

11-Year Summary of Consolidated Financial Data

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen			
Years ended December 31	2012	2011	2010	2009
For the year:				
Net sales	¥710,247	¥676,904	¥604,549	¥524,535
Cost of sales	450,226	445,426	387,678	334,249
Selling, general and administrative expenses	190,298	177,554	169,300	161,547
Operating income	69,723	53,924	47,571	28,739
Net income	35,451	28,386	21,427	9,093
Depreciation and amortization	36,278	37,606	37,885	37,425
Capital expenditures	56,889	48,515	32,055	32,484
R&D expenses	19,539	19,274	18,698	17,983
Cash flows from operating activities	76,643	18,945	69,725	64,525
Cash flows from investing activities	(62,167)	(51,569)	(35,400)	(34,260)
Cash flows from financing activities	(15,835)	28,009	(25,634)	(22,781)
At year-end:				
Total assets	¥737,528	¥671,611	¥622,243	¥613,230
Net assets	271,103	222,175	212,964	209,052
Equity	244,165	197,661	189,684	187,028
Interest-bearing debt	275,876	274,216	241,250	261,572
Yen				
Per share amounts:				
Net income	¥ 135.13	¥ 108.20	¥ 81.67	¥ 34.66
Net income—diluted	—	—	—	—
Cash dividends paid	30.00	23.00	20.00	18.00
Percent				
Key ratios and metrics:				
Operating income ratio	9.8%	8.0%	7.9%	5.5%
ROE	16.0	14.7	11.4	4.9
ROA (operating income base)	9.9	8.3	7.7	4.6
Equity ratio	33.1	29.4	30.5	30.5
Tire sales volume (millions of tires)	96.48	94.88	90.87	76.49
Number of employees	23,507	22,320	22,242	20,832
Number of shares issued at year-end	263,043,057	263,043,057	263,043,057	263,043,057
Number of treasury stock at year-end	710,059	707,026	704,248	699,745

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥87 per US\$1.00, the approximate exchange rate prevailing at December 31, 2012.

2. From 2006, Sumitomo Rubber has applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, issued on December 9, 2005) and the "Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" (ASBJ Guidance No. 8, issued on December 9, 2005).

Equity figures for 2006 and beyond represent the sum of total shareholders' equity and total accumulated other comprehensive income in the consolidated balance sheets. For years prior to and including 2005, figures for the former shareholders' equity categorization are shown.

3. Depreciation and amortization, and capital expenditure figures include both tangible assets and intangible assets.

Millions of yen							Thousands of U.S. dollars (Note 1)
2008	2007	2006	2005	2004	2003	2002	2012
¥604,974	¥567,307	¥534,086	¥512,838	¥470,562	¥450,491	¥447,893	\$8,163,759
412,824	368,783	342,856	307,538	288,684	281,392	286,755	5,175,012
166,491	153,398	154,440	155,374	136,352	131,333	129,394	2,187,333
25,659	45,126	36,790	49,926	45,526	37,766	31,744	801,414
1,021	19,499	27,586	25,640	19,169	13,095	8,239	407,483
35,475	30,165	27,052	25,755	25,098	24,313	25,163	416,989
49,601	53,205	45,308	40,415	36,881	29,171	30,557	653,897
19,351	18,223	17,291	16,259	15,730	14,058	13,596	224,586
25,879	56,594	23,872	38,984	32,056	44,225	50,700	880,954
(58,067)	(65,167)	(33,923)	(42,878)	(37,622)	(28,545)	(31,269)	(714,563)
34,088	8,692	14,687	(3,376)	7,609	(20,821)	(19,628)	(182,011)
¥639,941	¥671,117	¥606,938	¥563,442	¥520,157	¥481,553	¥477,293	\$8,477,333
202,642	250,799	223,852	—	—	—	—	3,116,126
180,940	227,780	202,003	174,267	145,492	110,395	101,633	2,806,494
275,746	239,573	219,372	205,751	201,929	210,681	220,085	3,170,988
							U.S. dollars (Note 1)
¥ 3.89	¥ 74.31	¥ 105.13	¥ 97.10	¥ 78.64	¥ 55.07	¥ 33.97	\$ 1.553
—	—	—	—	—	—	—	—
18.00	20.00	20.00	20.00	14.00	12.00	10.00	0.345
							Percent
4.2%	8.0%	6.9%	9.7%	9.7%	8.4%	7.1%	
0.5	9.1	14.7	16.0	15.0	12.4	7.9	
3.9	7.1	6.3	9.2	9.1	7.9	6.4	
28.3	33.9	33.3	30.9	28.0	22.9	21.3	
87.34	81.70	75.55	73.12	67.10	61.69	58.30	
20,369	18,410	16,031	17,433	16,737	15,573	15,312	
263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	242,543,057	242,543,057	
696,200	688,541	658,071	634,805	467,371	3,782,837	135,780	

Management's Discussion and Analysis

Scope of Consolidation

The Sumitomo Rubber Group's consolidated financial statements include those of Sumitomo Rubber Industries and its 65 consolidated subsidiaries as well as 14 equity-method affiliates (5 nonconsolidated subsidiaries and 9 affiliated companies).

In fiscal 2012, ended December 31, 2012, two subsidiaries were newly included in the Company's scope of consolidation while two others were excluded. The two newly included subsidiaries are a tire production company in Brazil and a sports goods sales company in the Republic of South Africa. Their newfound status as consolidated subsidiaries is due to their increased importance to the Group. The two newly excluded companies are a domestic sports goods sales company, which was dissolved when it merged into another Group subsidiary, and a golf course operation company whose stocks were transferred.

Business Environment

During fiscal 2012, although gradual economic recovery was seen in the United States, anxiety about financial problems in certain European countries continued worldwide while the pace of economic growth in emerging countries, primarily in Asia, slowed. Reflecting these conditions, a prevailing sense of overall economic deterioration emerged. In Japan, despite firm private-sector consumption, industrial production weakened as a result of such factors as prolonged European economic stagnation, contributing to ongoing economic uncertainty.

Despite the above trends, the business environment surrounding the Group picked up along with recovery in automobile production, which had declined following the Great East Japan Earthquake, and relatively stable market prices for natural rubber. Nevertheless, overall operating conditions remained sluggish due to weak demand in Japan and overseas because of global economic deterioration.

Revenues and Earnings

In fiscal 2012, consolidated net sales grew 4.9% from the previous fiscal year to ¥710,247 million. Overseas sales edged up 0.1% to ¥336,532 million and the overseas sales ratio decreased 2.2 percentage points to 47.4%.

The cost of sales increased 1.1% year on year to ¥450,226 million. The cost of sales ratio improved, decreasing 2.4 percentage points year

on year to 63.4% owing to the relatively stable market price of natural rubber. Gross profit rose 12.3% to ¥260,021 million.

Selling, general and administrative expenses grew 7.2% year on year to ¥190,298 million. This was mainly attributable to increases in incentive bonuses, commission fees, advertising costs and other expenses associated with sales expansion measures as well as rising personnel costs. The ratio of selling, general and administrative expenses to net sales edged up 0.6 of a percentage point to 26.8%.

As a result, operating income for the fiscal year under review climbed 29.3% to ¥69,723 million and the operating income ratio rose 1.8 percentage points to 9.8%.

Net other income (expenses) improved from a negative ¥10,145 million in fiscal 2011 to a negative ¥5,661 million. Major factors contributing to the improvement included the absence of a ¥4,697 million loss on disaster recorded in the previous fiscal year and an improvement in foreign exchange gains and losses, resulting in gains of ¥947 million in the fiscal year under review that contrasted with losses of ¥2,239 million in fiscal 2011. However, the Company recorded equity in losses of affiliates totaling ¥1,091 million while such equity had yielded earnings of ¥2,311 million in the previous fiscal year. Also, impairment loss on fixed assets increased ¥1,575 million year on year.

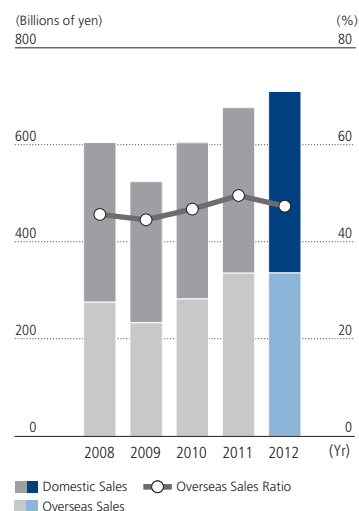
Reflecting these factors, income before income taxes and minority interests grew 46.3% year on year to ¥64,062 million. Income taxes rose 101.2% to ¥24,122 million, representing an effective tax rate of 37.7%, an increase of 10.3 percentage points. After deducting minority interests in income, net income expanded 24.9% to ¥35,451 million. Net income per share was ¥135.13, and ROE (on a net income basis) grew 1.3 percentage points to 16.0%, reflecting a substantial increase in net income.

Results by Industry Segment

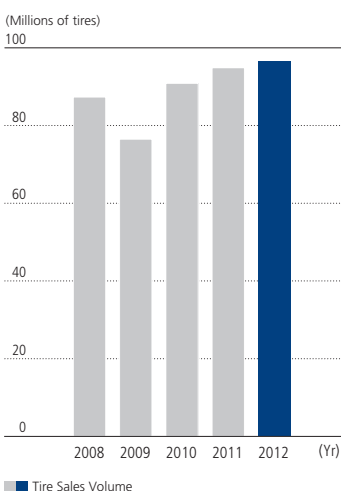
Tire Business

Sales in the Tire business increased 4.8% year on year to ¥619,361 million, while operating income grew 29.2% to ¥63,090 million. During the fiscal year under review, the Group's constant efforts to shift the burden of rising raw material costs to sales prices proved effective and were helped by a reversal in the upward trajectory of raw material sales. This turnaround in raw material prices contributed to an approximately

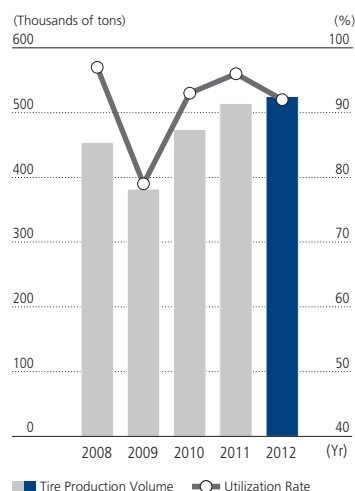
Domestic and Overseas Sales



Tire Sales Volume



Tire Production Volume and Utilization Rate



¥18.4 billion year-on-year increase in profit and the revision of sales prices further boosted profit about ¥11.8 billion. In addition, the Group took various steps aimed at improving profitability, including expanding sales of such high-value-added products as fuel-efficient tires; reinforcing production capacity at overseas factories; and implementing Groupwide productivity enhancement and cost reduction efforts. These steps, in turn, led to an overall increase in profit for the Tire business.

Sports Business

Sales in the Sports business grew 5.1% year on year to ¥61,346 million, while operating income rose 22.7% to ¥4,465 million. Despite the stagnant domestic golf goods market, XXIO 7 golf clubs, the seventh-generation in the mainstay XXIO series, performed favorably, leading to increase in profit.

Industrial and Other Products Business

Sales in the Industrial and Other Products business grew 7.4% from the previous fiscal year to ¥29,539 million, while operating income surged 46.5% to ¥2,139 million. The growth in profit was attributable to the release of the MIRAIE earthquake vibration-control damper for wooden houses as well as the favorable sales of such products as medical rubber parts, architectural floor materials, artificial turf for sports facilities and rubber gloves.

R&D Expenses

Research and development expenses increased 1.4% year on year to ¥19,539 million. The ratio of such expenses to consolidated net sales remained unchanged year on year at 2.8%. The Tire business accounted for ¥17,034 million of these expenses, up 1.6% from the previous fiscal year, the Sports business ¥1,155 million, down 7.4%, and the Industrial and Other Products business ¥1,350 million, up 7.6%.

Dividends

Sumitomo Rubber Industries 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 retained earnings, the Company maintains a basic policy of steadily rewarding shareholders over the long term. In addition, in accordance with a resolution the Company distributes retained earnings twice a year as dividends. The year-end dividend payment is resolved at the General Shareholders' meeting, while the interim dividend payment is determined at the Board of Directors' meeting.

The full-year dividend for fiscal 2012 increased ¥7 per share from the previous fiscal year to ¥30 per share, which comprised a ¥10 interim dividend and a ¥20 year-end dividend. The dividend payout ratio on a consolidated basis was 22.2%.

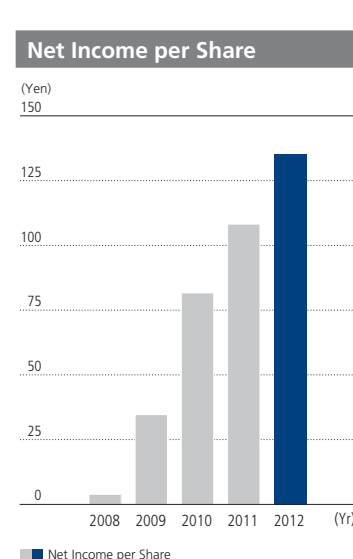
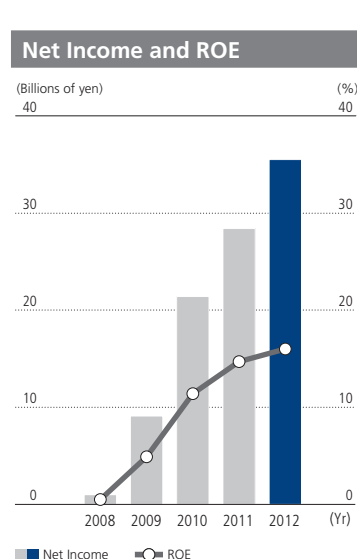
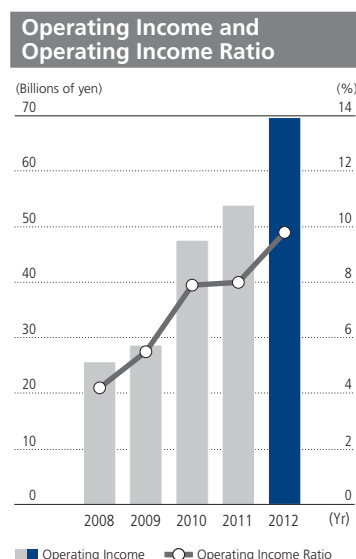
Financial Position

Total assets as of December 31, 2012, were up ¥65,917 million year on year to ¥737,528 million. Total current assets rose ¥30,747 million to ¥356,175 million. This was due mainly to an increase in notes and accounts receivable accompanying the growth in domestic sales of winter tires and an increase in inventories, reflecting growth in product stockpiles in Europe and the United States.

Total noncurrent assets climbed ¥35,170 million to ¥381,353 million, mainly reflecting an increase in property, plant and equipment through capital investment.

As of the end of the fiscal year under review, total liabilities were up ¥16,989 million from the previous fiscal year-end to ¥466,425 million. Interest-bearing debt as of the fiscal 2012 year-end increased ¥1,660 million to ¥275,876 million, reflecting the issuance of commercial paper and other measures implemented to procure funds, regardless of the efforts to repay borrowings. However, the debt-to-equity ratio improved from 1.4 times as of the previous fiscal year-end to 1.1 times.

Total net assets at the fiscal year-end were up ¥48,928 million to ¥271,103 million, and net assets per share were ¥930.74, up from ¥753.46 at the previous fiscal year-end. Of the items comprising net assets, total equity, which is the sum of shareholders' equity and accumulated other comprehensive income, grew ¥46,504 million year on year to ¥244,165 million. The equity ratio was up 3.7 percentage points to 33.1%. ROA (on an operating income basis) increased 1.6 percentage points to 9.9% due to a substantial increase in operating income.



Capital Expenditures

During the fiscal year under review, the Group's capital expenditures amounted to ¥56,889 million (including leased tangible assets), a year-on-year rise of 17.3%.

The Tire business accounted for ¥53,941 million of the total, up 17.8% year on year. Funds were used mainly for facility renovation at domestic factories aimed at the streamlining of production with an eye to improving labor and production efficiency as well as for the reinforcement of production facilities at a factory in Thailand and factory construction projects in China and Brazil.

The Sports business spent ¥2,074 million, up 6.3% from the previous fiscal year, mainly for the streamlining of production facilities and manufacture of metal molds for new products at domestic factories as well as for the reinforcement of production facilities at overseas factories.

The Industrial and Other Products business used ¥874 million, up 11.3% year on year, to increase the medical rubber parts production capacity of the Kakogawa Factory. The necessary funds were furnished through a combination of cash on hand, borrowings and corporate bonds.

Cash Flows

Net cash provided by operating activities was up ¥57,698 million year on year to ¥76,643 million. Major cash inflows included income before income taxes and minority interests as well as depreciation and amortization. Major cash outflows included an increase in notes and accounts receivable—trade and a decrease in notes and accounts payable—trade.

Net cash used in investing activities increased ¥10,598 million to ¥62,167 million, due mainly to the purchase of property, plant and equipment to meet the production capacity expansion.

Net cash used in financing activities totaled ¥15,835 million, a turnaround from net cash provided by financing activities of ¥28,009 million in the previous fiscal year. This mainly comprised the payment of cash dividends and a net outflow of ¥6,435 million from the repayment of short-term loans and long-term debt and the redemption of corporate bonds.

These activities, along with the effect of exchange rate changes on cash and cash equivalents as well as changes in reporting entities, resulted in cash and cash equivalents at the end of the fiscal year under review rising ¥4,365 million to ¥32,876 million.

Free cash flow was a positive balance of ¥14,476 million. This was mainly owing to the recording of income before income taxes and minority interests and a decrease in inventories accompanying the decline in raw materials prices.

For the years ahead, the Sumitomo Rubber Group plans to step up capital expenditure, mainly to meet expanding demand overseas by reinforcing production capacity. Simultaneously, the Group will aim to expand the inflow of cash from operating activities by increasing sales volumes and improving profitability. By doing so, the Group will make every effort to ensure not only business growth but secure cash liquidity and improved financial standing.

Outlook

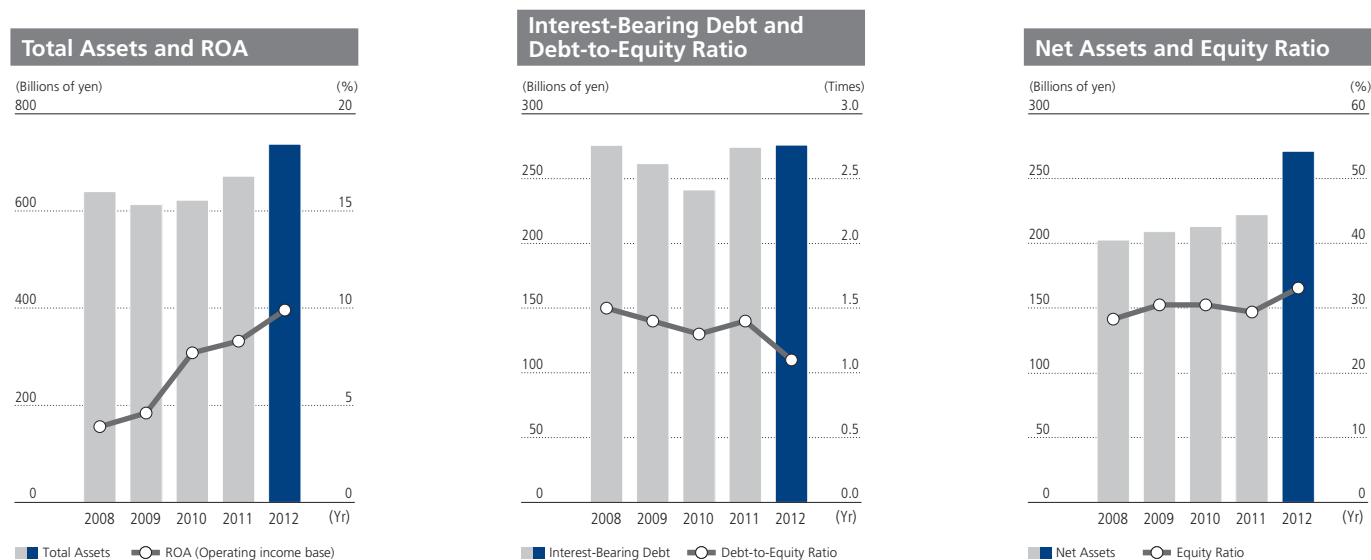
Looking toward the future of economies worldwide, emerging nations like China are likely to continue to see steady growth. However, financial uncertainties in some European countries are expected to undermine the global economy.

As for the Japanese economy's prospects, although a series of government-led economic policies is expected to take effect, it will take time for a positive growth cycle that can affect domestic economy as a whole to take root.

With the aim of addressing issues related to this severe business environment, the Group will take on various tasks while considering the risk factors mentioned in the following "Risk Information" section.

In the Tire business, Sumitomo Rubber Industries will further enhance its domestic lineup of fuel-efficient tires while striving to introduce new items across all product categories. Overseas, the Company will seek to expand sales in emerging countries, where demand is robust, and plans to introduce tires compliant with widely anticipated environmental regulations as they come into effect in countries worldwide. In addition, the Company will increase production capacity in response to the expansion of markets worldwide and develop a supply structure to support sustainable business growth.

In the Sports business, the business environment will remain severe due to ongoing market shrinkage with regard to golf and tennis equipment and the further intensification of competition overseas. Amid this environment, Dunlop Sports will accelerate its business growth by working to



expand global operations, focusing mainly on golf goods. In the Industrial and Other Products business, Sumitomo Rubber Industries will strive to expand sales of medical rubber parts and MIRAIE earthquake vibration-control dampers for wooden houses.

Risk Information

The Sumitomo Rubber 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.

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 47.4% in fiscal 2012, the possibility exists that its results may be further affected by exchange rate fluctuations. The Sumitomo Rubber 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.

Change in Raw Material Prices

The Sumitomo Rubber 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.

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.

Product Quality

In accordance with prescribed quality standards, the Sumitomo Rubber 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.

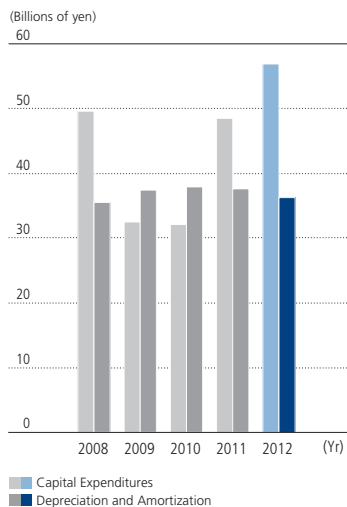
Alliance with Goodyear

Based on its alliance with Goodyear, the Group operates several joint ventures. Under the alliance, these joint ventures engage in tire production and sales in Europe and North America as well as tire sales in Japan in addition to the promotion of tire technology exchanges and procurement. The Group also maintains cross-shareholdings with Goodyear. As each joint venture is included in the Group’s scope of consolidation as a consolidated subsidiary or an equity-method affiliate, changes in the alliance with Goodyear or the operating results of joint ventures may impact the Group’s operating results.

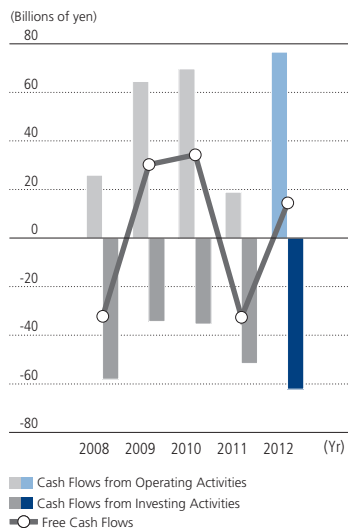
Disasters

Concentrating on Japan and other Asian countries, the Sumitomo Rubber 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.

Capital Expenditures/ Depreciation and Amortization



Cash Flows



Consolidated Balance Sheets

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

December 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Assets			
Current assets:			
Cash and time deposits (Note 4)	¥ 33,514	¥ 29,192	\$ 385,218
Notes and accounts receivable (Note 5)—			
Trade	161,747	149,217	1,859,161
Nonconsolidated subsidiaries and affiliates	1,179	1,008	13,552
Other	21,679	17,872	249,184
Allowance for doubtful accounts	(1,540)	(1,760)	(17,701)
Inventories (Note 6)	122,909	115,523	1,412,747
Short-term loans	100	163	1,149
Deferred tax assets (Note 13)	12,652	11,057	145,425
Other	3,935	3,156	45,230
Total current assets	356,175	325,428	4,093,965
Investments and other assets:			
Investments in securities (Notes 5 and 7)	17,108	14,045	196,644
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	30,798	37,661	354,000
Long-term loans			
Nonconsolidated subsidiaries and affiliates	2,771	2,796	31,851
Other	282	306	3,241
Deferred tax assets (Note 13)	6,473	6,214	74,402
Long-term prepaid expenses	2,170	2,289	24,943
Trademarks (Note 10)	387	414	4,448
Goodwill and other intangible assets	18,731	17,801	215,299
Prepaid pension cost (Note 14)	21,817	23,071	250,770
Other	10,981	9,751	126,217
Allowance for doubtful accounts	(990)	(1,140)	(11,379)
Total investments and other assets	110,528	113,208	1,270,436
Property, plant and equipment (Note 9):			
Land	36,707	36,475	421,920
Buildings and structures	167,296	152,366	1,922,943
Machinery and equipment	499,208	459,691	5,738,023
Leased assets	6,768	5,317	77,793
Construction in progress	29,000	22,518	333,333
Accumulated depreciation	(468,154)	(443,392)	(5,381,080)
Net property, plant and equipment	270,825	232,975	3,112,932
Total assets	¥737,528	¥671,611	\$8,477,333

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings (Notes 5 and 11)	¥ 71,385	¥ 77,615	\$ 820,517
Current portion of long-term debt (Notes 5 and 11)	25,519	20,541	293,322
Notes and accounts payable (Note 5)—			
Trade	71,940	76,509	826,897
Nonconsolidated subsidiaries and affiliates	867	913	9,966
Construction	10,164	9,710	116,828
Other	32,938	29,611	378,598
Accrued expenses	15,967	13,404	183,529
Allowance for sales returns	2,608	2,373	29,977
Accrued income taxes (Note 13)	15,642	5,308	179,793
Other (Note 13)	5,642	6,152	64,850
Total current liabilities	252,672	242,136	2,904,277
Long-term liabilities:			
Long-term debt (Notes 5 and 11)	178,972	176,060	2,057,149
Deferred tax liabilities (Note 13)	10,267	8,295	118,011
Accrued retirement benefits (Note 14)	12,778	12,149	146,874
Other	11,736	10,796	134,896
Total long-term liabilities	213,753	207,300	2,456,930
Contingent liabilities (Note 19)			
Net Assets			
Shareholders' equity:			
Common stock—			
Authorized: 800,000,000			
Issued: 263,043,057 shares in 2012 and 2011	42,658	42,658	490,322
Capital surplus	38,661	38,661	444,379
Retained earnings	188,700	159,827	2,168,966
Less treasury stock, at cost—			
2012—710,059 shares			
2011—707,026 shares	(543)	(540)	(6,241)
Total shareholders' equity	269,476	240,606	3,097,426
Accumulated other comprehensive income:			
Net unrealized gains and losses on available-for-sale securities	4,737	2,816	54,448
Deferred gains and losses on hedges	158	(30)	1,816
Currency translation adjustments	(8,736)	(29,761)	(100,414)
Adjustments for retirement obligation of foreign affiliates	(21,470)	(15,970)	(246,782)
Total accumulated other comprehensive income	(25,311)	(42,945)	(290,932)
Minority interests	26,938	24,514	309,632
Total net assets	271,103	222,175	3,116,126
Total liabilities and net assets	¥737,528	¥671,611	\$8,477,333

Consolidated Statements of Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	2012	2011	2012
Net sales	¥710,247	¥676,904	\$8,163,759
Cost of sales	450,226	445,426	5,175,012
Gross profit	260,021	231,478	2,988,747
Selling, general and administrative expenses	190,298	177,554	2,187,333
Operating income	69,723	53,924	801,414
Other income (expenses):			
Interest and dividends income	1,169	793	13,437
Interest expense	(4,644)	(4,788)	(53,379)
Loss on sales and retirement of noncurrent assets	(867)	(914)	(9,966)
Foreign exchange gains and losses	947	(2,239)	10,885
Equity in earnings and losses of affiliates	(1,091)	2,311	(12,540)
Impairment loss (Note 21)	(1,738)	(163)	(19,977)
Loss on disaster (Note 16)	—	(4,697)	—
Other, net	563	(448)	6,471
	(5,661)	(10,145)	(65,069)
Income before income taxes and minority interests	64,062	43,779	736,345
Income taxes (Note 13):			
Current	25,071	12,882	288,172
Deferred	(949)	(892)	(10,908)
	24,122	11,990	277,264
Income before minority interests	39,940	31,789	459,081
Minority interests in income	(4,489)	(3,403)	(51,598)
Net income	¥ 35,451	¥ 28,386	\$ 407,483
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥135.13	¥108.20	\$1.553
Cash dividends paid	30.00	23.00	0.345

Consolidated Statements of Comprehensive Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	2012	2011	2012
Income before minority interests	¥39,940	¥31,789	\$459,081
Other comprehensive income (Note 12):			
Net unrealized gains and losses on available-for-sale securities	1,944	(616)	22,345
Deferred gains and losses on hedges	188	108	2,161
Currency translation adjustments	18,573	(6,021)	213,483
Adjustments for retirement obligation of foreign affiliates	(15)	(35)	(173)
Share of other comprehensive income of affiliates under the equity method	(2,041)	(1,363)	(23,460)
	18,649	(7,927)	214,356
Comprehensive income	¥58,589	¥23,862	\$673,437
Comprehensive income attributed to:			
Owners of the Company	¥53,085	¥20,893	\$610,172
Minority interests	5,504	2,969	63,265

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Minority interests	Total net assets
Balance at beginning of fiscal 2011	¥42,658	¥38,661	¥127,595	¥(537)	¥3,421	¥(137)	¥(21,977)	¥ —	¥23,280	¥212,964
Effect of change in accounting policies of foreign affiliates			(7,561)							(7,561)
Transfer to adjustments for retirement obligation of foreign affiliates			16,759					(16,759)		—
Disposal of treasury stock		0		0						0
Dividends from surplus			(5,247)							(5,247)
Net income			28,386							28,386
Purchase of treasury stock				(3)						(3)
Effect of change in reporting entities			(10)							(10)
Other			(95)		(605)	107	(7,784)	789	1,234	(6,354)
Balance at end of fiscal 2011	¥42,658	¥38,661	¥159,827	¥(540)	¥2,816	¥ (30)	¥(29,761)	¥(15,970)	¥24,514	¥222,175

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Minority interests	Total net assets
Balance at beginning of fiscal 2012	¥42,658	¥38,661	¥159,827	¥(540)	¥2,816	¥ (30)	¥(29,761)	¥(15,970)	¥24,514	¥222,175
Disposal of treasury stock		0		0						0
Dividends from surplus			(6,558)							(6,558)
Net income			35,451							35,451
Purchase of treasury stock				(3)						(3)
Effect of change in reporting entities			(49)							(49)
Other			29		1,921	188	21,025	(5,500)	2,424	20,087
Balance at end of fiscal 2012	¥42,658	¥38,661	¥188,700	¥(543)	¥4,737	¥158	¥ (8,736)	¥(21,470)	¥26,938	¥271,103

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Minority interests	Total net assets
Balance at beginning of fiscal 2012	\$490,322	\$444,379	\$1,837,092	\$(6,207)	\$32,368	\$ (345)	\$(342,080)	\$(183,563)	\$281,770	\$2,553,736
Disposal of treasury stock		0		0						0
Dividends from surplus			(75,379)							(75,379)
Net income			407,483							407,483
Purchase of treasury stock				(34)						(34)
Effect of change in reporting entities			(563)							(563)
Other			333		22,080	2,161	241,666	(63,219)	27,862	230,883
Balance at end of fiscal 2012	\$490,322	\$444,379	\$2,168,966	\$(6,241)	\$54,448	\$1,816	\$(100,414)	\$(246,782)	\$309,632	\$3,116,126

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥64,062	¥43,779	\$ 736,345
Depreciation and amortization	36,278	37,606	416,989
Impairment loss	1,738	163	19,977
Loss (gain) on sales and retirement of noncurrent assets	867	774	9,966
Loss (gain) on sales of stocks of subsidiaries and affiliates	901	—	10,356
Equity in earnings and losses of affiliates	1,091	(2,311)	12,540
Increase (decrease) in allowance for doubtful accounts	(286)	195	(3,287)
Increase (decrease) in provision for retirement benefits	295	268	3,391
(Increase) decrease in prepaid pension costs	1,254	938	14,414
Interest and dividends income	(1,169)	(793)	(13,437)
Interest expense	4,644	4,788	53,379
(Increase) decrease in notes and accounts receivable—trade	(7,196)	(21,803)	(82,713)
(Increase) decrease in inventories	657	(32,928)	7,552
Increase (decrease) in notes and accounts payable—trade	(6,327)	5,100	(72,724)
Increase (decrease) in accounts payable—other	1,061	2,927	12,195
Other, net	(3,312)	693	(38,070)
Subtotal	94,558	39,396	1,086,873
Interest and dividend income received	1,446	798	16,621
Interest expense paid	(4,388)	(4,689)	(50,437)
Income taxes paid	(14,973)	(16,560)	(172,103)
Net cash provided by (used in) operating activities	76,643	18,945	880,954
Cash flows from investing activities:			
Payments into time deposits	(1,157)	(734)	(13,299)
Proceeds from withdrawal from time deposits	1,265	1,297	14,540
Purchase of property, plant and equipment	(55,398)	(43,781)	(636,759)
Purchase of intangible assets	(3,525)	(4,226)	(40,517)
Proceeds from sales of noncurrent assets	341	543	3,920
Purchase of investments in subsidiaries	(2,828)	(367)	(32,506)
Purchase of treasury stock of subsidiaries in consolidation	(502)	—	(5,770)
Purchase of investment securities	(15)	(151)	(172)
Proceeds from sales of investment securities	139	43	1,598
Purchase of stocks of subsidiaries and affiliates	(507)	(4,440)	(5,828)
Net (increase) decrease in short-term loans receivable	(29)	142	(333)
Payments of long-term loans receivable	(47)	(87)	(540)
Collection of long-term loans receivable	65	80	747
Other, net	31	112	356
Net cash provided by (used in) investing activities	(62,167)	(51,569)	(714,563)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(9,337)	27,148	(107,322)
Proceeds from long-term debt and newly issued bonds	22,415	43,869	257,644
Repayments of long-term debt and redemption of bonds	(19,513)	(35,718)	(224,287)
Proceeds from issuance of stock to minority shareholders	—	193	—
Cash dividends paid	(6,558)	(5,247)	(75,379)
Cash dividends paid to minority shareholders	(1,614)	(1,451)	(18,552)
Net (increase) decrease in treasury stock	(3)	(3)	(34)
Other, net	(1,225)	(782)	(14,081)
Net cash provided by (used in) financing activities	(15,835)	28,009	(182,011)
Effect of exchange rate change on cash and cash equivalents	2,629	(1,211)	30,218
Net increase (decrease) in cash and cash equivalents	1,270	(5,826)	14,598
Cash and cash equivalents at beginning of period	28,511	34,157	327,713
Increase (decrease) in cash and cash equivalents due to change in reporting entities	3,095	180	35,574
Cash and cash equivalents at end of period (Note 4)	¥32,876	¥28,511	\$ 377,885

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries
December 31, 2012 and 2011

1. Major Policies Applied in Preparing Consolidated Financial Statements

The accompanying consolidated financial statements are a translation of the financial statements publicly issued in Japan and have been modified to enhance foreign readers' understanding. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In addition, the notes to the consolidated financial statements include financial information that is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts appearing in the consolidated financial statements are included solely for convenience. These U.S. dollar translations should not be construed as representations that the Japanese yen amounts actually represent U.S. dollars or have been or could be converted into U.S. dollars. The rate of ¥87=U.S.\$1.00, the approximate rate prevailing at December 31, 2012, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

2. Significant Accounting Policies

(1) Consolidation and accounting for investments in affiliates

The consolidated financial statements consist of the accounts of Sumitomo Rubber Industries, Ltd. (the "Company") and, with minor exceptions, those of its majority-owned subsidiaries at the relevant balance sheet dates. All significant intercompany transactions and accounts are eliminated in consolidation. Investments in unconsolidated subsidiaries and affiliates (companies in which the Company has a 20% to 50% ownership interest) are, with minor exceptions, accounted for on an equity basis. Using an equity basis, investments are stated at cost plus/minus the Company's equity in undistributed earnings or losses. Consolidated net income includes the Company's equity in current earnings or losses of such companies after the elimination of unrealized intercompany profits.

SRI Sports Limited and Dunlop Sports Co., Ltd changed their names to DUNLOP SPORTS CO. LTD. and DUNLOP SPORTS MARKETING CO. LTD., respectively. Dunlop Sports Hokkaido Co., Ltd., which was treated as a consolidated subsidiary in 2011, was merged into DUNLOP SPORTS MARKETING CO. LTD. (former Dunlop Sports Co., Ltd) and excluded from consolidation in fiscal 2012. DUNLOP SPORTS CO. LTD. (former SRI Sports Limited), a subsidiary of the Company, sold all its stocks in The Oaklet Golf Club Co., Ltd. and was excluded from consolidation in fiscal 2012. SUMITOMO RUBBER DO BRASIL LTDA. and Srixon Sports South Africa (PTY) Ltd., whose operations became significant in fiscal 2012, were included in consolidation in fiscal 2012.

All consolidated subsidiaries were consolidated using the same fiscal period as that of the Company.

If there is a change in the reporting entity, the consolidated financial statements are not restated. The effect of the change is directly debited or credited to retained earnings during the period.

The positive differences between the cost of and the underlying net equity in investments in consolidated subsidiaries and affiliates accounted for on an equity basis are recognized as goodwill when those companies are initially included in consolidation or accounted for by the equity method. Generally, a negative difference generated on or before March 31, 2010 and goodwill are amortized using the straight-line method within 20 years. Minor goodwill and negative differences generated after March 31, 2010 are charged or credited to cost or income.

(2) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities of three months or less are considered to be cash and cash equivalents.

(3) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at rates prevailing at the balance sheet date, and the resulting translation gains and losses are charged to income to the extent that they are not hedged by forward exchange contracts.

In preparing the accompanying consolidated financial statements, the asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at year-end exchange rates, and shareholders' equity is translated at historical exchange rates. Revenue and expense accounts of foreign subsidiaries and affiliates are translated at the average rates of exchange prevailing during the year. The resulting translation adjustments are shown as a component of net assets.

(4) Marketable securities and investments in securities

Securities classified as available-for-sale securities are stated at fair market value with unrealized gains and losses, net of applicable taxes, recorded as a component of net assets. Securities with no fair market value are stated at cost. If securities decline in value significantly and the decline is not considered recoverable, the value of the securities is reduced to net realizable value by charges to income. The cost of securities sold is determined based on the average cost of all the shares of securities held at the time of sale.

(5) Derivative financial instruments and hedging

The Company and its consolidated subsidiaries use derivative financial instruments, which include foreign exchange forward contracts, currency swap contracts and interest rate swap contracts, in order to offset risks associated with fluctuations in currency exchange rates and interest rates with respect to financial assets and liabilities in accordance with internal policies and procedures.

a. Hedge accounting

The Company and its consolidated subsidiaries have adopted a method for hedging instruments that defers the recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

All derivatives are stated at fair value. However, when foreign exchange forward contracts meet certain conditions, accounts receivable and accounts payable covered by these contracts are translated using the contract rate. In addition, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged item.

Hedging instruments and hedged items are summarized as follows:

Hedging instruments	Hedged items
Foreign exchange forward contracts	Accounts receivable and accounts payable in foreign currencies and forecasted transactions
Interest rate swap contracts	Short-term borrowings and long-term debt

b. 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.

c. 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.

(6) Inventories

Inventories are mainly stated at the lower of average cost or market.

(7) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts principally at an amount based on the historical bad debt ratio during certain reference periods plus the estimated uncollectible amount of certain individual accounts.

(8) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method. The estimated useful life of assets from the major classes of depreciable assets ranges from 3 to 60 years for buildings and structures and from 1 to 20 years for machinery and equipment.

Changes in accounting policy

The Company and its consolidated subsidiaries principally used the straight-line method for depreciation of property, plant and equipment, while the Company's head office, Nagoya Factory, Kakogawa Factory and some of its domestic consolidated subsidiaries used the declining-balance method.

In fiscal 2012, the Company's head office, Nagoya Factory, Kakogawa Factory and some of its domestic consolidated subsidiaries changed the depreciation method to the straight-line method, aiming at the unification of accounting policies for Sumitomo Rubber Group companies in response to global expansion. The effect of this change was to increase operating income by ¥3,638 million (\$41,816 thousand), and income before income taxes and minority interests by ¥3,695 million (\$42,471 thousand).

The effect on segments is described in Note 17. Segment Information.

Changes in accounting estimate

In fiscal 2012, the Company and some of its consolidated subsidiaries changed the useful life of some of property, plant and equipment. The effect of this change was to increase operating income and income before income taxes and minority interests by ¥1,149 million (\$13,207 thousand).

The effect on segments is described in Note 17. Segment Information.

(9) Accounting for leases

Finance leases which transfer ownership are depreciated in the same manner as owned fixed assets. Finance leases which 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 that the residual value of the relevant asset at the end of the lease period is zero. Finance lease transactions which 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.

(10) Intangible assets

Intangible assets are stated at cost, less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the asset.

(11) Research and development expenses

Research and development expenses are charged to income when incurred.

(12) Allowance for sales returns

An allowance for sales returns is provided for losses incurred on the return of snow tires sold during the fiscal year but returned subsequent to the balance sheet date. The allowance is based on an estimate using the average rate of such returns in prior years.

(13) Allowance for loss on voluntary recall of products

To provide for direct and indirect expenses arising from the voluntarily recall of products, an amount is provided based upon the loss incurred in the current period and the loss that can be reasonably estimated to be incurred after the current period is recorded.

(14) Accrued retirement benefits

Liabilities and expenses for retirement and severance benefits are accounted for based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. Accrued retirement benefits for directors and statutory auditors of certain

consolidated subsidiaries, which are included in other long-term liabilities, are recorded at an amount equivalent to 100% of such benefits that the subsidiaries would be required to pay at the balance sheet date based on their internal rules. Payments of benefits are subject to resolution at the General Meeting of Shareholders meeting.

(15) Income taxes

The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes that, in the case of costs and expenses, are not currently tax deductible and, in the case of income, are not currently taxable. The Company and its consolidated subsidiaries have adopted interperiod income tax allocation using the asset/liability method of accounting with respect to all such temporary differences, including tax loss carryforwards.

(16) Per share amounts

Net income per share is computed based on the average number of shares outstanding during each period. Diluted net income per share is not presented because there were no outstanding common stock equivalents as of December 31, 2012 or December 31, 2011.

(17) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the accompanying consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(18) Unapplied accounting standards

Effective from the consolidated fiscal year beginning January 1, 2014, the Company and its domestic consolidated subsidiaries will apply "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012). The effects of applying these accounting standards are currently under examination.

3. Supplementary Information

Effective from the year ended December 31, 2012, the Company and its consolidated subsidiaries have applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009).

4. Cash Flow Information

Reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows are as follows:

		Millions of yen	Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥33,514	¥29,192	\$385,218
Time deposits with a maturity of over three months	(638)	(681)	(7,333)
Cash and cash equivalents	¥32,876	¥28,511	\$377,885

5. Financial Instruments

a) Qualitative information on financial instruments

(1) Policies for using financial instruments

The Company and its consolidated subsidiaries raise capital for investment in equipment and for operating capital mainly through bank loans and bond issuances based on cash flow planning. Temporary excess cash is managed with low-risk financial assets. The Company and its consolidated subsidiaries utilize derivative transactions only to hedge risks of future changes in cash flows and fair values and not for speculative purposes.

(2) Financial instruments and exposure to risk

Trade notes and accounts receivable are exposed to the credit risks of customers. However, the Company and its consolidated subsidiaries seek to reduce the risk through the implementation of rules for credit controls. Operating receivables denominated in foreign currencies are exposed to foreign exchange risk, but the risks are hedged using forward exchange contracts, etc., for the net position of foreign currency operating payables and foreign currency debt. Investment securities are mainly held to build and maintain good customer relationships. The Company and its consolidated subsidiaries periodically review the circumstances under which such securities are held and evaluate the fair value of the securities and/or the financial condition of the issuers, which are generally business counterparties.

The main purpose of holding debt and issuing bonds is to secure financing for equipment and operating capital. The derivative transactions entered into comprise forward exchange contracts to hedge exchange risks of foreign currency debts and credit, currency swap contracts and interest swap contracts to hedge the fluctuation risks associated with interest rates for and fair values of debt and bonds. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

b) Fair value of financial instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet at December 31, 2012 and 2011 were as set forth in the table below. Financial instruments whose fair values were hard to determine were not included in the table.

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Trade notes and accounts receivable	¥ 162,926	¥ 162,926	¥ —	\$ 1,872,713	\$ 1,872,713	\$ —
Investments in securities	16,780	16,780	—	192,874	192,874	—
Total assets	¥ 179,706	¥ 179,706	¥ —	\$ 2,065,587	\$ 2,065,587	\$ —
Trade notes and accounts payable	¥ (72,807)	¥ (72,807)	¥ —	\$ (836,863)	\$ (836,863)	\$ —
Short-term borrowings	(71,385)	(71,385)	—	(820,517)	(820,517)	—
Accrued accounts payable	(42,243)	(42,243)	—	(485,552)	(485,552)	—
Bonds	(75,000)	(77,708)	(2,708)	(862,069)	(893,195)	(31,126)
Long-term debt	(124,255)	(124,975)	(720)	(1,428,218)	(1,436,494)	(8,276)
Total liabilities	¥(385,690)	¥(389,118)	¥(3,428)	\$(4,433,219)	\$(4,472,621)	\$(39,402)
Derivative transactions						
Contracts for which hedge accounting was not adopted	¥ 648	¥ 648	¥ —	\$ 7,448	\$ 7,448	\$ —
Contracts for which hedge accounting was adopted	255	255	—	2,931	2,931	—

	Millions of yen		
	2011		
	Carrying amount	Fair value	Difference
Trade notes and accounts receivable	¥ 150,225	¥ 150,225	¥ —
Investments in securities	13,715	13,715	—
Total assets	¥ 163,940	¥ 163,940	¥ —
Trade notes and accounts payable	¥ (77,422)	¥ (77,422)	¥ —
Short-term borrowings	(77,615)	(77,615)	—
Accrued accounts payable	(37,398)	(37,398)	—
Bonds	(75,000)	(77,561)	(2,561)
Long-term debt	(117,017)	(118,463)	(1,446)
Total liabilities	¥(384,452)	¥(388,459)	¥(4,007)
Derivative transactions			
Contracts for which hedge accounting was not adopted	¥ (23)	¥ (23)	¥ —
Contracts for which hedge accounting was adopted	(41)	(41)	—

(1) Valuation approach for the fair value of financial instruments

Trade notes and accounts receivable:

The carrying amount approximates fair value because of the short maturity.

Investments in securities:

The carrying amount is only for listed stock that has quoted market value and is stated at fair market value.

Trade notes and accounts payable:

The carrying amount approximates fair value because of the short maturity.

Short-term borrowings:

The carrying amount approximates fair value because of the short maturity.

Accrued accounts payable:

The carrying amount approximates fair value because of the short maturity.

Bonds and long-term debt:

For items with floating rates, the fair value is based on the book value since the market interest rate is reflected in a short period. For items with fixed rates, the fair value is based on the present value with interest discounted based on the interest rate for similar instruments. For long-term borrowings used in interest rate swaps in which the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed, fair value is based on the present value with interest discounted based on the interest rate for similar instruments and are processed as a unit using the rate set by the interest rate swap.

Derivative transactions:

See Note 8. Derivative Financial Instruments.

(2) Financial instruments whose fair value is difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unlisted securities (available-for-sale securities)	¥ 328	¥ 330	\$ 3,770
Unlisted investments in affiliates	30,798	37,661	354,000

The above financial instruments do not have quoted market values and their future cash flows cannot be estimated. Because the fair value is difficult to determine, these instruments are not included in "Investments in securities."

6. Inventories

Inventories as of December 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods	¥ 78,808	¥ 68,633	\$ 905,839
Work-in-process	5,181	5,446	59,552
Raw materials	32,136	35,641	369,379
Supplies	6,784	5,803	77,977
	¥122,909	¥115,523	\$1,412,747

7. Investments in Securities

As of December 31, 2012 and 2011, cost, book value and related unrealized gains and losses pertaining to marketable equity securities classified as available-for-sale securities with readily determinable fair values were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Available-for-sale securities:			
Cost	¥ 9,544	¥ 9,562	\$109,701
Book value	16,780	13,715	192,874
Unrealized gains	7,821	5,019	89,897
Unrealized losses	(585)	(866)	(6,724)

8. Derivative Financial Instruments

Fair value information regarding derivative financial instruments as of December 31, 2012 and 2011 was as follows:

(a) Derivative transactions for which hedge accounting has not been applied

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Contract amount	Fair value	Unrecognized gain (loss)	Contract amount	Fair value	Unrecognized gain (loss)	Contract amount	Fair value	Unrecognized gain (loss)
Currency related contracts:									
Forward foreign exchange contracts									
To buy foreign currencies	¥ 3,319	¥ 85	¥ 85	¥ 1,989	¥ 2	¥ 2	\$ 38,149	\$ 977	\$ 977
To sell foreign currencies	7,908	(489)	(488)	4,983	52	51	90,897	(5,621)	(5,609)
Currency swap contracts	27,664	1,052	1,212	19,057	(107)	41	317,977	12,092	13,931
			¥ 809			¥ 94			\$ 9,299
Interest rate related contracts:									
Interest rate swap contracts									
Give variable rate, receive fixed rate	—	—	—	4,600	30	(30)	—	—	—
			¥ —			¥(30)			\$ —

(b) Derivative transactions for which hedge accounting has been applied

	Millions of yen				Thousands of U.S. dollars	
	2012		2011		2012	
	Contract amount	Fair value	Contract amount	Fair value	Contract amount	Fair value
Currency related contracts:						
Forward foreign exchange contracts						
Deferred hedges						
To buy foreign currencies	¥ 4,473	¥282	¥ 3,205	¥(41)	\$ 51,414	\$3,241
To sell foreign currencies	1,006	(27)	—	—	11,563	(310)
Designation method for forward foreign exchange contracts, etc.						
To buy foreign currencies	¥ 36	(Note)	¥ 566	(Note)	\$ 414	(Note)
To sell foreign currencies	125	(Note)	71	(Note)	1,437	(Note)
Interest rate related contracts:						
Interest rate swap contracts						
Receive variable rate, give fixed rate	¥32,700	(Note)	¥33,700	(Note)	\$375,862	(Note)

Note: Fair value above is based on prices provided by financial institutions.

The fair value of some derivative financial instruments was included in the fair value of accounts receivable, accounts payable and long-term debt as hedged items because those derivative financial instruments were used to hedge the risk of foreign currency or interest fluctuation and were booked with related accounts receivable, accounts payable and long-term debt as a unit according to Japanese accounting regulations.

9. Property, Plant and Equipment

Depreciation expense for the years ended December 31, 2012 and 2011 was ¥32,156 million (\$369,609 thousand) and ¥33,628 million, respectively.

10. Trademarks

For the years ended December 31, 2012 and 2011, amortization expense for capitalized trademarks was ¥175 million (\$2,011 thousand) and ¥301 million, respectively.

11. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of ¥71,385 million (\$820,517 thousand) and ¥77,615 million as of December 31, 2012 and 2011, respectively, bore interest at rates ranging from 0.006% to 9.00% and from 0.28% to 5.25% per annum, respectively.

For the years ended December 31, 2012 and 2011, finance lease obligations included in short-term borrowings were ¥1,407 million (\$16,172 thousand) and ¥1,028 million, respectively.

Long-term debt as of December 31, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
1.83% unsecured bonds due 2013 payable in Japanese yen	¥ 10,000	¥ 10,000	\$ 114,943
1.84% unsecured bonds due 2014 payable in Japanese yen	10,000	10,000	114,943
1.25% unsecured bonds due 2014 payable in Japanese yen	10,000	10,000	114,943
0.58% unsecured bonds due 2016 payable in Japanese yen	10,000	10,000	114,943
2.19% unsecured bonds due 2017 payable in Japanese yen	5,000	5,000	57,471
2.17% unsecured bonds due 2018 payable in Japanese yen	10,000	10,000	114,943
2.07% unsecured bonds due 2019 payable in Japanese yen	10,000	10,000	114,943
1.38% unsecured bonds due 2021 payable in Japanese yen	10,000	10,000	114,943
Loans payable to banks and other financial institutions due from 2013 to 2021 with interest rates of 0.297% to 5.45% for 2012 and 2011			
Unsecured	124,255	117,017	1,428,215
Finance lease obligations	5,236	4,584	60,184
	¥204,491	¥196,601	\$2,350,471
Less current portion of long-term debt	25,519	20,541	293,322
	¥178,972	¥176,060	\$2,057,149

The aggregate annual maturities of long-term debt as of December 31, 2012 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 25,519	\$ 293,322
2014	56,649	651,138
2015	27,140	311,954
2016	41,733	479,690
2017	16,775	192,816
2018 and thereafter	36,675	421,551
	¥204,491	\$2,350,471

Substantially all loans from banks and other financial institutions are under agreements which provide that under certain conditions a borrower may be required to provide collateral (or additional collateral) or guarantors with respect to the loans and that collateral, whether furnished as security for short-term or long-term loans or otherwise, may be treated by the lender as collateral for all indebtedness to that bank or financial institutions. Default provisions in the agreements grant certain rights of possession to the banks and other financial institutions.

12. Consolidated Statement of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Net unrealized gains and losses on available-for-sale securities		
Increase (decrease) during the year	¥ 3,054	\$ 35,103
Reclassification adjustments	(68)	(781)
Subtotal, before tax	2,986	34,322
Tax effects	(1,042)	(11,977)
Subtotal, net of tax	1,944	22,345
Deferred gains and losses on hedges		
Increase (decrease) during the year	¥ 295	\$ 3,391
Reclassification adjustments	9	103
Subtotal, before tax	304	3,494
Tax effects	(116)	(1,333)
Subtotal, net of tax	188	2,161
Currency translation adjustments		
Increase (decrease) during the year	¥18,624	\$214,069
Reclassification adjustments	—	—
Subtotal, before tax	18,624	214,069
Tax effects	(51)	(586)
Subtotal, net of tax	18,573	213,483
Adjustments for retirement obligation of foreign affiliates		
Increase (decrease) during the year	¥ (23)	\$ (264)
Reclassification adjustments	—	—
Subtotal, before tax	(23)	(264)
Tax effects	8	91
Subtotal, net of tax	(15)	(173)
Share of other comprehensive income of affiliates under the equity method		
Increase (decrease) during the year	¥ (2,441)	\$ (28,057)
Reclassification adjustments	400	4,597
Subtotal, net of tax	(2,041)	(23,460)
Total other comprehensive income	¥18,649	\$214,356

13. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different income taxes in Japan which, in the aggregate, indicate a normal cumulative statutory tax rate of approximately 40.4% for the years ended December 31, 2012 and 2011. Significant differences between the normal cumulative statutory tax rate and the effective tax rate in the consolidated statements of income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Normal cumulative statutory tax rate	40.4%	40.4%
Undistributed benefits of consolidated subsidiaries	1.7	1.8
Effect arising from the change in tax rate	0.8	(0.8)
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	0.7	(2.1)
Expenses not deductible for tax purposes	0.6	0.9
Amortization of goodwill	0.5	0.7
Differences in statutory tax rates of foreign subsidiaries	(5.0)	(6.9)
Valuation allowance	(2.0)	(2.3)
Tax credits for research and development costs	(1.2)	(1.5)
Other	1.2	(2.8)
Effective tax rate for consolidated statements of income	37.7%	27.4%

Significant components of deferred tax assets and liabilities as of December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Unrealized profits	¥ 5,399	¥ 5,178	\$ 62,057
Provision for accrued retirement benefits	3,774	3,249	43,379
Tax loss carryforwards	2,651	3,818	30,471
Loss on impairment of fixed assets	2,439	2,363	28,034
Incentive bonuses	2,087	1,531	23,989
Accrued bonuses	1,240	1,187	14,253
Inventories	1,145	1,105	13,161
Allowance for sales returns	986	959	11,333
Accrued business enterprise tax	924	419	10,621
Advertising	823	920	9,460
Provision for doubtful accounts	655	857	7,529
Loss on impairment of investment securities	502	502	5,770
Depreciation	491	585	5,644
Loss on impairment of golf club memberships	210	269	2,414
Other	4,442	4,522	51,057
Total deferred tax assets	¥ 27,768	¥ 27,464	\$ 319,172
Less valuation allowance	(4,873)	(6,011)	(56,011)
Net deferred tax assets	¥ 22,895	¥ 21,453	\$ 263,161
Deferred tax liabilities:			
Provision for accrued retirement benefits	¥ (3,719)	¥ (4,448)	\$ (42,747)
Undistributed benefits of consolidated subsidiaries	(2,823)	(1,720)	(32,448)
Unrealized gains on available-for-sale securities	(2,477)	(1,438)	(28,471)
Deferred gains on sales of property, plant and equipment	(1,872)	(1,971)	(21,517)
Unrealized gain on land of a consolidated subsidiary	(1,164)	(1,164)	(13,379)
Other	(2,009)	(2,223)	(23,093)
Total deferred tax liabilities	¥(14,064)	¥(12,964)	\$ (161,655)
Deferred tax assets, net	¥ 8,831	¥ 8,489	\$ 101,506

Deferred income taxes, net as of December 31, 2012 and 2011 were included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets—deferred tax assets	¥12,652	¥11,057	\$145,425
Investments and other assets—deferred tax assets	6,473	6,214	74,402
Current liabilities—deferred tax liabilities (current liabilities—other)	(27)	(487)	(310)
Long-term liabilities—deferred tax liabilities	(10,267)	(8,295)	(118,011)

14. Accrued Retirement Benefits

Upon terminating employment, employees of the Company and the domestic consolidated subsidiaries are entitled, under most circumstances, to lump-sum indemnities or pension annuity payments. For an employee who voluntarily retires under normal circumstances, a minimum payment amount is calculated based on the rate of pay at the time of retirement, length of service and conditions under which the employee retires. In calculating the payment amount for an employee who retires involuntarily, including an employee who retires due to reaching the mandatory retirement age, the Company or the domestic consolidated subsidiaries may grant additional benefits.

Most of the foreign subsidiaries have defined benefit pension plans or severance indemnity plans that cover substantially all of their employees and under which the cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on rates of pay at the time of retirement and length of service.

In fiscal 2011, a number of consolidated subsidiaries changed a part of their lump-sum indemnities plans and qualified pension plans to a defined contribution pension plan.

The liability for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of December 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Benefit obligation	¥(51,825)	¥(51,583)	\$(595,690)
Fair value of plan assets	53,998	47,029	620,667
Funded status:			
Benefit obligation in excess of plan assets	2,173	(4,554)	24,977
Unrecognized actuarial differences	7,547	16,258	86,747
Unrecognized prior service cost	(681)	(782)	(7,828)
Subtotal	9,039	10,922	103,896
Prepaid pension cost	21,817	23,071	250,770
Accrued retirement benefits	¥(12,778)	¥(12,149)	\$(146,874)

The Company and certain consolidated subsidiaries abolished the retirement benefit plans for directors and statutory auditors in March 2005. The accrued retirement benefits for directors and statutory auditors amounting to ¥162 million (\$1,862 thousand) and ¥218 million as of December 31, 2012 and 2011, respectively, were excluded from the above table.

Retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥2,439	¥2,409	\$28,034
Interest cost	955	958	10,977
Expected return on plan assets	(843)	(898)	(9,690)
Amortization of actuarial differences	1,384	1,023	15,908
Amortization of prior service cost	(101)	(101)	(1,161)
Severance and retirement benefit expenses	3,834	3,391	44,068
Contributions to the defined contribution pension plan	708	686	8,138
Gain on transition to defined contribution pension plans from a part of their lump-sum indemnities plans and qualified pension plans	—	(103)	—
Net periodic benefit costs	¥4,542	¥3,974	\$52,206

The discount rate used by the Company and the domestic consolidated subsidiaries was mainly 2.0% in 2012 and 2011, and the expected return on plan assets was mainly 2.5% in 2012 and 2011. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial losses are recognized in the statements of income using the straight-line method over a period of mainly 15 years. The amortization periods for prior service cost is mainly 15 years.

15. Research and Development Expenses

Research and development expenses for the years ended December 31, 2012 and 2011 were ¥19,539 million (\$224,586 thousand) and ¥19,274 million, respectively.

16. Loss on Disaster

(1) There are no applicable items as of and for the year ended December 31, 2012.

(2) Details of the loss on disaster attributable to damage caused by the Great East Japan Earthquake that has been accounted for as of and for the year ended December 31, 2011 was as follows:

	Millions of yen
	2011
Restoration expense	¥2,669
Increased logistics cost	536
Fixed costs during the suspension of operations	347
Loss of inventories and other	227
Other	490
Total	¥4,269

* Including a provision for loss on disaster amounting to ¥320 million.

Loss on disaster attributable to damage caused by the eruption of Mount Shinmoe in the Kirishima mountain range that has been accounted for as of and for the year ended December 31, 2011 was ¥428 million.

17. Segment Information

(1) Information by reportable segment

The Company's reportable segments are the units for which separate financial information is available and periodically reviewed by the Board of Directors for the purposes of deciding the allocation of management resources and evaluating business performance. The Company and its subsidiaries have three divisions based on operations in Tires, Sports and Industrial and Other Products. Each division formulates comprehensive strategies for both domestic and overseas markets and develops business activities. Therefore, the Company identifies "Tires," "Sports" and "Industrial and Other Products" as reportable segments.

Operations in the Tires segment involve the production and sale of a wide range of tires for a variety of vehicles such as passenger cars, trucks, buses and motorcycles and applications such as industrial applications. Operations in the Sports segment involve the production and sale of a variety of sporting goods, principally golf balls, golf clubs, golf bags and tennis balls. Operations in the Industrial and Other Products segment involve the production and sale of a variety of rubber and rubber based products, including vibration control products, flooring for gymnasiums, all-weather tennis courts, track and field facilities, marine fenders, precision rubber parts for office machines and blankets for offset printing presses.

The accounting policies of each reportable segment are the same as those described in Note 2.

Figures for reportable segment profit or loss are based on operating income.

Intersegment sales and transfers are stated at wholesale prices based on current market values.

Changes in accounting policy

The Company and its consolidated subsidiaries principally use the straight-line method for the depreciation of property, plant and equipment, while the Company's head office, Nagoya Factory, Kakogawa Factory and some of its domestic consolidated subsidiaries use the declining balance method.

In fiscal 2012, the Company's head office, Nagoya Factory, Kakogawa Factory and some of its domestic consolidated subsidiaries changed depreciation method to the straight-line method, aiming at the unification of the accounting policies for the Group companies. The effect of this change was to increase segment profit by ¥2,971 million (\$34,149 thousand) in the Tires segment, ¥342 million (\$3,931 thousand) in the Sports segment and ¥325 million (\$3,736 thousand) in the Industrial and Other Products segment.

Changes in accounting estimate

In fiscal 2012, the Company and some of its consolidated subsidiaries changed the useful life of some property, plant and equipment. The effect of this change was to increase segment profit by ¥1,097 million (\$12,609 thousand) in the Tires segment, ¥38 million (\$437 thousand) in the Sports segment and ¥14 million (\$161 thousand) in the Industrial and Other Products segment.

Reportable segment sales, profit or loss, segment assets and other material items

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net sales:			
Tires—			
Sales to unaffiliated customers	¥619,361	¥591,045	\$7,119,092
Intersegment sales and transfers	13	21	149
	619,374	591,066	7,119,241

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2012	2011	2012
Sports—			
Sales to unaffiliated customers	¥ 61,346	¥ 58,365	\$ 705,126
Intersegment sales and transfers	331	251	3,805
	61,677	58,616	708,931
Industrial and Other Products—			
Sales to unaffiliated customers	29,539	27,493	339,529
Intersegment sales and transfers	51	68	586
	29,590	27,561	340,115
Adjustments	(394)	(339)	(4,528)
	¥710,247	¥676,904	\$8,163,759
Segment profit or loss:			
Tires	¥ 63,090	¥ 48,820	\$ 725,172
Sports	4,465	3,640	51,322
Industrial and Other Products	2,139	1,460	24,586
	69,694	53,920	801,080
Adjustments	29	4	334
	¥ 69,723	¥ 53,924	\$ 801,414
Segment assets:			
Tires	¥642,413	¥588,913	\$7,384,057
Sports	54,940	52,321	631,494
Industrial and Other Products	25,205	23,118	289,713
	722,558	664,352	8,305,264
Adjustments	14,970	7,259	172,069
	¥737,528	¥671,611	\$8,477,333
Increase in tangible and intangible fixed assets:			
Tires	¥ 58,660	¥ 51,105	\$ 674,253
Sports	2,807	2,294	32,264
Industrial and Other Products	937	880	10,770
	62,404	54,279	717,287
Adjustments	—	—	—
	¥ 62,404	¥ 54,279	\$ 717,287
Depreciation and amortization:			
Tires	¥ 34,005	¥ 34,614	\$ 390,862
Sports	1,515	1,777	17,414
Industrial and Other Products	758	1,215	8,713
	36,278	37,606	416,989
Adjustments	—	—	—
	¥ 36,278	¥ 37,606	\$ 416,989
Amortization of goodwill:			
Tires	¥ 475	¥ 311	\$ 5,460
Sports	832	762	9,563
Industrial and Other Products	—	—	—
	1,307	1,073	15,023
Adjustments	—	—	—
	¥ 1,307	¥ 1,073	\$ 15,023
Investments in equity method affiliates:			
Tires	¥ 28,580	¥ 31,605	\$ 328,506
Sports	184	171	2,115
Industrial and Other Products	—	—	—
	28,764	31,776	330,621
Adjustments	—	—	—
	¥ 28,764	¥ 31,776	\$ 330,621

1. Segment profit or loss included in "Adjustments" comprised elimination of intersegment transactions.
2. Segment assets included in "Adjustments" comprised corporate assets of ¥14,659 million (\$168,494 thousand) and ¥7,469 million at December 31, 2012 and 2011, respectively, consist mainly of cash and time deposits, investment securities owned by the Company and assets for administration divisions and elimination of intersegment transactions of ¥311 million (\$3,575 thousand) and ¥210 million at December 31, 2012 and 2011, respectively.
3. Segment profit or loss corresponds to operating income.
4. Depreciation and amortization comprised the amount of depreciation in long-term prepaid expenses.
5. Amount of increase in tangible and intangible fixed assets comprised the amount of increase in long-term prepaid expenses.

(2) Related information

Information about geographical areas

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net sales:			
Japan	¥373,715	¥340,845	\$4,295,575
Asia	117,322	109,283	1,348,529
North America	81,255	82,307	933,966
Other areas	137,955	144,469	1,585,689
Total	¥710,247	¥676,904	\$8,163,759
Net property, plant and equipment:			
Japan	¥138,560	¥138,859	\$1,592,644
Asia	122,218	92,090	1,404,805
Other areas	10,047	2,026	115,483
Total	¥270,825	¥232,975	\$3,112,932

Information about impairment loss on fixed assets by reportable segment

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Impairment loss on fixed assets:			
Tires	¥1,611	¥143	\$18,517
Sports	38	19	437
Industrial and Other Products	89	1	1,023
Total	¥1,738	¥163	\$19,977

Information about goodwill by reportable segment

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Amortization:			
Tires	¥ 475	¥ 311	\$ 5,460
Sports	832	762	9,563
Industrial and Other Products	—	—	—
Total	¥1,307	¥1,073	\$15,023
Balance at end of year:			
Tires	¥ 638	¥ 951	\$ 7,333
Sports	5,776	6,361	66,391
Industrial and Other Products	—	—	—
Total	¥6,414	¥7,312	\$73,724

18. Related Party Information

A summary of the financial statements of Goodyear Dunlop Tires Europe B.V. is as follows:

	Millions of U.S. dollars
	2012
Current assets	\$2,179
Noncurrent assets	2,126
Current liabilities	1,635
Noncurrent liabilities	1,460
Shareholders' equity	1,210
Net sales	5,990
Loss before income taxes	(27)
Net loss	(91)

19. Contingent Liabilities

As of December 31, 2012 and 2011, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Trade notes discounted	¥ 324	¥619	\$ 3,724
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	1,847	946	21,230

20. Leases

The original costs of leased assets under finance lease transactions which do not transfer ownership of the leased assets to the lessee and the related accumulated depreciation and accumulated impairment losses, assuming they were calculated using the straight-line method over the term of the lease, as of December 31, 2012 and 2011 were as follows:

As of December 31, 2012	Millions of yen				Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property
Machinery and equipment	¥5,495	¥3,440	¥355	¥1,700	\$63,161	\$39,540	\$4,080	\$19,541
Other	472	175	—	297	5,425	2,011	—	3,414
Total	¥5,967	¥3,615	¥355	¥1,997	\$68,586	\$41,551	\$4,080	\$22,955

As of December 31, 2011	Millions of yen				Thousands of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property
Machinery and equipment	¥6,274	¥3,512	¥355	¥2,407				
Other	587	233	—	354				
Total	¥6,861	¥3,745	¥355	¥2,761				

Finance lease transactions executed on or before December 31, 2008 which did not involve a transfer of ownership are accounted for using the same method as that used for operating leases. Lease payments under finance lease transactions which did not transfer ownership of the leased assets to the lessee for the years ended December 31, 2012 and 2011 amounted to ¥683 million (\$7,851 thousand) and ¥985 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 585	¥ 736	\$ 6,724
Due later	1,660	2,334	19,081
	¥2,245	¥3,070	\$25,805

The balances of future lease payments under non-cancelable operating leases, including interest, as of December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 802	¥ 822	\$ 9,218
Due later	1,431	1,758	16,449
	¥2,233	¥2,580	\$25,667

21. Impairment Loss

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2012.

Group	Location	Assets	Millions of yen		Thousands of U.S. dollars
			Impairment loss	Impairment loss	2012
Idle assets	Shiraishi-ku, Sapporo City and other	Buildings and land	¥ 28		\$ 322
Assets to be disposed of	Kakogawa City, Hyogo and other	Machinery, buildings and other	233		2,678
—	—	Goodwill	1,477		16,977

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2011.

Group	Location	Assets	Millions of yen	
			Impairment loss	Impairment loss
Idle assets	Naka-ku, Nagoya City and other	Buildings, vehicles and other	¥116	
Assets to be disposed of	Izumiotu City, Osaka and other	Machinery, buildings and other	47	

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 (1) the fair value of assets in certain idle asset groups declined substantially; and (2) the Company decided to dispose of certain assets.

The book value of the goodwill of SRITP Limited, a holding company in China engaged in wholesale and distribution of tires, as of December 31, 2012 was impaired to nil because it was decided that SRITP Limited was to be liquidated in future due to organizational restructuring in China.

Furthermore, the recoverable amount for the assets in each group of assets, except for goodwill, was the higher of net realizable value or use value.

The recoverable amount of certain business assets was measured at the net realizable value of the memorandum value since it was difficult to calculate the selling price. The recoverable amount for land and buildings was measured mainly at net realizable value based on the publicly assessed land and buildings value. Use value was not discounted because the period for disposal was short and the effect of any discount was insignificant.

22. Business Combination

Transactions under common control

(1) Name and business of combined parties

Name of acquiree: SRITP Limited

Business activities: A holding company in China engaged in wholesale and distribution of tires

(2) Date of business combination

May 31, 2012

(3) Legal form of business combination

Acquisition of additional shares

(4) Name of acquiree after business combination

SRITP Limited

(5) Outline and purpose of transaction

The Company acquired all remaining shares of SRITP Limited and its consolidated subsidiary in order to restructure its organization in China on a resolution of the Board of Directors held on February 29, 2012.

(6) Outline of accounting treatment

The merger has been accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, dated December 26, 2008) and "Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, dated December 26, 2008).

(7) Acquisition cost and its details

Cash and time deposits: ¥2,825 million

(8) Amount of goodwill recorded, cause, amortization method and amortization period

Amount of goodwill recorded: ¥1,641 million

Cause:

The difference between the cost of additional acquisition in SRITP Limited less the amount of minority interests relating to the additional acquisition is recognized as goodwill.

Amortization method and amortization period:

The book value of goodwill was impaired to nil because it was decided that SRITP Limited was to be liquidated in the future due to organizational restructuring in China.

23. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings of the Company were proposed and approved at the General Meeting of Shareholders held on March 28, 2013:

	Millions of yen	Thousands of U.S. dollars
Balance at December 31, 2012	¥105,533	\$1,213,023
Appropriations—		
Cash dividends (¥20 per share outstanding at December 31, 2012)	(5,247)	(60,310)
Balance after appropriations	¥100,286	\$1,152,713

Independent Auditors' Report

To the Board of Directors of
Sumitomo Rubber Industries, Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Rubber Industries, Ltd. and its consolidated subsidiaries as at December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(8) to the consolidated financial statements, Sumitomo Rubber Industries, Ltd. and its domestic consolidated subsidiaries have changed the depreciation method for depreciable assets for the year ended December 31, 2012.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

May 8, 2013
Kobe, Japan