrounding the businesses of the Company and the Group.

With regard to the matters related to the underlying assumptions for the above forecasts, please refer to page 2 of the attached documents of the Consolidated Financial Results for the Period under Review, "1. Analysis of Business Performance and Financial Position, (1) Analysis of Business Performance."

The Group decided to adopt International Financial Reporting Standards (IFRS) from the fiscal year 2016 ended December 31, 2016 and the disclosure information of financial results will be based on IFRS. The future projections including major influences (estimate base) due to this adoption are presented on slide of the presentation material for financial results briefing session on February 12, 2016.

## Table of Contents

1. Analysis of Operating Results and Financial Position .....	2
(1) Operating Results .....	2
(2) Financial Position .....	6
(3) Basic Policy on Profit Distribution and Dividends for Fiscal 2015 and 2016 .....	7
(4) Business Risks .....	7
2. Status of the Business Group .....	9
3. Business Policies .....	10
(1) Basic Business Policy .....	10
(2) Medium- to Long-Term Business Strategy and Target Indicators .....	10
(3) Issues to Be Addressed .....	10
4. Basic Approach to the Selection of Accounting Standards .....	11
5. Consolidated Financial Statements .....	12
(1) Consolidated Balance Sheets .....	12
(2) Consolidated Statements of Income and Comprehensive Income .....	14
Consolidated Statements of Income .....	14
Consolidated Statements of Comprehensive Income .....	15
(3) Consolidated Statements of Changes in Equity .....	16
(4) Consolidated Statements of Cash Flows .....	18
(5) Notes on Consolidated Financial Statements .....	20
(Notes on Going Concern Assumption) .....	20
(Basis of Presentation of Consolidated Financial Statements) .....	20
(Changes in Accounting Policies) .....	24
(Unapplied Accounting Standards) .....	24
(Changes in Presentation) .....	25
(Notes on Consolidated Balance Sheets) .....	25
(Notes on Consolidated Statements of Income) .....	26
(Business Combination) .....	29
(Segment Information, etc.) .....	32
(Per Share Amounts) .....	37
(Significant Subsequent Events) .....	38
6. Other Information .....	39
Appointment of Officers .....	39

## 1. Analysis of Operating Results and Financial Position

### (1) Operating Results

#### 1) Operating Results for the Fiscal Year under review

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2014	Increase (Decrease)
	Millions of yen	Millions of yen	%
Net sales	848,663	837,647	1.3
Tires	732,168	731,245	0.1
Sports	77,631	70,462	10.2
Industrial and Other Products	38,864	35,940	8.1
Operating income	77,067	86,251	(10.6)
Tires	73,114	78,416	(6.8)
Sports	2,011	3,170	(36.6)
Industrial and Other Products	1,930	4,648	(58.5)
Adjustments	12	17	-
Ordinary income	78,894	87,968	(10.3)
Net income	55,834	53,206	4.9

#### Foreign exchange rates applied

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2014	Increase (Decrease)
	Yen	Yen	Yen
Yen / U.S. Dollar	121	106	15
Yen / Euro	134	140	(6)

During the fiscal year ended December 31, 2015, the overall global economy was weak as a whole in a generally unstable environment. Although the U.S. economy saw continued expansion at a moderate pace, there was a sense of uncertainty about the future due to factors including dollar appreciation after the interest rate hike and falling crude oil prices. The European economies showed weakness, and in emerging nations centering on Asia, a further slowdown in China's economic growth, in addition to its impact on many countries and regions, led to weakness in the currencies of emerging markets.

The Japanese economy was weak overall as well, amid factors including stagnant exports due to declining demand in China and the Asia region as well as sluggish personal consumption as a result of a warm winter, despite continued improvement in corporate earnings due to sustained yen depreciation.

Looking at the business environment surrounding the Sumitomo Rubber Group, despite improvements in the export environment due to yen depreciation, prices in the natural rubber market remaining at low levels, and a drop in crude oil prices, business conditions remained severe due to factors such as intensified competition in the sales of tires due to the worldwide stagnation of demand.

Under these circumstances, the Group pursued various group-wide initiatives to achieve its long-term "VISION 2020" targets for fiscal 2020 aimed at driving business growth and improving profitability. Specifically, we endeavored to achieve greater sales of high-value-added products, including fuel-efficient tires, while proactively entering new markets and business fields. However, in our leading tire business, sales weakened in emerging markets and sales of winter tires in Japan was lower than projected due to a warm winter.

As a result, for fiscal 2015, consolidated net sales of the Group increased 1.3% from the previous fiscal year to ¥848,663 million and consolidated operating income decreased 10.6% to ¥77,067 million, consolidated

ordinary income decreased 10.3% to ¥78,894 million and consolidated net income increased 4.9% to ¥55,834 million, resulting in an increase in Net Sales due to the effect of yen depreciation but decreases in operating income and ordinary income.

Net income increased, reaching a record high, mainly due to the recording of extraordinary income in connection with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company of the U.S. announced in October 2015.

## 2) Overview of Results by Segment

### **Tire Business**

Net sales in the tire business increased 0.1% from the previous fiscal year to ¥732,168 million, and operating income decreased 6.8% to ¥73,114 million.

In the domestic replacement market, sales were below the level of the previous fiscal year. With respect to summer tires, sales volume of fuel-efficient tires exceeded the level of the previous fiscal year due to the expansion of sales of the “ENASAVE” series, long-lasting fuel-efficient tires under the Dunlop brand and tires equipped with “SILENT CORE,” a special noise-absorbing sponge, including “LE MANS 4” and “VEURO VE303.” With regard to winter tires, although sales of “WINTER MAXX” exceeded the level of the previous fiscal year, sales of winter tires overall fell below the level of the previous fiscal year because there were no snowfalls during the peak demand season and temperatures were high throughout Japan.

In the domestic original equipment market, sales and sales volume fell below the level of the previous fiscal year due to automobile production volume falling below the level of the previous fiscal year, despite our continued efforts to expand the volume delivered of high-value-added tires mainly focusing on fuel-efficient tires.

In the overseas replacement market, sales exceeded the level of the previous fiscal year, reflecting the effects of yen depreciation and an increase in sales volume due to a global expansion of sales mainly in the U.S., where market conditions are favorable, although we faced intensifying competition due to ongoing political instability in the Middle East countries, as well as weakening market conditions in emerging markets such as Russia and Indonesia.

In the overseas original equipment market, sales exceeded the level of the previous fiscal year, due to the effects of yen depreciation, as well as strong sales in Thailand for automobile models for which we have a high share of volume delivered and an increase in sales in the U.S. reflecting an expansion of volume delivered to non-Japanese manufacturers, although we experienced decrease in sales volume in Indonesia and China, where the economy was weak.

As a result, net sales in the tire business exceeded the level of the same period of the previous fiscal year.

### **Sports Business**

Net sales in the sports business increased 10.2% from the previous fiscal year to ¥77,631 million, and operating income decreased 36.6% to ¥2,011 million.

The golf equipment market performed favorably as the number of golf course visitors exceeded the level of the previous fiscal year in Japan and the U.S. thanks mainly to comparatively favorable weather. Meanwhile in Japan, our flagship “XXIO 8” golf clubs have continued to enjoy favorable sales, and “XXIO 9” golf clubs launched in December 2015 made a good start. Owing to continued strong sales of “SRIXON” brand golf balls, we won the top share (\*) again in fiscal 2015 in terms of sales of golf clubs and golf balls.

In overseas markets, we strove to increase our market shares through strategic promotion of our three major brands: “XXIO”, “SRIXON” and “Cleveland Golf.”

In the tennis equipment market in Japan, amid favorable market conditions mainly due to the outstanding performance of Mr. Kei Nishikori, we expanded sales of “SRIXON” and “BABOLAT” brand products and earned the top share (\*) in terms of sales of tennis rackets.

In addition, in the wellness business, which has been developed to become the third pillar of our core businesses next to the golf and tennis equipment businesses, we launched GYM STYLE 24, a compact gym open 24 hours, which contributed to the increase in sales.

As a result, net sales in the sports business exceeded the level of the previous fiscal year, while operating income fell below the level of the previous fiscal year mainly due to an increase in purchasing costs resulting

from yen depreciation.

(\*) Market share in amount according to a survey by Yano Research Institute Ltd.

### **Industrial and Other Products Business**

Net sales in the industrial and other products business increased 8.1% from the same period of the previous fiscal year to ¥38,864 million, and operating income decreased 58.5% to ¥1,930 million.

Under the “MIRAIE” brand, a series of vibration control dampers for housing, which help reduce structural vibration, sales have expanded steadily since its launch in 2012, with cumulative housing unit sales topping 10,000 units in September 2015. As for medical rubber parts, we expanded sales globally by leveraging the production bases of the Swiss-based subsidiary we acquired in January 2015 and new sales channels in Europe. For artificial turf for sports facilities, the extremely durable “Hibrid-Turf EX” long-pile artificial turf continued to receive high acclaim in the market.

In addition to a steady increase in sales of precision rubber parts for printers and photocopiers mainly in overseas markets, yen depreciation also contributed to the increase in income.

As a result, while net sales in the industrial and other products business exceeded the level of the previous fiscal year, operating income decreased from the previous fiscal year, primarily due to the impact of reclassification of a portion of the new businesses to the tire business.

### 3) Business Forecast for Fiscal 2016

In fiscal 2016, the Group will engage in the efforts to be described below in “(3) Issues to Be Addressed” under Section 3. Business Policies, while paying attention to the risk factors stated in “(4) Business Risks” under Section 1. Analysis of Operating Results and Financial Position.

The current estimates of the Group’s consolidated business performance for the fiscal year ending December 31, 2016, are as follows.

	Full year	Increase (Decrease)	First half	Increase (Decrease)
	Millions of yen	%	Millions of yen	%
Net sales	860,000	1.3	390,000	0.3
Tires	740,000	1.1	334,000	0.6
Sports	78,000	0.5	37,000	(2.2)
Industrial and Other Products	42,000	8.1	19,000	0.7
Operating income	80,000	3.8	31,000	6.0
Tires	75,500	3.3	29,000	5.4
Sports	2,000	(0.6)	1,000	11.5
Industrial and Other Products	2,500	29.5	1,000	21.3
Adjustments	-	-	-	-
Ordinary income	77,000	(2.4)	29,500	(5.0)
Profit attributable to owners of parent	57,000	2.1	25,000	25.0

#### Foreign exchange rates applied

	Full year	Increase (Decrease)	First half	Increase (Decrease)
	Yen	Yen	Yen	Yen
Yen / U.S. Dollar	115	(6)	115	(5)
Yen / Euro	125	(9)	125	(9)



## (2) Financial Position

	As of December 31, 2015	As of December 31, 2014	Increase (Decrease)
	Millions of yen	Millions of yen	Millions of yen
Total assets	936,154	973,587	(37,433)
Net assets	453,768	446,960	6,808
[excluding minority interests]	[423,857]	[413,374]	[10,483]
Equity ratio (%)	45.3	42.5	2.8
ROE (%)	13.3	14.3	(1.0)
ROA (%)	8.1	9.4	(1.3)
Interest-bearing debt	260,631	295,747	(35,116)
d/e ratio	0.6	0.7	(0.1)
Net assets per share	1,615.81yen	1,575.82yen	39.99yen

(Notes) The ROA figures are calculated using consolidated Operating income.

### (i) Assets, Liabilities and Net Assets

Total assets as of December 31, 2015 decreased ¥37,433 million from the end of the previous fiscal year to ¥936,154 million. Total current assets decreased ¥6,888 million, mainly due to a decrease in notes and accounts receivable-trade. Total noncurrent assets decreased ¥30,545 million, mainly due to the sales of investment securities in association with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company, despite an increase in property, plant and equipment resulting from an increase in capital investment.

Total liabilities as of December 31, 2015 decreased ¥44,241 million from the end of the previous fiscal year to ¥482,386 million. Interest-bearing debt decreased ¥35,116 million to ¥260,631 million.

Total net assets as of December 31, 2015 amounted to ¥453,768 million, of which total equity was ¥423,857 million, and the equity ratio was 45.3%. Net assets per share were ¥1,615.81.

### (ii) Cash Flows

Net cash provided by operating activities amounted to ¥86,995 million, the increase being primarily due to a decrease in notes and accounts receivable-trade of ¥17,009 million and the recording of income before income taxes and minority interests of ¥73,929 million, although there were cash outflows, including an increase in inventories of ¥9,399 million and a decrease in notes and accounts payable-trade of ¥11,018 million.

Net cash used in investing activities amounted to ¥32,991 million, chiefly due to the purchase of property, plant and equipment of ¥57,474 million to increase production capacity, despite the receipt of consideration in association with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company and other factors.

As a result, free cash flow, which is computed by subtracting the net cash used in investing activities from the net cash provided by operating activities, was a positive balance of ¥54,004 million.

Cash flows from financing activities included outflows of ¥34,513 million due to repayments of short-term loans payable and long-term debt as well as redemption of bonds and ¥14,428 million for the payment of cash dividends. As a result, cash and cash equivalents at the end of the fiscal year under review were ¥53,521 million after reflecting the effect of exchange rate change on cash and cash equivalents.

## Cash Flow Indicators

	As of December 31, 2012	As of December 31, 2013	As of December 31, 2014	As of December 31, 2015
Equity ratio (%)	33.1	38.0	42.5	45.3
Market value-based equity ratio (%) [Closing stock price at year-end on which the calculation is based]	36.8 [1,035yen]	45.2 [1,494yen]	48.5 [1,800yen]	44.3 [1,581yen]
Years of debt redemption	3.6	3.9	2.7	3.0
Interest coverage ratio (times)	17.5	15.9	23.2	22.5

(Method of calculation)

- Equity ratio: Total equity / Total assets
- Market value-based equity ratio: Market capitalization / Total assets
- Years of debt redemption: Interest-bearing debt / Operating cash flow
- Interest coverage ratio: Operating cash flow / Interest expense

(Notes)

1. All of the above cash flow indicators are calculated on a consolidated basis.
2. Market capitalization is calculated by multiplying the total number of shares issued at year-end (excluding treasury stock) by the closing stock price at year-end.
3. Interest-bearing debt refers to all the liabilities stated on the balance sheets for which interest is paid.
4. Operating cash flow refers to the net cash provided by operating activities as stated in the consolidated statements of cash flows.
5. Interest expense is equal to the interest payments stated in the consolidated statements of cash flows.

### (3) Basic Policy on Profit Distribution and Dividends for Fiscal 2015 and 2016

Sumitomo Rubber Industries, Ltd. recognizes that the return of gains to shareholders is a priority issue. Backed by the comprehensive assessment of dividend payout ratios on a consolidated basis, performance prospects and the level of internal reserves, the Company maintains a basic policy of steadily rewarding shareholders over the long term.

Regarding retained earnings, the Company intends to utilize them for capital investment and research and development to expand profit-earning bases for future growth.

For fiscal 2015, we intend to pay a year-end dividend of ¥30 per share. Combined with an interim dividend of ¥25 per share, which has already been paid, the annual cash dividends per share for fiscal 2015 will be ¥55.

For fiscal 2016, we plan to pay an annual dividend of ¥55 per share, consisting of interim dividends per share of ¥30 and year-end dividends per share of ¥25.

### (4) Business Risks

The Group has identified the following key risk factors that may affect its business performance and financial position.

Risk factors relating to future business results were determined based on information available to management as of the end of the fiscal year under review.

The Group recognizes that such risks may occur, and it strives to address them accordingly.

#### 1) Exchange rate fluctuations

Exchange rate fluctuations influence the value of the Group's exports, raw material procurement, foreign currency-denominated assets, liabilities and financial statements. The appreciation of the yen against foreign currencies such as the U.S. dollar may have an adverse effect on the Group's business performance and financial position. Since the Group has raised its consolidated overseas sales ratio from 25.2% in fiscal 2001 to 56.3% in fiscal 2015, the possibility exists that its results may be further affected by exchange rate

fluctuations. The Group utilizes forward-exchange contracts and maintains a balance in its export and import activities on an individual currency basis with the aim of minimizing its exposure to exchange rate fluctuations.

Such precautions, however, may not be sufficient to avoid all possible exchange rate fluctuation risks.

2) Change in raw material prices

The Group's principal raw materials are natural rubber, petrochemicals and metals. The Group's operating results may thus be affected by price increases in natural rubber, crude oil, steel and other related materials.

3) Changes in interest rates

Promoting the reduction of interest-bearing debt to improve its financial standing, the Group also implements countermeasures to minimize the risk of changes in interest rates by using diversified financing methods and interest rate swaps. Despite these efforts, the Group's operating results and financial position may be affected in the event of rising fund procurement costs due to an increase in interest rates in the medium and long term.

4) Product quality

In accordance with prescribed quality standards, the Group undertakes full-scale measures to assure product quality. Yet it is difficult to reduce the number of defective products and customer complaints to zero.

To offset the possibility of any claims for damages resulting from defective products, the Group retains appropriate indemnity insurance. Despite this initiative, there is the possibility that a claim may occur that cannot be compensated by insurance. Furthermore, costs associated with the resolution of claims as well as product recalls or exchanges may arise. Such incidents may affect the Group's operating results, financial position and social standing.

5) Alliance with Goodyear

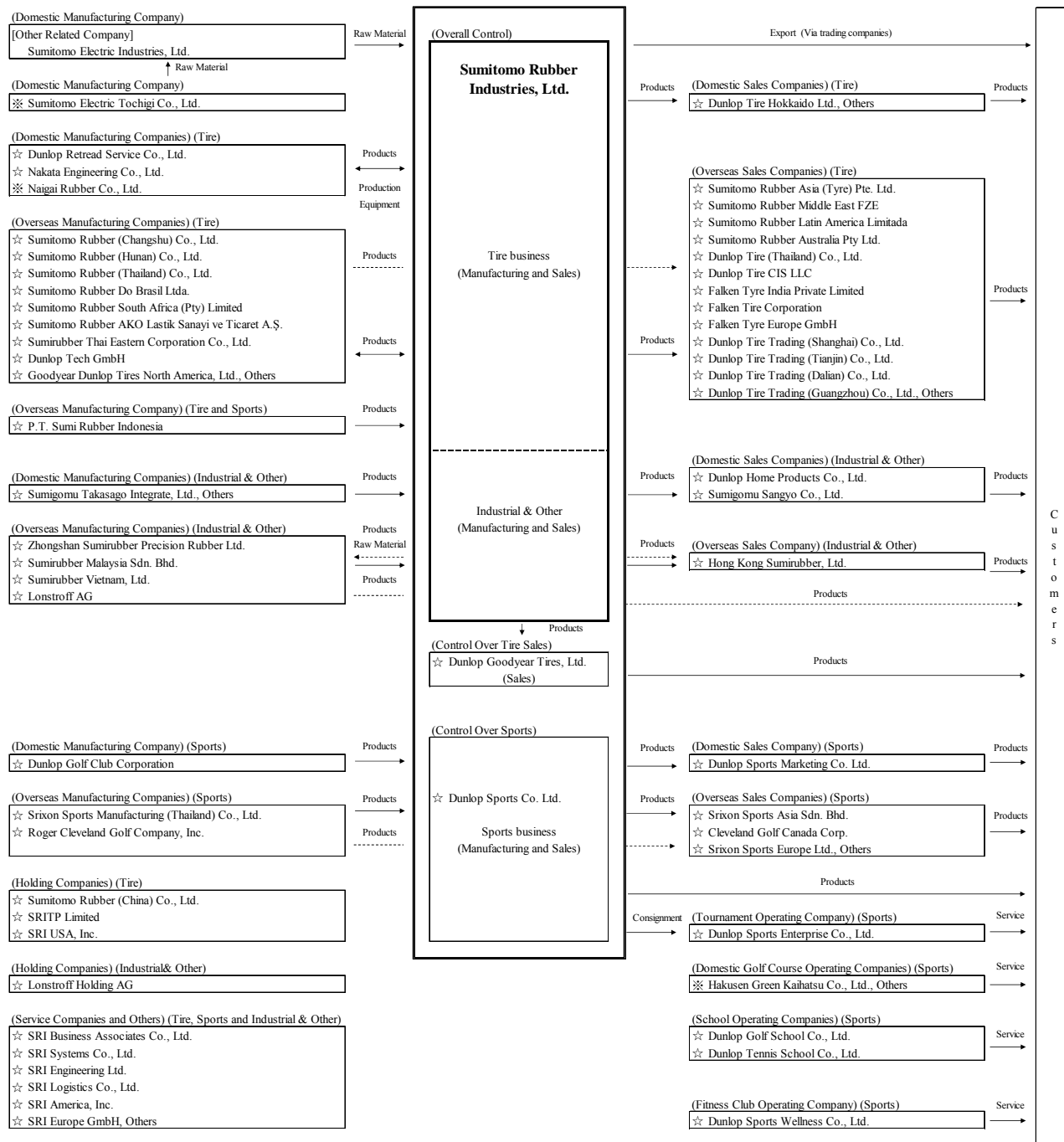
The Company completed the entire procedure for the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company on October 1, 2015. As a result, the possibility of the Group's operating results being impacted by changes in the alliance relationship with Goodyear or the operating results of the joint ventures has been eliminated.

6) Disasters

Concentrating on Japan and other Asian countries, the Group develops its business on a global scale. The Group's operating results may be affected directly or indirectly by such events as natural disasters, disease, war and terrorism. Such events may have a negative impact on the Group's operating results.

## 2. Status of the Business Group

The Group consists of Sumitomo Rubber Industries, Ltd., and its 84 subsidiaries and 8 affiliates and one other associate (Sumitomo Electric Industries, Ltd.), and operates the Tire business, the Sports business and the Industrial and Other Products business, as well as their ancillary and related services in domestic and overseas markets.



☆ : Consolidated Subsidiaries  
 ※ : Equity-method Affiliates

### 3. Business Policies

#### (1) Basic Business Policy

The Group makes it a basic company policy to continue to enhance its corporate value as a promising and reliable global company for the benefit of all stakeholders, including shareholders, contributing widely to local communities and society and continuously creating new value to ensure living that is comfortable and attractive.

The Group's corporate philosophy underlying its corporate management is as follows.

- To respond to our customers' demands, striving to provide better products with a strong sense of responsibility and a solid grounding in the principle of "genchi-genbutsu" (seeing with one's own eyes).
- To pioneer a new era by adapting to the times flexibly while maintaining a solid management foundation.
- To actively cultivate new market needs by enhancing our R&D capabilities and advanced proprietary technology.
- To actively pursue environmentally responsible business operations and the development of environmentally friendly technologies.

#### (2) Medium- to Long-Term Business Strategy and Target Indicators

The Group already formulated and publicly declared the long-term "VISION 2020" of which sets the target for fiscal 2020. To achieve the vision's targets, we will not only continue efforts to realize "the world's best onsite operational skills, research-and-development capabilities and technical skills" and "industry-leading earnings power" but also carry out initiatives aimed at driving growth in line with three key themes: NEXT Market Expansion, NEXT Technology Evolution and NEXT Category Innovation, thereby aiming to continually offer "the world's best value" in various business fields.

Specifically, our numerical targets for fiscal 2020 include consolidated net sales of ¥1,200 billion and a consolidated operating income ratio of 12% or greater. Along with the vision's action image, "Go for NEXT", we will pursue intensive efforts to achieve these targets.

Specific management strategies toward the long-term vision include expansion of sales in growth markets, centering on emerging nations; further advancement and utilization of simulation technologies; enlargement of applications of the new, next-generation tire manufacturing system; expansion of environment-friendly products; acquisition of new customers; penetration of vibration control technologies; and further development of the healthcare business. By investing managerial resources in these strategies, we aim to realize the Group's sustainable growth and maximize its corporate value.

#### (3) Issues to Be Addressed

With regard to the outlook of the global economy, the U.S. economy is likely to continue to see a gradual growth, while the European economy is anticipated to recover despite lingering financial anxiety. Although emerging markets are expected to enjoy stable economic growth, the economic uncertainty is expected to further increase amid concerns about depreciation of the currencies of emerging markets and economic stagnation due to monetary policy normalization in the U.S., a fall in resource prices including crude oil prices, and the manifestation of geopolitical risks.

As for Japan's economic prospects, although the recovery is expected to sustain its current momentum, consumer confidence is likely to be undercut by the effect of the financial uncertainty.

To address these business environments, the Group will carry out the incentives as detailed below, while taking into account the risk factors described in (4) Business Risks under Section 1. Analysis of Operating Results and Financial Position.

#### **Tire Business**

In the domestic market, we will continuously introduce new products to further increase our presence in the fuel-efficient tire field. Under the Dunlop brand, in February 2016, we launched the renewed "LE MANS 4" in 40 size equipped with "SILENT CORE," with enhanced fuel efficiency.

Under the Falken brand, in February 2016, we launched “ZIE X ZE914F,” which has improved wet grip performance.

In overseas markets, we will continue to seek sales expansion in emerging nations, as well as proactively promote sales expansion in Europe and the U.S., where we have a greater degree of management flexibility as a result of the dissolution of the alliance with Goodyear. Meanwhile, we will promote sales of Falken and Sumitomo brand tires at the Australian sales company that began operations in March 2015. In addition, we will promote the offering of products that meet tighter environmental regulations according to regional requirements in the global markets.

In terms of development, we will promote the practical production of “ENASAVE 100,” the world’s first mass-produced tire made entirely of 100% fossil resource-free materials, which won the 2014 Energy Conservation Prize, Agency for Natural Resources and Energy Director-General’s award and the Keidanren Chairman’s Prize at the 24th Global Environmental Awards; a concept tire featuring Wear-Resistant Max Tread Rubber using our ADVANCED 4D NANO DESIGN New Materials Development Technology that enables significant improvements in inherently contrary tire performance traits such as fuel efficiency, wet grip and wear resistance, of which we completed the development in October 2015 and launched at the 44th Tokyo Motor Show 2015; “GYROBLADE” airless tire technology that prevents flat tires from occurring; and “CORESEAL” tire sealant technology that prevents air leakage. Through these efforts, we will continue to launch attractive products using our original advanced technologies.

In terms of production, we will increase our production capacity to meet growing sales in the global market. Furthermore, we will make investments to increase capacity of the Buffalo plant in the U.S., which became the Company’s base in October 2015, and the South African factory, in addition to the Turkish factory, which started operations in June 2015 as an important location for supplying tires to the European, Russian, Middle East and African markets, and will continue to ensure optimum supply-demand conditions for sustainable growth.

### **Sports Business**

For golf equipment, we will continue to win the top share in the domestic market by promoting sales of our flagship golf club “XXIO 9,” as well as the SRIXON and Cleveland Golf brands. For golf balls, we will progressively introduce new products including the premium “XXIO UX-AERO.” In overseas markets as well, we will continue to engage in sales expansion of the XXIO and SRIXON golf clubs and increase the share of SRIXON golf balls.

For tennis equipment, we will aggressively launch new tennis rackets of the SRIXON “REVO CV” series in Japan while focusing on expanding sales of tennis balls. For the wellness business, we will expand the opening of new compact gyms.

### **Industrial and Other Products Business**

In the business fields of precision rubber parts for printers and photocopiers and vibration control dampers, we will cultivate new markets globally, and work to ensure the stable supply and sales expansion of products that can achieve a high reputation for their safety and quality in the global market. For the medical rubber parts, we will pursue global business development centering on Europe. For artificial turf for sports facilities, we will strive to expand sales of “Hibrid-Turf EVO.,” which was launched in December 2015. We will continue to develop and supply high-value-added products in terms of quality and function of all products to seek further business growth.

## **4. Basic Approach to the Selection of Accounting Standards**

The Group plans to voluntarily apply International Financial Reporting Standards (IFRS) from the fiscal year 2016 ended consolidated financial results for the fiscal year ending December 31, 2016, with a view to enhancing the international comparability of financial statements in capital markets and improving the quality of business management of the Group companies.

5. Consolidated Financial Statements  
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	54,476	53,569
Notes and accounts receivable-trade	*4 210,027	*4 189,888
Merchandise and finished goods	87,901	91,689
Work in process	6,240	6,938
Raw materials and supplies	47,902	48,553
Deferred tax assets	11,950	10,122
Other	23,820	34,719
Allowance for doubtful accounts	(2,020)	(2,070)
Total current assets	440,296	433,408
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	211,688	224,506
Accumulated depreciation	(109,011)	(114,507)
Buildings and structures, net	102,677	109,999
Machinery, equipment and vehicles	518,785	536,335
Accumulated depreciation	(373,070)	(384,808)
Machinery, equipment and vehicles, net	145,715	151,527
Tools, furniture and fixtures	100,818	113,323
Accumulated depreciation	(76,157)	(83,419)
Tools, furniture and fixtures, net	24,661	29,904
Land	37,569	37,479
Leased assets	9,469	10,376
Accumulated depreciation	(4,412)	(4,932)
Leased assets, net	5,057	5,444
Construction in progress	44,276	33,577
Total property, plant and equipment	359,955	367,930
Intangible assets		
Goodwill	10,465	18,251
Trademark right	1,538	1,477
Software	11,775	11,872
Other	6,872	8,017
Total intangible assets	30,650	39,617
Investments and other assets		
Investment securities	*1 81,430	*1 36,976
Long-term loans receivable	1,280	8,063
Deferred tax assets	6,686	6,516
Net defined benefit asset	30,133	24,167
Other	24,082	20,337
Allowance for doubtful accounts	(925)	(860)
Total investments and other assets	142,686	95,199
Total noncurrent assets	533,291	502,746
Total assets	973,587	936,154

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	*4 74,990	*4 73,684
Current portion of bonds	-	10,000
Commercial papers	1,000	12,000
Short-term loans payable	82,008	64,586
Current portion of long-term loans payable	28,812	37,163
Lease obligations	1,644	1,768
Accounts payable - other	*4 57,132	*4 49,437
Income taxes payable	12,714	3,517
Provision for bonuses	4,564	3,974
Provision for directors' bonuses	162	123
Provision for sales returns	2,106	2,062
Provision for sales rebate	555	549
Provision for loss on voluntary recall of products	181	131
Other	26,437	25,176
Total current liabilities	292,305	284,170
Noncurrent liabilities		
Bonds payable	65,000	55,000
Long-term loans payable	113,184	75,657
Lease obligations	4,099	4,458
Deferred tax liabilities	21,981	19,636
Net defined benefit liability	17,018	22,817
Provision for directors' retirement benefits	115	109
Other	12,925	20,539
Total noncurrent liabilities	234,322	198,216
Total liabilities	526,627	482,386
Net assets		
Shareholders' equity		
Capital stock	42,658	42,658
Capital surplus	38,661	38,661
Retained earnings	265,997	301,712
Treasury stock	(559)	(567)
Total shareholders' equity	346,757	382,464
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,246	14,664
Deferred gains or losses on hedges	507	(81)
Foreign currency translation adjustment	62,913	22,422
Remeasurements of defined benefit plans	(11,049)	4,388
Total accumulated other comprehensive income	66,617	41,393
Minority interests	33,586	29,911
Total net assets	446,960	453,768
Total liabilities and net assets	973,587	936,154



(2) Consolidated Statements of Income and Comprehensive Income  
 Consolidated Statements of Income

(Millions of yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Net sales	837,647	848,663
Cost of sales	*2,*6 511,616	*2,*6 523,217
Gross profit	326,031	325,446
Selling, general and administrative expenses	*1,*2 239,780	*1,*2 248,379
Operating income	86,251	77,067
Non-operating income		
Interest income	1,461	1,482
Dividends income	625	874
Equity in earnings of affiliates	4,674	5,562
Gain on valuation of derivatives	3,953	431
Subsidy income	1,598	1,623
Other	2,389	2,148
Total non-operating income	14,700	12,120
Non-operating expenses		
Interest expenses	4,601	3,778
Foreign exchange losses	5,881	4,152
Other	2,501	2,363
Total non-operating expenses	12,983	10,293
Ordinary income	87,968	78,894
Extraordinary income		
Gains on transfer of business, etc. in association with the dissolution of joint ventures	-	*7 158
Gain on sales of investment securities	-	74
Gain on sales of noncurrent assets	*3 232	-
Total extraordinary income	232	232
Extraordinary loss		
Amortization of goodwill	-	*8 3,948
Loss on sales and retirement of noncurrent assets	*4 686	*4 875
Impairment loss	*5 103	*5 374
Total extraordinary losses	789	5,197
Income before income taxes and minority interests	87,411	73,929
Income taxes - current	28,211	15,617
Income taxes - deferred	1,838	2,184
Income taxes	30,049	17,801
Income before minority interests	57,362	56,128
Minority interests in income	4,156	294
Net income	53,206	55,834

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Income before minority interests	57,362	56,128
Other comprehensive income		
Valuation difference on available-for-sale securities	2,709	423
Deferred gains or losses on hedges	342	(588)
Foreign currency translation adjustment	32,071	(33,674)
Remeasurements of defined benefit plans	(596)	626
Share of other comprehensive income of entities accounted for using equity method	4,468	6,756
Total other comprehensive income	38,994	(26,457)
Comprehensive income	96,356	29,671
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	91,078	30,610
Comprehensive income attributable to minority interests	5,278	(939)

(3) Consolidated Statements of Changes in Equity  
For the fiscal year ended December 31, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	42,658	38,661	224,681	(551)	305,449
Cumulative effects of changes in accounting policies					-
Restated balance	42,658	38,661	224,681	(551)	305,449
Changes of items during period					
Dividends of surplus			(11,805)		(11,805)
Net income			53,206		53,206
Purchase of treasury shares				(8)	(8)
Disposal of treasury shares		0		0	0
Change of scope of consolidation			(85)		(85)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	41,316	(8)	41,308
Balance at end of current period	42,658	38,661	265,997	(559)	346,757

	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments in affiliated foreign companies	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	11,521	164	31,677	(18,998)	-	24,364	29,031	358,844
Cumulative effects of changes in accounting policies								-
Restated balance	11,521	164	31,677	(18,998)	-	24,364	29,031	358,844
Changes of items during period								
Dividends of surplus								(11,805)
Net income								53,206
Purchase of treasury shares								(8)
Disposal of treasury shares								0
Change of scope of consolidation								(85)
Net changes of items other than shareholders' equity	2,725	343	31,236	18,998	(11,049)	42,253	4,555	46,808
Total changes of items during period	2,725	343	31,236	18,998	(11,049)	42,253	4,555	88,116
Balance at end of current period	14,246	507	62,913	-	(11,049)	66,617	33,586	446,960

For the fiscal year ended December 31, 2015

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	42,658	38,661	265,997	(559)	346,757
Cumulative effects of changes in accounting policies			(5,570)		(5,570)
Restated balance	42,658	38,661	260,427	(559)	341,187
Changes of items during period					
Dividends of surplus			(14,428)		(14,428)
Net income			55,834		55,834
Purchase of treasury shares				(8)	(8)
Disposal of treasury shares		0		0	0
Change of scope of consolidation			(121)		(121)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	41,285	(8)	41,277
Balance at end of current period	42,658	38,661	301,712	(567)	382,464

	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments in affiliated foreign companies	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	14,246	507	62,913	-	(11,049)	66,617	33,586	446,960
Cumulative effects of changes in accounting policies							(171)	(5,741)
Restated balance	14,246	507	62,913	-	(11,049)	66,617	33,415	441,219
Changes of items during period								
Dividends of surplus								(14,428)
Net income								55,834
Purchase of treasury shares								(8)
Disposal of treasury shares								0
Change of scope of consolidation								(121)
Net changes of items other than shareholders' equity	418	(588)	(40,491)	-	15,437	(25,224)	(3,504)	(28,728)
Total changes of items during period	418	(588)	(40,491)	-	15,437	(25,224)	(3,504)	12,549
Balance at end of current period	14,664	(81)	22,422	-	4,388	41,393	29,911	453,768

## (4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	87,411	73,929
Depreciation	48,204	55,145
Amortization of goodwill	1,366	6,000
Impairment loss	103	374
Share of (profit) loss of entities accounted for using equity method	(4,674)	(5,562)
Interest and dividend income	(2,086)	(2,356)
Interest expenses	4,601	3,778
Loss (gain) on sales and retirement of non-current assets	454	875
Loss (gain) on sales of shares of subsidiaries and associates	-	(4,530)
Loss (gain) on step acquisitions	-	4,423
Decrease (increase) in notes and accounts receivable – trade	(8,025)	17,009
Decrease (increase) in inventories	(4,888)	(9,399)
Increase (decrease) in notes and accounts payable - trade	(3,676)	(11,018)
Increase (decrease) in accounts payable - other	10,361	(2,065)
Decrease (increase) in net defined benefit asset	(609)	(704)
Increase (decrease) in net defined benefit liability	644	678
Other, net	7,079	(5,482)
Subtotal	136,265	121,095
Interest and dividend income received	3,162	2,358
Interest expenses paid	(4,702)	(3,874)
Income taxes paid	(25,784)	(32,584)
Net cash provided by (used in) operating activities	108,941	86,995
Cash flows from investing activities		
Payments into time deposits	(1,992)	(51)
Proceeds from withdrawal of time deposits	1,626	911
Purchase of property, plant and equipment	(61,846)	(57,474)
Purchase of intangible assets	(4,663)	(4,433)
Proceeds from sales of non-current assets	459	968
Purchase of investment securities	(99)	(152)
Proceeds from sales of investment securities	34	81
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4,871)	(18,112)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	2,837
Purchase of shares of subsidiaries and associates	-	(1,714)
Proceeds from sales of shares of subsidiaries and associates	-	45,471
Payments for transfer of business	-	(1,910)
Net decrease (increase) in short-term loans receivable	54	768
Payments of long-term loans receivable	(21)	(94)
Collection of long-term loans receivable	37	42
Other, net	(302)	(129)
Net cash provided by (used in) investing activities	(71,584)	(32,991)

(Millions of yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(10,087)	(6,179)
Proceeds from long-term debt and newly issued bonds	50,182	955
Repayments of long-term debt and redemption of bonds	(57,404)	(29,289)
Proceeds from share issuance to minority shareholders	1,961	3,717
Cash dividends paid	(11,805)	(14,428)
Cash dividends paid to minority shareholders	(3,571)	(3,385)
Net decrease (increase) in treasury shares	(8)	(8)
Other, net	(1,775)	(1,937)
Net cash provided by (used in) financing activities	(32,507)	(50,554)
Effect of exchange rate change on cash and cash equivalents	4,269	(3,581)
Net increase (decrease) in cash and cash equivalents	9,119	(131)
Cash and cash equivalents	42,004	53,584
Increase in cash and cash equivalents due to change in reporting entities	2,461	68
Cash and cash equivalents	53,584	53,521

(5) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Basis of Presentation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 77 companies

Names of major consolidated subsidiaries are omitted, as they are disclosed in 2. Status of the Business Group.

In association with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company, the Company additionally acquired 75% of shares of Goodyear Dunlop Tires North America, Ltd., the Company's former affiliate accounted for using the equity method. Consequently, Goodyear Dunlop Tires North America, Ltd. was excluded from the scope of application of the equity method and included in the scope of consolidation. Moreover, Goodyear Japan Ltd., the Company's former consolidated subsidiary, was excluded from the scope of consolidation as the Company sold all its shares held.

Lonstroff Holding AG and its wholly owned subsidiary Lonstroff AG were included in the scope of consolidation following the acquisition of Lonstroff Holding AG.

Dunlop Sports Plaza Co., Ltd. was merged into Dunlop Sports Wellness Co., Ltd., and excluded from the scope of consolidation.

Srixon Sports (Thailand) Co., Ltd., the operations of which became significant, was included in the scope of consolidation.

(2) Major unconsolidated subsidiaries

Major unconsolidated subsidiaries:

Suzhou Nakata Engineering, Ltd.                      Floor tech Co., Ltd.

(Reason for exclusion from consolidation)

None of the unconsolidated subsidiaries' aggregate total assets, net sales, net income for the period (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., had a material impact on the consolidated financial statements.

2. Disclosure about application of the equity method

(1) Number of unconsolidated subsidiaries accounted for using the equity method: 1 companies

Major companies

Dunlop Motorcycle Corporation

In association with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company, Tohoku GY Co., Ltd. and GY Tires Kita Kanto Co., Ltd. were excluded from the scope of application of the equity method.

(2) Number of affiliates accounted for using the equity method: 8 companies

Major companies

Sumitomo Electric Tochigi Co., Ltd.                      Naigai Rubber Co., Ltd.

In association with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company, Goodyear Dunlop Tires North America, Ltd. was excluded from the scope of application of the equity method and included in the scope of consolidation. Additionally, Goodyear Dunlop Tires Europe B.V. was excluded from the scope of application of the equity method as the Company sold all of its shares. Goodyear-SRI Global Purchasing Company and Goodyear-SRI Global Technology LLC were excluded from the scope of application of the equity method, due to the commencement of liquidation procedures.

(3) Unconsolidated subsidiaries (SRI With Co., Ltd. and other companies) and affiliates (Evermore Engineering Corporation and other companies) are excluded from the scope of application of the equity method because they had only a minimal impact on the consolidated financial statements from the viewpoint of net income for the period (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., even when they are excluded from the scope of application of the equity method and have little importance as a whole.

(4) With regard to equity-method companies with a balance sheet date that is different from the consolidated balance sheet date, the financial statements for the most recent fiscal years of the respective equity-method companies have been incorporated.

(5) Treatment of differences in investment amount

With respect to differences in investment amount generated as a result of application of the equity method, the differences for which the cause is clear are treated appropriately according to the content, and the differences for which the amount is insignificant are amortized entirely in the period in which they arose.

### 3. Disclosure about fiscal years, etc., of consolidated subsidiaries

For the consolidated subsidiaries with a balance sheet date that is different from the consolidated balance sheet, accounts settled tentatively as of the consolidated balance sheet are incorporated into the consolidated financial statements of the Company.

### 4. Disclosure of accounting policies

(1) Accounting policy for measuring significant assets

(i) Securities

Other securities:

With market value:

Securities with market value are stated at fair market value, based on the market price, etc., as of the balance sheet date (with unrealized gains or losses included as a component of net assets, and the cost of securities sold is determined on the gross average method.)

Without market value:

Securities with no market value are stated at cost determined mainly by the gross average method.

(ii) Derivatives

Derivatives are stated at fair market value.

(iii) Inventories

Inventories are stated at cost determined mainly by the gross average method. (The value stated on the balance sheet is calculated by devaluating the book value based on the reduction in profitability.)

(2) Accounting policy for depreciation of significant assets

(i) Property, plant and equipment (excluding lease assets)

Straight-line method

The major useful lives are as follows:

Buildings and structures: 3 to 60 years

Machinery, equipment and vehicles: 1 to 30 years

Tools, furniture and fixtures: 1 to 20 years

(ii) Intangible assets (excluding lease assets):

Straight-line method

For software for internal use, the straight-line method is adopted based on the anticipated useful term (5 years).

(iii) Lease assets

Finance leases that transfer ownership are depreciated in the same manner as owned noncurrent assets.

Finance leases that do not transfer title are accounted for as purchase and sale transactions and are



depreciated by the straight-line method, in which it is assumed that the useful life is the lease period and the residual value of the relevant asset at the end of the lease period is zero.

Finance lease transactions that were executed on or before December 31, 2008, and which do not involve a transfer of ownership are accounted for using the same method as that used for operating leases.

(3) Accounting policy for significant deferred assets

Bond issuance cost

All expenses are charged to income on cash basis.

(4) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To allow for loss from bad debts, general loans are recorded in the amount calculated by a doubtful accounts ratio, and for certain loans such as loans that are anticipated to be unrecoverable, the anticipated unrecoverable amounts after considering the possibility of collecting on each loan are recorded.

(ii) Provision for bonuses

To allow for regular payments of bonuses to employees, the estimated amount payable for the consolidated fiscal year under review is recorded.

(iii) Provision for directors' bonuses

To allow for the payment of bonuses to officers, the estimated amount payable for the consolidated fiscal year under review is recorded.

(iv) Provision for directors' retirement benefits

To allow for the payment of retirement benefits to directors and statutory auditors of certain consolidated subsidiaries, the amount that the subsidiaries would be required to pay at the balance sheet date based on their internal rules is recorded.

(v) Provision for sales returns

To allow for losses from returns of snow tires, the provision is made based on an estimated amount using the average rate of such returns in prior years.

(vi) Provision for sales rebate

In some consolidated subsidiaries, to allow for sales discount anticipated in the future in sale of products, an anticipated amount is recorded.

(vii) Provision for loss on voluntary recall of products

To allow for direct recalling expenses and related expenses for voluntarily recalling products, an amount reasonably estimated to be incurred after the current period is recorded.

(5) Accounting for retirement benefits

(i) Method of attributing the expected benefit to periods

In calculating retirement benefit obligation, the benefit formula basis is adopted as the method of attributing the expected benefit to periods until the end of the fiscal year under review.

(ii) Method of amortization of actuarial differences and prior service costs

Prior service costs are amortized on a straight-line basis over a fixed number of years (mainly 15 years) within the average remaining service period of employees when they are incurred. Actuarial differences are amortized on a straight-line basis, beginning from the following fiscal year after they are incurred, over a fixed number of years (10 and 15 years) within the average remaining service period of employees when the differences occur.

(iii) Adoption of the simplified method for small-sized companies, etc.

Some consolidated subsidiaries adopt the simplified method, which regards the retirement benefit

amount required to pay by themselves at the year-end as benefit obligation for calculating defined benefit liability and retirement and pension costs benefit costs.

(6) Conversion of significant foreign currency denominated assets and liabilities into Japanese yen

Foreign currency receivables and payables are translated into Japanese yen at the spot exchange rates at the balance sheet date, and resulting exchange gains and losses are included in the consolidated statements of income.

The asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the year-end spot exchange rates. The income and expense accounts of foreign subsidiaries and affiliates are translated at the average rates of exchange prevailing during the year and resulting exchange gains and losses are included in the foreign currency translation adjustment and minority interests under net assets.

(7) Accounting policy for hedging

(i) Method of hedge accounting

Deferred hedge accounting is adopted.

For foreign exchange forward contracts that fulfill the requirements for the allocation method, the allocation method is adopted. For interest rate swap contracts that fulfill the requirements for special exceptions, special exceptions are adopted. For interest rate and currency swap contracts that fulfill the requirements for the integration method (special exceptions and allocation method), the integration method is adopted.

(ii) Hedging instruments and hedged items

Hedging instruments: Foreign exchange forward contracts, interest rate swaps, and interest rate and currency swaps

Hedged items: Accounts receivable and payable in foreign currencies, forecast transactions in foreign currencies, loans payable with variable interest rates

(iii) Hedging policy

The Company and its consolidated subsidiaries use financial instruments to hedge market and interest rate fluctuation risks in accordance with their internal policies and procedures.

(iv) Method for assessing hedge effectiveness

The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing the cumulative changes in fair value or the cumulative changes in cash flow on hedging instruments with those of the related hedged items from the commencement of the hedge until the time of evaluating its effectiveness.

(8) Accounting policy for goodwill

Goodwill is equally amortized over a period within 20 years on and after the date the goodwill arose, through estimating the period for which it is in effect. Goodwill of which the amount is insignificant is entirely amortized in the year when it was generated.

(9) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash on hand, readily available deposits and any short-term liquid investments with a maturity not exceeding three months at the time of purchase for which the value is not subject to significant fluctuation risks.

(10) Other important matters for preparation of the consolidated financial statements

(i) Accounting policy for consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(ii) Adoption of the consolidated taxation system

The Company and its consolidated subsidiaries adopt the consolidated taxation system.

#### (Changes in Accounting Policies)

Effective from the consolidated fiscal year under review, the Company has applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012, hereinafter the “Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015, hereinafter the “Guidance”) with respect to the provisions stated in the main clause of Article 35 of the Accounting Standard and the main clause of Article 67 of the Guidance, whereby the method of calculating retirement benefit obligations and service cost has been reviewed, and the method of attributing expected retirement benefit to periods has been changed from the straight-line basis to benefit formula basis, while the method of determining discount rates has been changed to the method using a single-weighted average discount rate reflecting the period up to the expected timing of retirement benefits payment, as well as the amount of retirement benefits payment for each period.

For the application of the Accounting Standard and other standards, in accordance with the transitional treatment stipulated by Article 37 of the Accounting Standard, effect of the change in the method of calculating retirement benefit obligation and service cost is reflected to retained earnings at the beginning of the consolidated fiscal year under review.

As a result, net defined benefit liability increased ¥1,110 million, net defined benefit asset (including “Other” of Investments and other assets) decreased ¥7,777 million, and retained earnings decreased ¥5,570 million at the beginning of the consolidated fiscal year under review. The impact on operating income, ordinary income and income before income taxes and minority interests in the fiscal year under review was immaterial.

#### (Unapplied Accounting Standards)

- “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013)
- “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013)
- “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013)
- “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, September 13, 2013)
- “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013)
- “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, September 13, 2013)

#### 1. Summary

With regard to the additional acquisition, etc. of shares of subsidiaries, the accounting standards related to the accounting treatment of changes in the parent company’s ownership interests in a subsidiary that do not result in a loss of control, the accounting treatment of acquisition-related costs, change in the presentation of net income and change from minority interests to non-controlling interests, and the finalization of related provisional accounting treatments have been revised.

#### 2. Scheduled date of application

The revisions will be applied effective from the beginning of the fiscal year ending December 31, 2016.

The accounting standards related to the finalization of related provisional accounting treatments will be applied for the business combinations that are implemented on and after January 1, 2016.

#### 3. Impact of application

The impact of applying the Accounting Standard for Business Combinations, etc. on the Company’s consolidated financial statements has not been determined at this time.

(Changes in Presentation)

(Consolidated statements of Cash Flows)

“Amortization of goodwill,” which was included in “Other” under “Cash flows from operating activities” for the previous consolidated fiscal year, was increased quantitative materiality and was separated stated in the fiscal year under review. “Increased (decreased) in allowance for doubtful accounts” was decreased quantitative materiality and are included within “Other” for the current consolidated fiscal year.

To reflect this change, reclassification of the relevant accounts was conducted in the consolidated statements of income for the previous fiscal year.

As a result, “Increased (decreased) in allowance for doubtful accounts” under “Cash flows from operating activities” which was stated as ¥81million and ”other” which was stated as ¥8,526 million are reclassified into “Amortization of goodwill” ¥1,336 million, ”Other” ¥7,079 million.

(Notes on Consolidated Balance Sheets)

\*1. Investments in unconsolidated subsidiaries and affiliates are as follows.

	As of December 31, 2014	As of December 31, 2015
	Millions of yen	Millions of yen
Investment securities (stocks)	49,139	5,048

2. Guarantee of obligations

Guarantee of obligations is provided for the following bank loans.

	As of December 31, 2014	As of December 31, 2015
	Millions of yen	Millions of yen
Employees (housing loans), etc.	24	9
Cleveland Golf Korea Co. Ltd.	406	393
Total	430	402

3. Discounts on notes receivable

	As of December 31, 2014	As of December 31, 2015
	Millions of yen	Millions of yen
Notes receivable-trade discounted	1,073	1,036

\*4. Accounting for notes and accounts receivable and payable that matured at the fiscal year-end

As the fiscal year-end fell on a bank holiday, the following notes and accounts receivable and payable for which the date of clearance or settlement coincided with the fiscal year-end were accounted for when they were actually cleared or settled.

	As of December 31, 2014	As of December 31, 2015
	Millions of yen	Millions of yen
Notes receivable - trade	1,931	1,593
Notes and accounts payable - trade	6,935	5,931
Accounts payable - other	2,372	2,262

(Notes on Consolidated Statements of Income)

\*1. The major components of selling, general and administrative expenses are as follows.

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
	Millions of yen	Millions of yen
Promotion expenses	53,052	52,446
Advertising and promotion expenses	32,653	33,066
Transportation and warehousing expenses	41,480	42,526
Provision of allowance for doubtful accounts	214	194
Personnel expenses	55,982	59,535
Provision for bonuses	1,755	1,810
Provision for directors' bonuses	163	208
Retirement benefit expenses	1,892	1,830

\*2. The following research-and-development expenses are included in general and administrative expenses and manufacturing costs for the year under review.

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
	Millions of yen	Millions of yen
	23,543	23,372

\*3. The major components of gain on sales of noncurrent assets are as follows.

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
	Millions of yen	Millions of yen
Machinery, equipment and vehicles	135	-
Land	71	-

\*4. The major components of loss on sales of noncurrent assets are as follows.

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
	Millions of yen	Millions of yen
Buildings and structures	230	85
Machinery, equipment and vehicles	276	237
Tools, furniture and fixtures	126	206
Construction in progress	-	281

\*5. Impairment loss

Impairment losses were recognized for the following asset groups.

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

Group	Location	Type of assets	Amount of impairment loss (Millions of yen)
Idle assets	Izumiotu-shi, Osaka Pref., etc.	Land and building, etc.	103

The Company and its consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties, unused idle assets and assets to be disposed of as decided by the Board of the Directors are tested for recoverability on an individual basis.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because the fair value of assets in certain idle asset groups declined substantially; the book values of certain assets for which market prices have considerably declined along with the drop in land prices decreased; and the Company decided to dispose of certain assets. The recognized impairment losses for the year ended December 31, 2014, consist of ¥93 million for land, ¥9 million for buildings and ¥1 million for other assets.

The recoverable amount of these asset groups was measured at their net realizable value. The recoverable amount for machinery and others for which the selling price was difficult to calculate was measured at the memorandum value. The recoverable amount for land and buildings was measured based on the publicly assessed fixed property tax value of the land and buildings.

For the fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

Group	Location	Type of assets	Amount of impairment loss (Millions of yen)
Assets for rent	Aomori-shi, Aomori Pref.	Land and building, etc.	54
Idle assets	Chiba-shi, Chiba Pref., etc.	Land	291
-	Thailand	Goodwill	29

The Company and its consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties, unused idle assets and assets to be disposed of as decided by the Board of the Directors are tested for recoverability on an individual basis.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because the fair value of assets in certain idle asset groups declined substantially; the book values of certain assets for which market prices have considerably declined along with the drop in land prices decreased; and the Company decided to dispose of certain assets. The recognized impairment losses for the year ended December 31, 2014, consist of ¥93 million for land, ¥9 million for buildings and ¥1 million for other assets.

Additionally, full amount of goodwill was recognized under impairment loss, as Srixon Sports (Thailand) Co., Ltd., the Company's consolidated subsidiary, could no longer expect to achieve the initially-projected level of income.

The recoverable amount of these asset groups less goodwill was measured at their net realizable value or value in use. In the case of net realizable value, the recoverable amount for land and buildings was measured based on the publicly assessed fixed property tax value of the land and buildings. In the case of value in use, The recoverable amount for Land and building was measured at use value based on the present value of the expected cash flow using a discount rate of 8.2%.

\*6. The year-end balance of inventories is stated by devaluating book value based on the reduction in profitability. Therefore, the following (gain) loss on valuation of inventories is included in cost of sales.

For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Millions of yen (32)	Millions of yen (192)

\*7. Gains on transfer of business, etc. in association with the dissolution of joint ventures

The Company completed the entire procedure for the dissolution of the alliance and joint ventures with The Goodyear Tire & Rubber Company on October 1, 2015, and recorded gains on transfer of business, etc. in association with the dissolution of joint ventures as extraordinary income for the consolidated fiscal year under review, the details of which are as follows.

	(Millions of yen)
Gain on sales of shares of subsidiaries and associates	4,530
Loss on step acquisitions	(4,423)
Gain on negative goodwill	93
Other	42
Total	158

\*8. Amortization of goodwill

The Company recognized a one-time amortization of goodwill for Roger Cleveland Golf Company, Inc., the Company's consolidated subsidiary, in accordance with the provisions of Article 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (The Japanese Institute of Certified Public Accountants (JICPA) Accounting Practice Committee Report No. 7, last revised on November 28, 2014).

(Business Combination)

1. Business combination by means of acquisition by consolidated subsidiary

(1) Overview of the business combination

(i) Name of acquiring company/ Name and business of acquired company

Name of acquiring company : SRI America, Inc. (wholly owned consolidated subsidiary of the Company)

Name of acquired company : Goodyear Dunlop Tires North America, Ltd.

Main business : Manufacturing and sale of tires in North America

(ii) Purpose of business combination

Enhancing competitiveness by promoting Dunlop-brand original equipment tires sales for vehicles and motorcycles manufactured by Japanese automakers in the North American region, and also by securing the Company's own regional bases for production, research and development, etc.

(iii) Date of the business combination

October 1, 2015

(iv) Legal form of business combination

Acquisition of shares in exchange for cash payment

(v) Name of acquired company after business combination

Goodyear Dunlop Tires North America, Ltd.

(Company name is scheduled to be changed to Sumitomo Rubber USA, LLC during fiscal 2016)

(vi) Ratio of voting rights acquired

Voting right ratio before acquisition : 30% (equity interest ratio: 25%)

Voting right ratio after acquisition : 100% (equity interest ratio: 100%)

(vii) Main basis behind the determination of the acquiring company

The Company acquired all shares of Goodyear Dunlop Tires North America, Ltd., and acquired 100% portion of voting rights.

(viii) Other matters concerning the summary of transactions

The Company additionally acquired 75% of shares of Goodyear Dunlop Tires North America, Ltd., and 25% of its shares are held by SRI USA, Inc., the Company's consolidated subsidiary. Consequently, the Group's ratio of voting rights in Goodyear Dunlop Tires North America, Ltd. accounts for 100%.

(2) Period for which the operating results of the acquired company are included in the Company's consolidated financial statements

From October 1, 2015 to December 31, 2015.

(3) Acquisition cost and its details

(Millions of yen)

Market value at the time of business combination of shares held in Goodyear Dunlop Tires North America, Ltd. immediately before the business combination	11,699
Market value of shares of Goodyear Dunlop Tires North America, Ltd. additionally acquired on the date of the business combination	14,979
<hr/> Total	<hr/> 26,678

(4) Difference between the acquisition cost of the acquired company and the total acquisition cost of individual transactions leading to the acquisition

Loss on step acquisitions ¥4,423 million



(5) Amount of goodwill recognized, reason for recognition, amortization method and amortization period

(i) Amount of goodwill recognized

¥5,472 million

(ii) Reason for recognition

Future business activities are expected to generate excess profitability.

(iii) Amortization method and amortization period

Equal amortization over 7 years

(6) Amount and breakdown of the assets acquired and the liabilities assumed at the acquisition date

	(Millions of yen)
Current assets	17,890
Noncurrent assets	33,770
<u>Total assets</u>	<u>51,660</u>

	(Millions of yen)
Current liabilities	16,987
Long-term liabilities	13,467
<u>Total liabilities</u>	<u>30,454</u>

(7) The amounts allocated to intangible assets other than goodwill and breakdown and amortization period by type

Were as follows: Customer-related assets    ¥3,739 million  
amortization period : 15 years

(8) Estimated impact on consolidated financial results if the business combination had been completed at the beginning of fiscal 2015

Net Sales	¥500 billion
Net income	¥40 billion

(Method of Calculating the Estimated Amount)

Based on the assumption that the business combination had been completed at the beginning of the fiscal year, the difference between the equity in earnings or losses of affiliates accumulated up to the account for the third quarter of fiscal 2015, and the amount of net sales and the profit and loss information in the statements of income of the acquired company, is deemed as the estimated amount of the impact.

This note has not received an audit certification.

## 2. Transactions under common control

(1) Summary of the transaction

(i) Name of concerned company/ Name and business of concerned company

Name of the concerned company            : Dunlop Goodyear Tires Ltd.

Main business                                 : Sales of original equipment tires in Japan

(ii) Date of the business combination

October 1, 2015

(iii) Legal form of business combination

Acquisition of shares in exchange for cash payment

(iv) Name of concerned company after business combination

Dunlop Goodyear Tires Ltd. (Scheduled to be merged by the Company by an absorption-type merger and to

be dissolved as of January 1, 2016)

(v) Other matters concerning the summary of transactions

The Company additionally acquired 25% of shares of Dunlop Goodyear Tires Ltd., and it became a wholly owned consolidated subsidiary of the Company.

(2) Summary of the accounting treatment

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008), the Company plans to treat the transaction under common control transactions.

(3) Additionally acquired shares of a subsidiary

(i) Acquisition cost and its details

	(Millions of yen)
Acquisition price	1,679
Expenses related to the acquisition	35
Total	1,714

(ii) The amount of gain on negative goodwill and the reason for its occurrence

a. Amount of gain on negative goodwill: ¥93 million

b. Reason for the occurrence of gain on negative goodwill:

Due to the difference between the acquisition cost of the additionally acquired shares of a subsidiary and the decreased amount in minority interests in connection with said additional acquisition.





















