SUMITOMO RUBBER GROUP

Go for NEXT

Annual Report **2014**

SUMITOMO RUBBER INDUSTRIES, LTD.

The Sumitomo Rubber Group's operations cover three business segments: Tire, Sports and Industrial and Other Products. In line with "VISION 2020," a long-term vision that sets targets for fiscal 2020, the Group is pushing forward initiatives to achieve stable business growth.

In the Tire business, the Group boasts a high share of the domestic fuel-efficient tire market and is proactively expanding its market presence overseas, particularly in emerging countries where demand is expected to grow. In the Sports business, the Group develops premium golf goods and tennis equipment and recently initiated the wellness promotion business, which includes fitness club operations. In the Industrial and Other Products business, the Group is striving to expand sales of vibration control dampers and medical rubber parts, which have great growth potential.

THE NEXT CHAPTER

History

1909
Dunlop U.K. established Japan's first modern rubber factory. Began production of bicycle tires and tubes, and solid rickshaw tires

1913
Produced Japan's first automobile tire

1954
Developed Japan's first tubeless tire

1963
Sumitomo assumed management of company. Changed name to Sumitomo Rubber Industries, Ltd.

1966
Started mass-production of Japan's first radial tire "SP3"

1984
Acquired six tire plants in the U.K., Germany and France as well as Dunlop Tyre Technical Division in the U.K.

1986
Acquired Dunlop Tire Corporation in the U.S.

1999
Formed alliance in tire business with The Goodyear Tire & Rubber Company of the U.S.

2003
Merged with The Ohtsu Tire & Rubber Co., Ltd.

2006
Introduced the Sumitomo Rubber Group Long-Term Vision

Globalization

Expanding Our Global Production and Sales Network

2009
Celebrated the Company's 100th anniversary

2012
Announced "VISION 2020," our long-term vision

2013
Launched ENASAVE 100, the world's first* 100% fossil resource-free tire

* Since the use of synthetic rubber became the industry standard (based on Sumitomo Rubber Industries' own research).

2014
Launched ENASAVE NEXT, which has achieved the coveted "AAA-a" ranking—the highest possible—under Japan's tire labeling system

Introduced two lines of premium runflat tires produced using our NEO-T01 next-generation tire manufacturing system: the SP SPORT MAXX 050 NEO released in Japan under the Dunlop brand and the AZENIS FK453 RUNFLAT released in Europe under the Falken brand

Contents

At a Glance

Composition of Net Sales by Business Segment (Fiscal 2014)

Tire business

87%

DUNLOP
FALKEN
GOODYEAR

Sports business

9%

XXIO
SRIXON
Cleveland GOLF

Industrial and Other Products business

4%

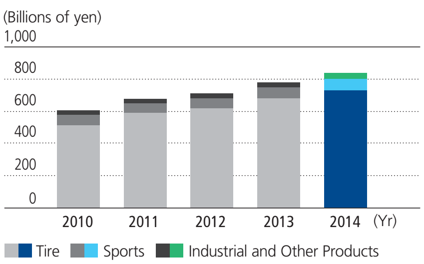
MIRAIE
Gripcoat
Hibrid-Turf

Fiscal 2014 Highlights

Net Sales

¥837.6 billion

Year on Year +7.3%

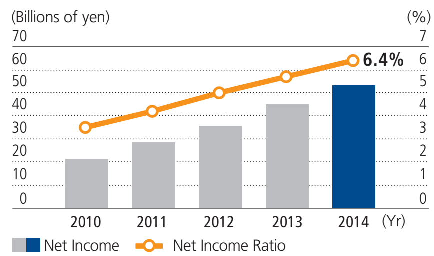


Net sales grew 7.3% to ¥837.6 billion compared with fiscal 2013. This was attributable to year-on-year sales increases in our key Tire business as well as in the Sports business and the Industrial and Other Products business segments.

Net Income and Net Income Ratio

¥53.2 billion

Year on Year +18.8%

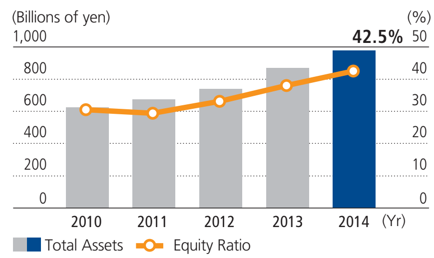


Net income rose 18.8% year on year to ¥53.2 billion due to such factors as an increase in operating income and a return on equity method investments.

Total Assets and Equity Ratio

¥973.6 billion

Year on Year +¥106.1 billion

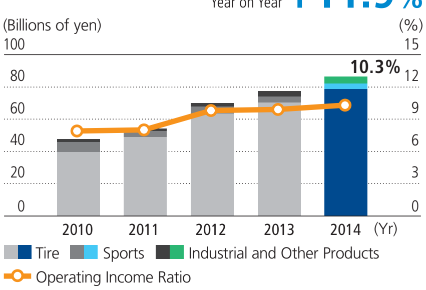


Total assets as of the fiscal 2014 year-end were up ¥106.1 billion year on year to ¥973.6 billion. This was mainly attributable to rises in current assets, such as notes and accounts receivable—trade and inventories, and an increase in property, plant and equipment.

Operating Income and Operating Income Ratio

¥86.3 billion

Year on Year +11.9%

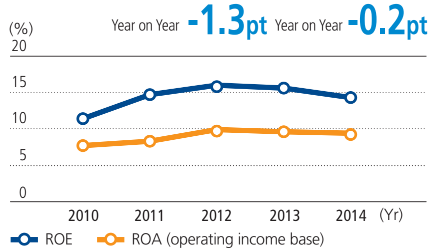


Operating income rose 11.9% year on year to ¥86.3 billion. In addition to growth in sales, factors contributing to operating income included a steady downward trend in tire material prices and a drastic fall in crude oil prices.

ROE* and ROA**

ROE 14.3%   ROA 9.4%

Year on Year -1.3pt   Year on Year -0.2pt



* ROE= (net income / the average of total equity at the beginning and end of the fiscal year) x 100

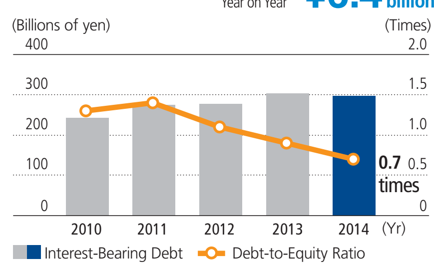
** ROA= (operating income / the average of total assets at the beginning and end of the fiscal year) x 100

ROE fell 1.3 percentage point year on year to 14.3% due to an increase in total equity. Despite an increase in operating income, an increase in total assets led to a 0.2 percentage point decline in ROA to 9.4%.

Interest-Bearing Debt and Debt-to-Equity Ratio

¥295.7 billion

Year on Year -¥6.4 billion

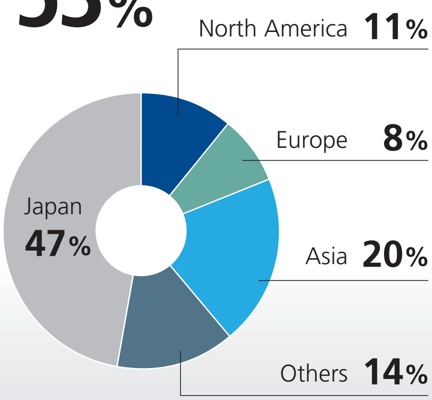


The debt-to-equity ratio improved 0.2 of a percentage point to 0.7 times due to a ¥6.4 billion decrease in interest-bearing debt and an increase in total equity.

Composition of Net Sales by Region (Fiscal 2014)

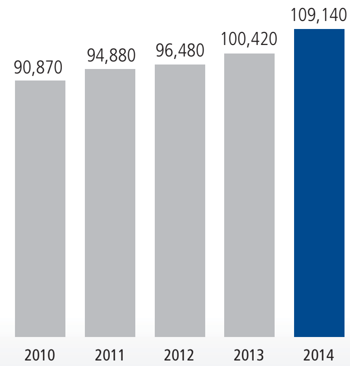
Overseas Sales Ratio

53%



Tire Sales Volume

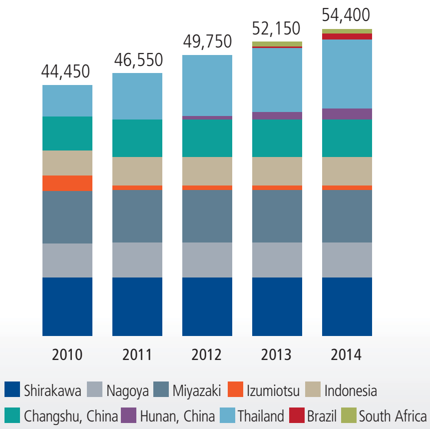
109,140 thousand tires



During fiscal 2014, the number of tires sold rose 8,720 thousand year on year thanks to sales expansion in all market segments, namely, the domestic replacement and original equipment markets as well as the overseas replacement and original equipment markets.

Tire Production Capacity

54,400 tons/month

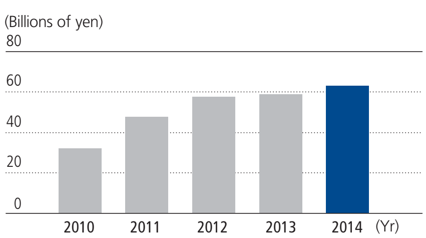


In fiscal 2014, we strove to expand our overseas production capacity while initiating operations at a Thailand-based factory for producing tires for agricultural machinery in April 2014, the Group's third factory in that country. As a result, the Group's tire production capacity increased 4% year on year and its overseas production ratio rose to 51%.

Capital Expenditures

¥62.8 billion

Year on Year **+¥4.2** billion

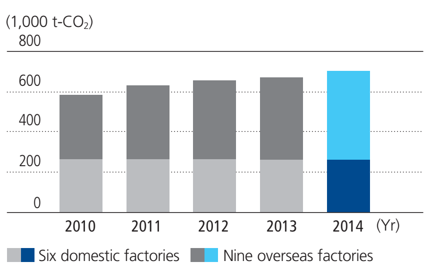


Total capital expenditures grew ¥4.2 billion year on year to ¥62.8 billion due mainly to investments aimed at establishing new business bases overseas.

Total CO_2 Emissions

(from six domestic and nine overseas factories) **703** kt

Year on Year **+33** kt

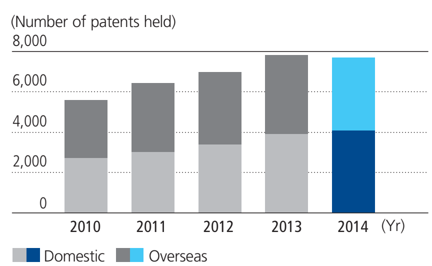


CO_2 emissions from domestic factories remained unchanged while emissions from overseas factories increased. However, the pace of the increase in overall emissions fell below that of sales growth thanks to the success of our energy-saving activities.

Number of Domestic and Overseas Patents

7,680

Year on Year **- 110**

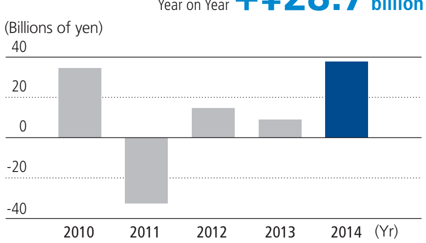


The number of patents we hold in Japan is increasing. Overseas, we are optimizing the number of patents we hold, giving due consideration to circumstances in each country.

Free Cash Flow

¥37.4 billion

Year on Year **+¥28.7** billion

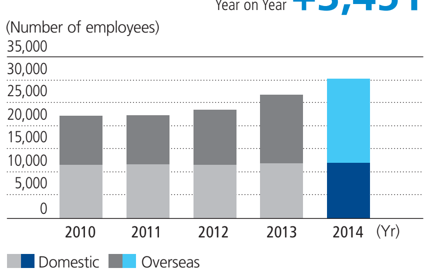


Free cash flow for fiscal 2014 was a positive ¥37.4 billion due mainly to growth in income before income taxes and minority interests.

The Number of Employees in Japan and Overseas (consolidated basis)

30,224

Year on Year **+3,451**

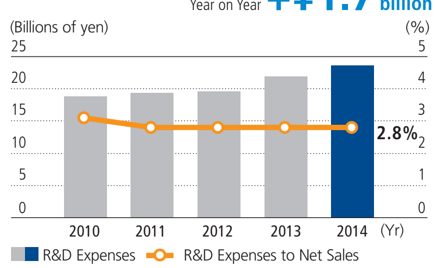


The total number of employees grew by 3,451 year on year, reflecting the establishment of new overseas bases as well as a proactive increase in production.

R&D Expenses and R&D Expenses to Net Sales

¥23.5 billion

Year on Year **+¥1.7** billion



R&D expenses in fiscal 2014 grew ¥1.7 billion year on year. This was mainly attributable to the cost of initiatives aimed at further strengthening basic technologies.

Under the VISION 2020 slogan "Go for NEXT," we will strive to meet society's expectations by delivering "genuine value."

I. Ikeda

Ikuji Ikeda
President and CEO, Representative Director

Marking Five Consecutive Years of Sales Growth and Six of Higher Profits

During the fiscal year ended December 31, 2014, the U.S. economy enjoyed steady growth, while the European economy was weakened by anxiety about the debt problems confronting some EU members. Moreover, the Chinese economy saw further growth deceleration, which had far-reaching spillover effects on the entire Asian region and elsewhere. Reflecting these factors, the global economy has been sluggish. In Japan, despite a gradual economic recovery in which corporate earnings improved and stock prices continued to be high due to the ongoing depreciation of the yen, the April 2014 consumption tax hike and ensuing decline in private-sector consumption led to overall stagnation.

Against this backdrop, the Sumitomo Rubber Group pursued initiatives in line with its long-term VISION 2020 targets. Specifically, we worked to raise sales of high-value-added products, including fuel-efficient tires, while proactively entering new markets and business fields. To this end, we rallied our Groupwide strengths to support initiatives aimed at driving business growth and improving profitability.

As a result, consolidated net sales increased 7.3% year on year to ¥837.6 billion, operating income rose 11.9% year on year to ¥86.3 billion, ordinary income rose 17.9% year on year to ¥88.0 billion and net income grew18.8% to ¥53.2 billion. We thus recorded growth in both sales and profits, with all four figures building on our achievements in the previous fiscal year and setting new records.

VISION 2020 Numerical Targets and Results

(Unit: Billions of yen)

	2014 results	2020 targets
Net sales	837.6	**1,200,0**
Tire business	731.2	**1,000.0**
Sports business	70.5	**120.0**
Industrial and Other Products business and new businesses	35.9	**80.0**
Operating income	86.3	**150.0**
Operating income ratio	10.3%	**12% or greater**
ROE	14.3%	**15% or greater**
ROA (operating income base)	9.4%	**14% or greater**
Debt-to-equity ratio	0.7 times	**0.5 times or lower**

Note: The 2014 results are based on average exchange rates for the year of US$1 = ¥106, 1 euro = ¥140, while the 2020 targets are based on assumed exchange rates of US$1 = ¥80, 1 euro = ¥100

Progress under VISION 2020

The progress of our three growth engines towards the realization of VISION 2020 is as below.

1 *NEXT Market Expansion*

Taking on the Challenges of New Markets

- Entering emerging markets
- Pursuing growth in the Chinese market
- Expanding into Asia with tires for agricultural machinery

2 *NEXT Technology Evolution*

Maintaining an Insatiable Drive for Innovation

- New products
- New development technologies
- Innovative production methods

3 *NEXT Category Innovation*

Entering New Business Fields

- Strengthening product supply targeting overseas automakers
- Promoting vibration-control technologies
- Expanding the health care business

Three Key Themes Aimed at Driving Growth

1. NEXT Market Expansion

—Taking on the Challenges of New Markets

First, we are pursuing NEXT Market Expansion by promoting the following three policies.

Entering Emerging Markets

In anticipation of considerable demand growth in key emerging market regions, we are proactively expanding our network of overseas production and sales bases in Brazil, Turkey, India, African nations and Russia.

In Brazil, we are looking to raise the daily tire production capacity of our factory from 8,000 tires as of the end of 2014 to 15,000 tires by the end of 2015. This move is aimed at leveraging the advantage afforded by having this production base to capture greater market share in Latin America, which is expected to grow into the largest among the aforementioned five key market regions. In addition, we intend to establish 120 new dealerships selling passenger car tires as well as 20 truck tire centers, thereby bolstering our supply capacity in Brazil as well as Latin America as a whole. In Turkey, production kickoff of a new factory is scheduled for July 2015, reflecting our conviction that securing a supply base in that country is extremely crucial to better penetrating markets in the Middle East and North Africa as well as Russia and Europe. As for the new factory, production capacity will be 4,000 tires per day by the end of 2015, increasing thereafter to 30,000 per day by the end of 2019. In India, we will reinforce Falken Tyre India Private Limited's sales network, with the target of increasing the number of its sales agencies from 800 as of the end of 2014 to 1,000 by the end of 2015. In Africa, we will rapidly expand the production capacity of the South African factory that we secured through the acquisition of Apollo Tyres South Africa (Pty) Limited in December 2013. In anticipation of substantial advances in motorization across the continent, we are increasing production capacity to 12,000 tires per day during 2015 and will raise this figure to 14,500 by 2017, getting into position to capture future demand growth. We will also augment sales channels by expanding our range of products to encompass tires for SUVs as well as high-performance tires while developing new channels to serve markets in surrounding countries. Lastly, operations kicked off at Sumitomo Rubber Australia Pty. Ltd. in March 2015. We are looking to increase our share of the Australian replacement tire market to 5% by 2020.

Pursuing Growth in the Chinese Market

In China, the combined tire production capacity of our Changshu and Hunan factories will total 57,000 tires per day by the end of 2015. To increase our foothold in replacement tire markets, we intend to raise the number of flagship stores from 850 as of the end of 2014 to 1,000 by the end of 2015 while securing a total of 4,500 outlets handling our products. Supporting this drive, along with the 2015 launch of Falken brand tires, we are expanding our sales network by establishing the new sales channel "D-Guard," which provides comprehensive car maintenance covering not only tires but other automotive parts. Current plans call for securing 200 outlets handling this service by 2017. In addition, to boost OEM tire sales, we will proactively cultivate ties with manufacturers of luxury vehicles and SUVs in Europe and the United States.

Expanding into Asia with Tires for Agricultural Machinery

In Thailand, we launched a new factory in 2014 with the aim of meeting burgeoning demand for tires for agricultural machinery. In addition to promoting OEM sales to Thai-based Japanese agricultural machinery makers—our primary target market—we intend to make a full-scale entry into the local replacement tire market, implementing proactive marketing to expand sales in both Thailand and surrounding countries.

2. NEXT Technology Evolution

—Maintaining an Insatiable Drive for Innovation

Second, we are pushing forward NEXT Technology Evolution through development efforts in the following three categories.

New Products

As for fossil resource-free tires, we are promoting the development of highly functional biomass materials backed by the accumulated technology acquired through the creation of ENASAVE 100. We are now establishing technologies in preparation for the commercialization of the first generation of products made using these materials in 2016 and the second generation in 2020. In September 2014 we added a new product to our fuel-efficient tire lineup, ENASAVE NEXT, which has an "AAA-a" ranking—the highest possible—under Japan's tire labeling system—for superior fuel efficiency and wet grip performance that set it above other, already highly rated ENASAVE brand tires. In addition, we launched the ENASAVE RV504, a -fuel-efficient tire for minivans, in February 2015.

New Development Technologies

In 2011, we completed the development of "4D NANO DESIGN" a new material development technology, and have since promoted various development projects aimed at creating new tire materials. In recent years, there has been constant and growing demand for greater tire performance and quality, placing tire manufacturers in the difficult position of meeting the technological challenges of simultaneously satisfying requirements for greater eco-friendliness, safety performance and resource savings. To satisfy these requirements, in 2015 we are upgrading our 4D NANO DESIGN technology to ADVANCED 4D NANO DESIGN and will begin applying it to the development of products that will be released in 2016 and beyond. Furthermore, we began formulating a basic framework for NEXT 4D NANO DESIGN, which will entail large-scale simulations encompassing a range of processes from material design to projections of actual tire performance. The completion of NEXT 4D NANO DESIGN is much anticipated as we expect that this technology will facilitate considerable improvements in tire performance.

Innovative Production Methods

Since 2012, we have been applying NEO-T01, an innovative tire manufacturing system focused on achieving the ultimate in precision, to the development of superior next-generation tires. In 2014, we released two lines of premium runflat tires, introducing the SP SPORTMAXX 050 NEO in Japan and the AZENIS FK453 RUNFLAT in Europe, under the Dunlop and Falken brands, respectively. Looking ahead, we will strive to boost sales in the field of runflat tires by expanding the range of tire sizes available in these new product lines.

3. NEXT Category Innovation

—Entering New Business Fields

Lastly, we are promoting the third growth engine, NEXT Category Innovation.

Strengthening Product Supply Targeting Overseas Automakers

We will increase the ratio of sales accounted for by overseas automakers to overall tire sales to 15% in 2015, and to 35% in 2020. In 2014, our tires were newly selected for such vehicles as Audi *Q3* and Jeep *Compass*.

Promoting Vibration-Control Technologies

In the Industrial and Other Products business segment, we have enjoyed steadily rising sales of MIRAIE brand vibration control units for housing. Cumulatively, the number of houses incorporating these vibration control units totaled 7,500 as of the end of 2014. Going forward, we expect MIRAIE brand vibration control units to be used in more than 6,000 houses in 2015 alone. We are also stepping up the marketing of vibration control dampers for buildings, accelerating expansion in emerging nations where ever-taller buildings are being built, including earthquake-prone Turkey and Taiwan.

Expanding the Health Care Business

Another promising field in the Industrial and Other Products business segment is the health care business. In anticipation of growing market demand for medical rubber parts, we have entered the promising market for highly specialized parts for medical appliances used in the biopharmaceuticals field. Aiming to accelerate our global expansion in this field, in January 2015 we acquired Lonstroff Holding AG, a Switzerland-based company specializing in medical rubber parts. Having secured this manufacturing and marketing base in Europe, we will work to establish a greater presence in overseas markets for medical rubber parts.

Fifth Consecutive Annual Increase in Dividends

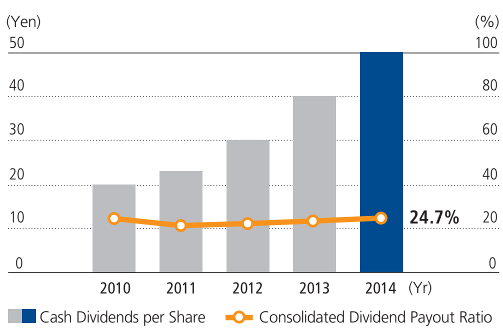
Sumitomo Rubber Industries considers the return of profits to shareholders to be a high-priority issue. Accordingly, the Company has established a basic policy of ensuring long-term sustainable returns to shareholders while comprehensively reviewing the levels of dividend payout ratios on a consolidated basis, performance prospects and retained earnings.

For fiscal 2014, we increased the year-end dividend ¥10 per share from the initial forecast of ¥20 per share to ¥30 per share. Combined with an interim dividend of ¥20 per share, annual cash dividends for the fiscal year under review thus totaled ¥50 per share, a ¥10 increase per share compared with the previous fiscal year. Accordingly, the consolidated payout ratio stood at 24.7%.

Cash Dividends per Share and Consolidated Dividend Payout Ratio

¥50

Year on Year **+¥10**



To Remain a Corporate Group That Delivers "Genuine Value"

In fiscal 2014, ended December 31, 2014, we recorded a fifth straight year of increased sales and a sixth of increased profits. However, we expect a rapidly changing global market environment, leading to intensified competition among tire manufacturers. Despite these challenges, we will strive to achieve sustainable growth under the mottoes "Becoming a true global player by achieving both high profitability and high growth" and "Pursuing increased value for all stakeholders and greater happiness for all employees." At the same time, backed by an unswerving commitment to delivering genuine value, we will continue to rally our Groupwide strengths to meet society's expectations.

We sincerely ask for your continued understanding and support.

Special Feature

To Become a True Global Player

With the aim of becoming a corporate group with greater presence in the global market, the Sumitomo Rubber Group is striving to achieve the challenging goals set forth in VISION 2020.

Achieved the coveted "AAA-a" ranking—the highest possible—under Japan's tire labeling system

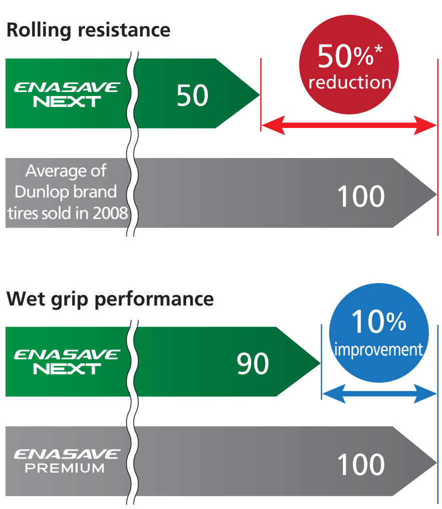
ENASAVE NEXT

A Competitive Edge on Three Fronts Driving Our Future Growth

1. A Market Leading Position Backed by Outstanding Development Capabilities

Innovation

Realizing the Best Fuel Efficiency and Wet Grip Performance among All ENASAVE Products



* Based on comparisons with tire performance data assessed using in-house standards for Sumitomo Rubber Industries' four best-selling Dunlop brand Summer tires sold during 2008 on the replacement use market. The Company compared the average rolling resistance of these four tires with the performance of ENASAVE NEXT in the manner prescribed by the test methods stipulated by Japan's Fair Competition Code Rules for Tire Labeling. Moreover, the rolling resistance of ENASAVE NEXT is 10% lower than that of ENASAVE PREMIUM.

Note: Data used for the abovementioned comparisons has been registered with Japan's Tire Fair Trade Council.

Applying Our Technological Strengths to Pioneering the Advancement of Tires

Sumitomo Rubber Industries has been focusing on the development of fuel-efficient tires, including ENASAVE brand tires. In September 2014, we released the ENASAVE NEXT. In order to achieve a remarkable decrease in rolling resistance, the ENASAVE NEXT utilizes several advanced technologies, including UPNR (Ultra-Pure Natural Rubber) and New Functionalized Polymer, both of which were developed using our proprietary 4D NANO Design new materials development technology. In addition, thanks to the use of our latest Wet Grip Powder, which we developed specifically to improve wet grip performance, the ENASAVE NEXT has achieved the best rolling resistance and wet grip performance in ENASAVE series history, earning a "AAA-a" ranking under Japan's tire labeling system—the highest possible rating—in terms of both "Fuel Efficiency" and "Wet Grip Performance."

4D NANO DESIGN Technology for Developing New Materials

To create tires with greater performance, we constantly work to enhance our material development efficiency and to this end have integrated technologies related to four aspects of R&D: investigating, estimating, producing and maximizing. Employing simulations and specialized analytic techniques to study the behavior of tire constituents at the nano-level, our 4D NANO DESIGN technology has facilitated a more systematic approach to material design, streamlined our development process and enabled the flexible manipulation of materials.

Pursuing the Creation of Runflat Tires with Even Greater Performance

Sumitomo Rubber Industries takes a proactive approach to the development of runflat tires. In addition to improving such tires' safety performance, our development efforts focus on promoting resource conservation through the elimination of the need for spare tires and reductions in tire weight. In Europe, we released the AZENIS FK453 RUNFLAT in July 2014 and, in Japan the SP SPORT MAXX 050 NEO in November. These premium runflat tires boast superior driving comfort with improved vibration and shock absorbing capabilities as well as better safety performance in the form of significantly enhanced driving stability. Furthermore, a lower volume of materials is required for their production, making them lightweight and even more environment friendly. In creating these runflat tires, we used 4D NANO DESIGN material development technology while applying NEO-T01, a new next-generation manufacturing system. Tires produced using this NEO-T01 feature better "High-Speed Uniformity," "Lightness" and "Lower Deformation during High-Speed Driving" compared with tires produced using conventional manufacturing methods.

NEO-T01 Tire Manufacturing System

Capable of producing tires with virtually perfect circularity, this advanced tire manufacturing system simultaneously enables improved driving comfort, superior environmental performance and excellent safety.

NEO-T01

Added to the Thomson Reuters 2014 Top 100 Global Innovators List

Sumitomo Rubber Industries received recognition as one of the Thomson Reuters 2014 Top 100 Global Innovators, a group of top companies selected by Thomson Reuters, a world-leading information service company, based on an evaluation of the number of patents held and intellectual property accomplishments as well as global presence and influence. It was the second time Sumitomo Rubber Industries was listed among the Thomson Reuters Top 100 Global Innovators.

We have been promoting tire development efforts aimed at simultaneously realizing environment-friendliness and driving safety and comfort. This has led to the creation of the ENASAVE 100, the world's first* 100% fossil resource-free tire, and the ENASAVE NEXT, which earned a "AAA-a" ranking under Japan's tire labeling system—the highest possible rating—in terms of both "Fuel Efficiency" and "Wet Grip Performance." We consider our inclusion among the Thomson Reuters 2014 Top 100 Global Innovators a reflection of the considerable reputation we have garnered through such unique and forward-thinking technological development initiatives.

2014 THOMSON REUTERS TOP 100 GLOBAL INNOVATORS

* The first mass-produced 100% fossil resource-free tire since synthetic rubber became the standard tire material. Survey conducted by Sumitomo Rubber

Improved Driving Comfort, Superior Environmental Performance and Excellent Safety

In 1970, Dunlop became the first in the world to commercialize runflat tires. Thanks to such features as a special reinforcement layer installed in the sidewalls, our runflat tires can be driven for some distance up to a certain speed even if they go flat while in operation. In addition to improving driving safety, these tires obviate the need for spare tires, thereby helping reduce resource and energy consumption.

Construction of runflat tires

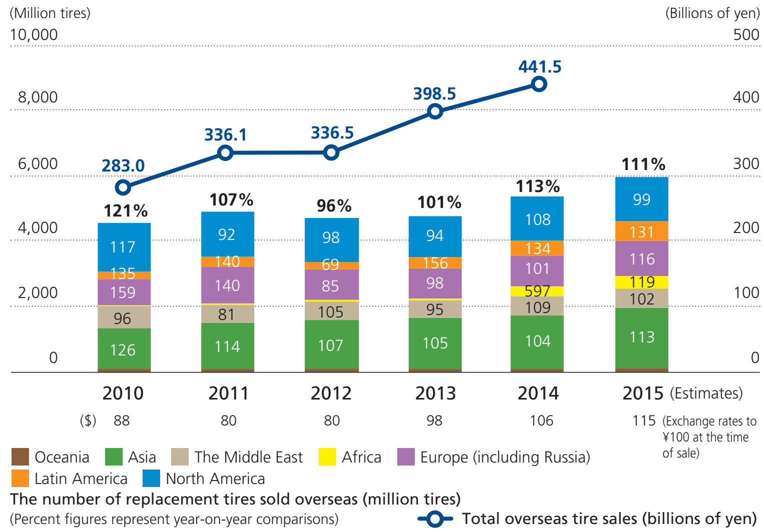
2. Securing Production and Sales Bases around the World

Globalization

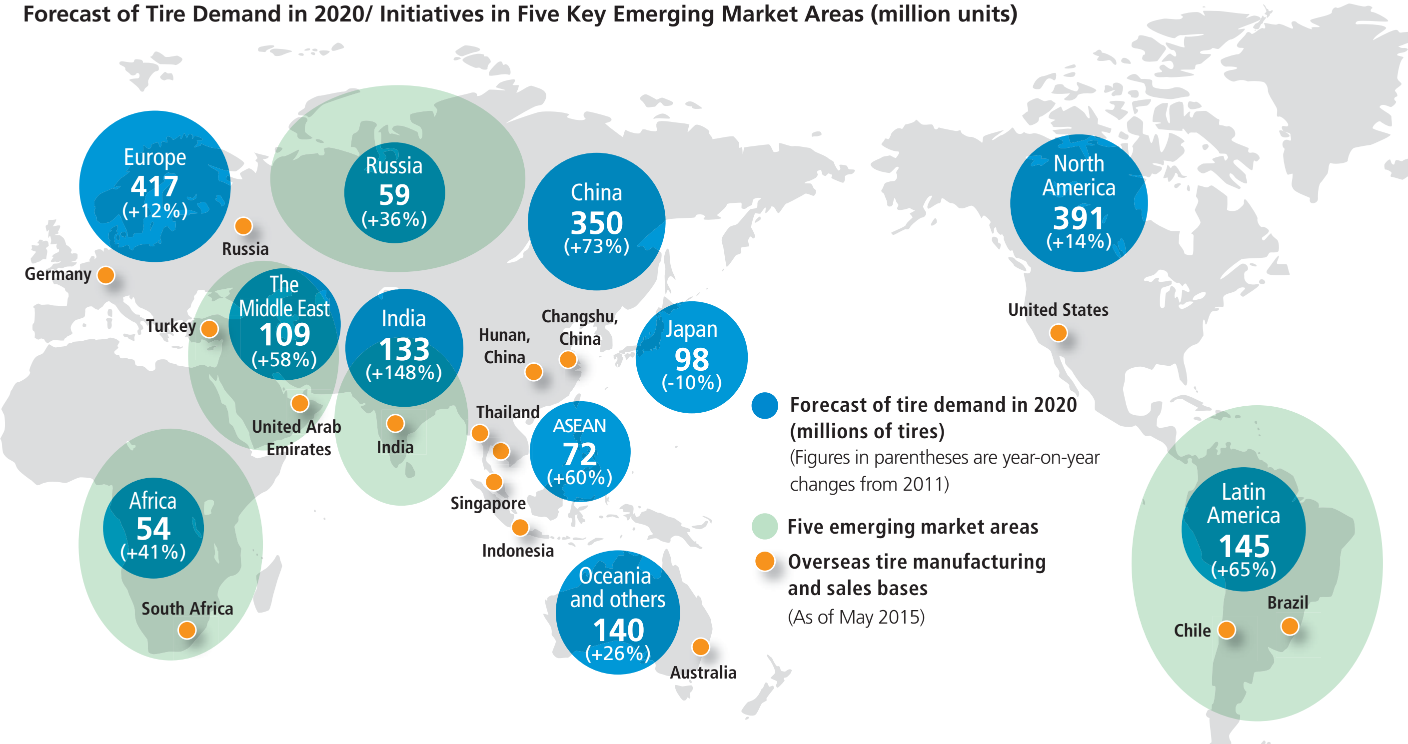
Building a Global Production and Sales Structure to Accommodate Burgeoning Demands in Emerging Nations

Under VISION 2020, we have identified “entering emerging markets” as a key growth strategy. It is estimated that annual global tire demand will reach approximately two billion units by 2020 with such emerging markets as China accounting for more than half of that demand. With the aim of capturing rising demand in emerging nations, we are expanding our Tire business overseas by proactively securing local manufacturing and marketing bases. Specifically, we are striving to raise the production capacity of Brazilian and South African factories we launched in 2013. At the same time, we are promoting factory construction in Turkey, with production kickoff scheduled for July 2015, in order to secure a key strategic base for penetrating markets in the Middle East, North African nations, Russia and Europe. Moreover, we launched a sales subsidiary in Australia in 2014.

Year-on-Year Comparisons of the Number of Replacement Tires Sold Overseas and Total Overseas Tire Sales



Forecast of Tire Demand in 2020/ Initiatives in Five Key Emerging Market Areas (million units)



Establishing a Core Production Base in Brazil to Serve the Promising Latin American Market

In October 2013, operations started at Sumitomo Rubber do Brasil Ltda., the Group's first production base in Latin America. In step with the rapid popularization of vehicles, demand for automobile tires is surging in Brazil and surrounding Latin American countries. We expect that in 2020 annual tire demand in the region will reach 145 million units, making Latin America the largest among the aforementioned five emerging market regions. Accordingly, we believe that securing a strong regional production and sales network in Latin America will significantly contribute to our global expansion strategy.

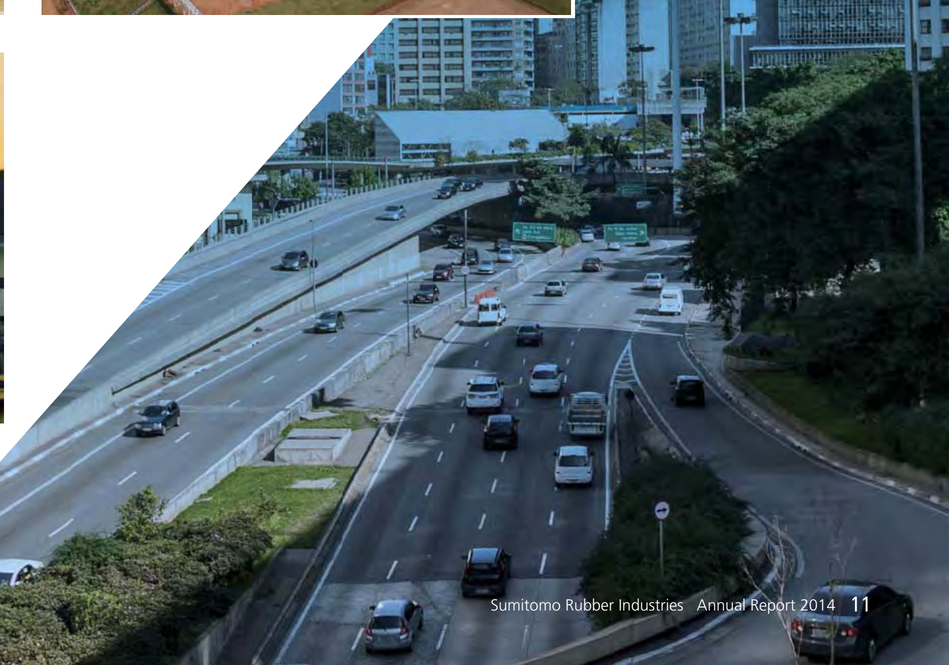
Aiming for a 10% Market Share in Brazil by 2020

Raising Production Capacity to Meet Demand Trends

Having introduced the new Taiyo tire production system, which enables a fully automated production process, our Brazilian factory aims to increase its daily production capacity of 2,000 tires at the time of production kickoff in 2013 to 15,000 tires in 2015. Even after 2015, the factory will upwardly revise its production volume and remain responsive to the latest demand trends.

Enhancing Brand Recognition to Promote Sales Expansion

We will reinforce our sales capability in the Brazilian market through such steps as the establishment of 120 dealerships to sell passenger car tires and 20 truck tire centers.



Stepping up Production and Marketing through Our South African Base

In December 2013, we acquired Apollo Tyres South Africa (Pty) Limited (ATSA) with the aim of reinforcing our production and sales network serving the African market. Upon the acquisition, ATSA made a new start under the new company name Sumitomo Rubber South Africa (Pty) Limited.

Currently, we are rapidly increasing the production capacity of this South African production base, with the goal of producing 14,500 tires per day in 2017, up 50% from 9,600 tires per day as of the end of 2013.

Also, the acquisition of ATSA has enabled us to secure the rights to manufacture and market Dunlop products in countries throughout the African continent.

As we expect considerable demand growth in Africa, we will proactively cultivate new markets and develop the Tire business in the region, thereby accelerating the global expansion of our Groupwide operations.

Increasing Our Presence in Asian Markets for Tires for Agricultural Machinery

The Sumitomo Rubber Group has identified "expanding into Asia with tires for agricultural machinery" as a VISION 2020 strategy. This strategy has led to the establishment of the Group's first overseas factory for producing tires for agricultural machinery in Thailand, which started operations in April 2014.

Thailand is one of the world's leading rice exporters. Accordingly, it and other ASEAN countries have seen a rapid rise in demand for tires for agricultural machinery due to such factors as the increase of local production facilities run by Japanese agricultural machinery manufacturers. In addition to promoting the OEM sale of tires, with Japanese agricultural machinery manufacturers positioned as primary target customers, we will make a full-scale entry into the local market for replacement tires and expand sales in Thailand and neighboring countries.

A Competitive Edge on Three Fronts Driving Our Future Growth

3. Developing a Globally Capable Workforce Encompassing a Range of Human Resources

Human Resources

Securing and Nurturing Competitive Employees Who Will Reinforce Our Foundation for Sustainable Growth

To remain successful in the globalized business environment, we are developing human resources who can win on the global stage, nurturing future manager and executive candidates and building global personnel management structures. We conduct training programs that are appropriate for each staff member, leader and expatriate. Simultaneously, we strive to enhance employees' manufacturing techniques while imparting the management skills necessary to control production facilities in Japan and overseas.

Nurturing Globally Capable Human Resources with a Broad Perspective

Training Structure Designed Based on Job-Level Specific Tasks

The Sumitomo Rubber Group is developing its human resources under a training structure that comprises various programs that are appropriate for each employee at each job level. As for manager candidates, we conduct training programs aimed at strengthening their business decision making abilities while instilling basic knowledge regarding team operation and staff education. As for younger employees, we provide programs designed to enhance their problem-solving capabilities while having them participate in the simulation of corporate management and OJT training for nurturing future leaders. Moreover, we work to strengthen employees' communication capabilities, such as leadership and abilities to develop their own staff and build favorable workplace human relationships. This initiative involves training with set goals for each different job level to fulfill required levels of competency.

To secure the human resources who operate our overseas subsidiaries, we nurture potential future managers among locals, providing training programs to improve their business execution and management abilities as managerial personnel.

Motivating Employees to Enhance Their Skills through In-House Competition

In our Group, "Manufacturing Skills Olympic Games" are held two times a year to hand down expertise and skills to younger employees and enhance their motivation. Domestic and overseas factories each choose one representative player from among their younger employees. These employees compete for their manufacturing-related skills against one another with the theme for competition selected from among eight categories defined to encompass the entire production process.

The Manufacturing Skills Olympic Games are held at the Group's Manufacturing Training Center, which has training and accommodation facilities. We are also improving the training equipment and programs available at the center to make sure that our human resource nurturing initiatives can bring immediate results in enhancing employees' expertise and skills. In these ways, we are creating an environment in which they find their duties rewarding.

TIRE
BUSINESS

- The Sumitomo Rubber Group manufactures and sells tires, mainly the Dunlop, Falken and Goodyear brands.
- The Group has been active in expanding Dunlop's eco-friendly ENASAVE tire brand lineup.
- In 2014, the Group released such products as ENASAVE EC203 and ENASAVE NEXT fuel-efficient tires as well as the SP SPORT MAXX 050 NEO premium runflat tire.

ENASAVE NEXT

No. 1*

for the fifth consecutive year in terms of fuel-efficient tire* sales volume at top two nationwide car goods retailers (top 3 in 2014)

AAA-a

ENASAVE NEXT has earned the "AAA-a" ranking under Japan's tire labeling system—the highest possible rating—in terms of both "Rolling Resistance" and "Wet Grip Performance."

11 Bases in **6** Countries

Production bases (As of May 2015)

* Based on third-party surveys commissioned by Sumitomo Rubber Industries to cover the total fuel-efficient tire sales of Japan's top two automobile goods store chains over the 2010–2013 period and top three store chains in 2014. The three store chains are the AUTOBACS Group, Yellow Hat Ltd., and jms outlets operated by TACTI CORPORATION. According to the surveys, the market share for Dunlop brand tires in 2014 was 31.7%, placing Dunlop in the top position with a 1.6% lead.

DUNLOP

Some sizes in the lineup have received AA-c classification

FALKEN

GOODYEAR

Some sizes in the lineup have received AA-b or A-c classification

Fiscal 2014 Results

Sales in the Tire business grew 7.4% year on year to ¥731.2 billion in the fiscal year under review, while operating income increased 12.3% to ¥78.4 billion.

On the back of a decline in global tire demand that, in turn, triggered intensifying competition, the business environment surrounding the Tire business remained harsh despite such positive factors as an improvement in export conditions accompanying the depreciation of the yen, consistently low natural rubber prices and a drastic decline in crude oil prices. Nevertheless, the tire segment sales and profits grew thanks to an increase in sales of such high-value-added products as fuel-efficient tires and the success of the Group's proactive efforts to expand into new markets.

Domestic Replacement Market

The Group sought to further improve its overall sales volume and product mix under the Dunlop brand. As a result, sales of ENASAVE brand and other fuel-efficient tires were strong, placing Dunlop in the top position in this category in terms of sales volume for the fifth consecutive year. Moreover, the WINTER MAXX studless snow tire enjoyed sales growth due to countrywide snowfalls in December 2014. Under the Goodyear brand, the Group looked to expand sales through the promotion of such products as the recently released EAGLE RV-F, a fuel-efficient and durable touring tire for minivans that increases the responsiveness of steering. Reflecting these efforts, sales in the domestic replacement market increased year on year.

Domestic Original Equipment Market

Reflecting a greater domestic automobile production volume compared with the previous fiscal year, sales grew year on year thanks to the success of the Group's ongoing efforts to promote high-value-added products, such as fuel-efficient tires.

Overseas Replacement Market

Despite intensifying competition in China, Russia and other emerging nations, sales increased year on year thanks to sales expansion in such emerging markets as Brazil and South Africa as well as the positive effects of the depreciating yen.

Overseas Original Equipment Market

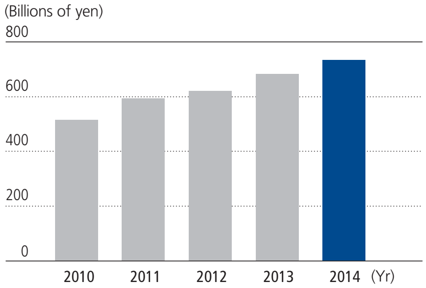
Despite a decline in sales volume in Indonesia and Thailand, both of which have seen sluggish economic conditions, the overall sales volume grew significantly in step with rising automobile production in China, leading to a year-on-year sales increase in the overseas original equipment market.

Fiscal 2015 Outlook

In the domestic market, we will continue to introduce new products in our fuel-efficient tire lineup. In fact, the Group has already launched the ENASAVE RV504 fuel-efficient tire for minivans under the Dunlop brand in February 2015. In overseas markets, the Group started sales of Falken brand tires in China, promoting active sales expansion targeting mainly emerging nations. In production, a new factory in Turkey will start operating in July 2015.

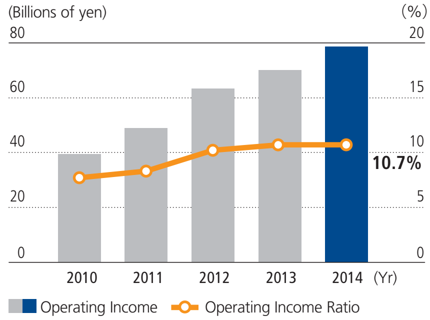
Net Sales ¥731.2 billion

Year on Year +7.4%



Operating Income and Operating Income Ratio ¥78.4 billion

Year on Year +12.3%



Year-on-Year Increase/ Decrease in Tire Sales Volume

	2013	2014
Domestic original equipment	-5%	**+3%**
Overseas original equipment	+29%	**+13%**
Domestic replacement	+4%	**+2%**
Overseas replacement	+1%	**+13%**
Total	+4%	**+9%**
Total sales volume (millions of tires)	10,042	**10,914**

SPORTS
BUSINESS

- Dunlop Sports Co. Ltd., a company spun off from Sumitomo Rubber Industries in 2003, plays a central role in the manufacturing and marketing of such items as golf clubs and golf balls. In the area of tennis equipment, the company offers several products, including rackets and balls.
- In its mainstay golf product lineups, Dunlop Sports has introduced the XXIO, SRIXON and Cleveland Golf brands on a global scale.
- Tennis equipment is manufactured and marketed under the Dunlop and SRIXON brands. In addition, a sales agency contract has been signed with the French company BABOLAT VS S.A.
- Dunlop Sports Co. Ltd. launched the wellness promotion business, comprising the fitness club business and golf and tennis school businesses, expanding it to create a third business pillar for the segment.
- Dunlop Sports is listed on the first section of the Tokyo Stock Exchange.

XXIO 8

SRIXON Z545


CLEVELAND 588 RTX 2.0

XXIO AERO SPIN


SRIXON REVO V3.0

DUNLOP FORT / SRIXON

No.1

ranking in terms of value of domestic shipments in 2014 for
- Golf clubs
- Golf balls
- Tennis rackets
- Tennis balls

These 2014 market share estimates are based on data in the Sports Goods Industry 2015 report compiled by Yano Research Institute Ltd.

229 golfers in **25** countries worldwide

The number of professional golfers who have entered into equipment sponsorship agreements with Dunlop Sports

As of March 2, 2015

XXIO
YOUR PRESTIGE PARTNER

SRIXON
DEDICATED TO IMPROVING YOUR GAME

Cleveland GOLF
WHERE SCORING MATTERS

YOUR PRESTIGE PARTNER

Reliable and **professional quality**, capable of helping players advance their golf skills

DEDICATED TO IMPROVING

The culmination of a wealth of proprietary Dunlop technologies that benefits all golfers from beginners to professionals

WHERE SCORING MATTERS

Cleveland Golf's distinct short game strengths come to the fore for all players

Fiscal 2014 Results

Sales in the Sports business increased 6.3% year on year to ¥70.5 billion, while operating income fell 20.6% to ¥3.2 billion.

Against a backdrop of sluggish demand for golf goods due to the stagnant global economy, Dunlop Sports' flagship XXIO8 golf clubs continued to enjoy the steady domestic sales they have seen since their release in December 2013. Moreover, SRIXON Z series golf clubs have made a strong start since their introduction in September 2014. As a result, the company's golf clubs and balls captured top market share in terms of domestic storefront sales in 2014.* Overseas, Dunlop Sports promoted the mainstay XXIO, SRIXON and Cleveland Golf brands strategically, with an eye to securing greater market share worldwide.

In addition, during the fourth quarter of fiscal 2014, Dunlop Sports launched the wellness promotion business as the segment's third business pillar next to golf and tennis equipment.

Consequently, sales in the Sports business segment rose year on year.

* Market share survey conducted by Yano Research Institute Ltd.

Fiscal 2015 Outlook

To remain the top in golf goods in terms of domestic market share, Dunlop Sports will strive to expand sales of its mainstay XXIO brand golf clubs as well as the SRIXON and Cleveland Golf brands. The company will also introduce new golf ball products, including SRIXON Z-STAR premium golf balls and XXIO AERO DRIVE, while stepping up the marketing of golf shoes, such as ASICS Golf Shoes designed in tandem with alliance partner ASICS Corporation.

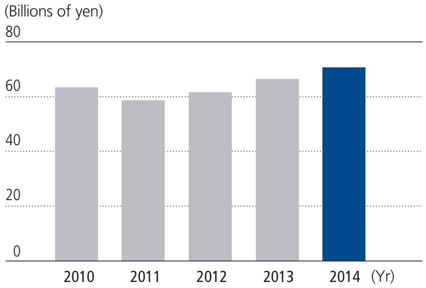
Overseas, Dunlop Sports will continue to promote XXIO and SRIXON golf clubs while steadily working to penetrate and capture a greater share of golf ball markets with the SRIXON brand.

Targeting the domestic tennis equipment market, the company will proactively introduce new tennis rackets under the SRIXON and BABOLAT brands while stepping up the marketing of tennis balls and shoes. Moreover, having acquired certifications for its soft tennis balls and rackets from the Japan Soft Tennis Association, the company will strive to boost sales in these product categories and thus secure overall growth in the tennis equipment business.

In addition, Dunlop Sports will work to expand sales in the wellness promotion business, which it launched in fiscal 2014, by realizing synergies with its golf and tennis school businesses.

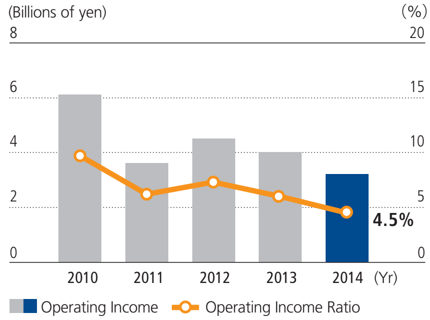
Net Sales **¥70.5 billion**

Year on Year **+6.3%**



Operating Income and Operating Income Ratio **¥3.2 billion**

Year on Year **-20.6%**



Sales Breakdown (Billions of yen)

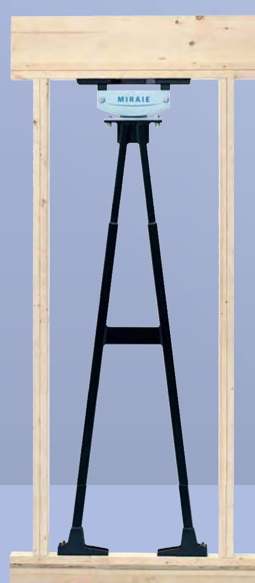
	2013	2014	Year on Year
Clubs	33.2	**34.5**	**+4%**
Balls	14.4	**14.5**	**+1%**
Shoes and accessories	7.4	**7.9**	**+7%**
Golf goods	55.0	**56.9**	**+4%**
Tennis goods	6.3	**6.3**	**+1%**
Licensing revenue	0.4	**0.4**	**+11%**
Sports goods	61.6	**63.7**	**+3%**
Services	—	**4.5**	**+9%**
Wellness promotion	—	**2.7**	**+195%**
Other	5.0	**—**	**—**
Total	66.6	**70.9**	**+6%**

Figures are rounded to the nearest ¥0.1 billion. Percentage figures are rounded to the nearest whole number

INDUSTRIAL AND OTHER PRODUCTS

BUSINESS

- **The Industrial and Other Products business offers a wide variety of products encompassing precision rubber parts for printers and photocopiers, vibration control dampers, artificial turf for sporting use, floor coating materials, portable ramps for wheelchair use, rubber gloves, rubber gas tubes, offset printing blankets, marine fenders, rubber valves and medical rubber parts. The Company covers diverse needs that range from daily life to industrial applications.**



The MIRAIE 2x4 vibration control unit

The MIRAIE damper for conventional post and beam structures

No.1

share of the domestic market for artificial turf for sporting use

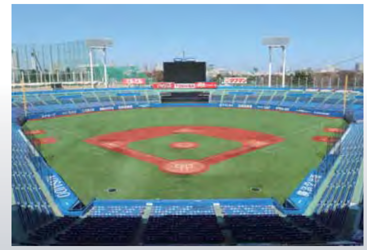
Survey conducted by Sumitomo Rubber Industries

MIRAIE brand vibration control units for housing were developed using proprietary Sumitomo Rubber Industries technology in the area of high damping rubber. Capable of absorbing up to 70%* of the kinetic energy of an earthquake tremor, MIRAIE is also effective in buffering repeated aftershocks.

* Based on the results of in-house shake table experiments simulating real-life earthquake intensity

Rubber gloves
The extensive lineup of Dunlop rubber gloves encompasses products for household and industrial use.

Medical rubber parts
Exercising thorough quality control, Sumitomo Rubber Industries offers safe and high-quality medical rubber parts.



"Hibrid-Turf" artificial turf for sporting use
Realizing both superior safety and playability, Hibrid-Turf is installed in a wide variety of sports facilities from professional pitches to school facilities nationwide. This artificial turf has been used at Jingu Stadium since 2008.

Fiscal 2014 Results

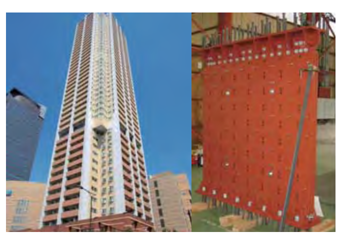
During fiscal 2014, sales in the Industrial and Other Products business increased 8.1% year on year to ¥35.9 billion, while operating income rose 45.0% to ¥4.6 billion.

The Company continued to offer vibration control equipment that helps reduce structural vibration with a lineup tailored to accommodate latest customer needs, including MIRAIE brand vibration control units for housing as well as the MIRAIE 2x4 designed for wooden houses with two-by-four construction. Sales grew steadily for such products as medical rubber parts as well as precision rubber parts for printers and photocopiers. In addition, the Company augmented its lineup of artificial turf for sports facilities with the introduction of Hibrid-Turf EX, a long pile turf that garnered favorable customer reviews for its significantly improved durability.

Owing to these efforts, sales in the Industrial and Other Products business segment increased year on year.

Fiscal 2015 Outlook

As it considers the vibration control system business a potential growth driver, Sumitomo Rubber Industries will continue working to expand sales of MIRAIE brand vibration control units for housing as well as to capture the burgeoning global demand for vibration control dampers for buildings. In the medical rubber parts business, the Company acquired the Switzerland-based Lonstroff Holding AG in January 2015, thus securing a manufacturing and marketing base in Europe. Targeting mainly the European market, the Company will accelerate global expansion in this field.



Vibration control dampers for buildings
Our vibration control dampers made using a special high damping rubber protect buildings and housing complexes from swaying due to high winds and earthquake tremors. We are accelerating our expansion into earthquake-prone Turkey and Taiwan with these products.

MIRAIE Rated Number One in Building Materials and Equipment Manufacturer Rankings

Sumitomo Rubber Industries was rated number one in Nikkei Home Builder's "Building Materials and Equipment Manufacturer Rankings 2014"* in the category of vibration control materials for single-unit housing. This rating was awarded in recognition of the excellent features of the MIRAIE brand vibration control units, including their capability to absorb earthquake tremors as well as superior cost-efficiency and durability.

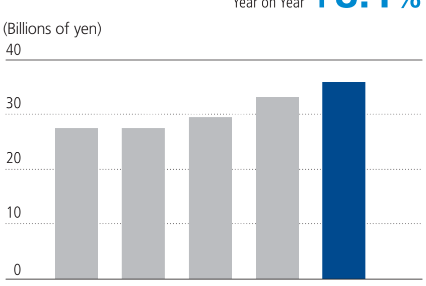
* Sponsored by Nikkei Business Publications, Inc., the ranking was determined based on the results of questionnaires sent via Internet between September 8 and 30, 2014, to a total of 830 people employed by housing developers and construction firms.

Precision rubber parts for printers and photocopiers
Precision rubber parts for printers and photocopiers require accuracy on a micrometer scale. With production bases in Japan, China and Vietnam, Sumitomo Rubber Industries meets the needs of a wide variety of customers.

Net Sales

¥35.9 billion

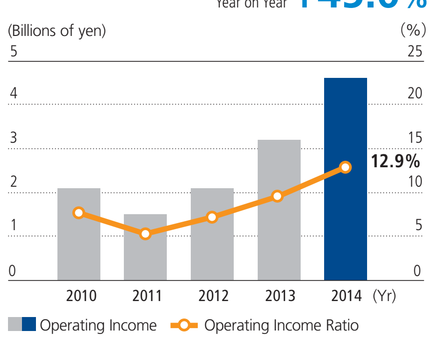
Year on Year **+8.1%**



Operating Income and Operating Income Ratio

¥4.6 billion

Year on Year **+45.0%**



R&D Activities and Intellectual Property Strategies

Constantly targeting new value creation, the Sumitomo Rubber Group engages proactively in research and development (R&D). In addition to these efforts, the Group preserves the fruits of its research as intellectual property and has established structures to fully capitalize on its intellectual property rights.

Tyre Technical Center
Equipped with state-of-the-art testing and measuring machines, the Tyre Technical Center is the Group's main tire R&D facility.

R&D Activities

With the Sumitomo Rubber Industries' R&D organization and facilities as its core, the Sumitomo Rubber Group promotes R&D activities in wide-ranging fields—the tire, sports, industrial and other product businesses—in close cooperation with its subsidiaries and affiliates around the world.

Total R&D expenses in the fiscal year under review amounted to ¥23.5 billion, equivalent to 2.8% of consolidated net sales.

Tire Business

In fiscal 2014, the Company released the SP SPORT MAXX 050 NEO premium runflat tire produced using NEO-T01, a next-generation manufacturing system, and, in the flagship fuel-efficient ENASAVE brand line, introduced the ENASAVE NEXT, which received the highest classification, AAA-a, under Japan's official tire labeling system for its rolling resistance and wet grip performance. In pursuit of new tire materials, the Company is currently developing ADVANCED 4D NANO DESIGN technology with an eye to rollout in fiscal 2015 and application to the development of products that will be released in fiscal 2016 and beyond. In fiscal 2014, R&D expenses in the Tire business totaled ¥20.5 billion.

Sports Business

With R&D sections placed at both Dunlop Sports and Cleveland Golf Company Inc., Dunlop Sports pursues the development, evaluation and verification of new technologies and products, employing cutting-edge computer simulations. Reflecting these activities, during fiscal 2014, Dunlop Sports developed such products as the NEW XXIO PRIME golf club series. R&D expenses in the Sports business amounted ¥1.5 billion.

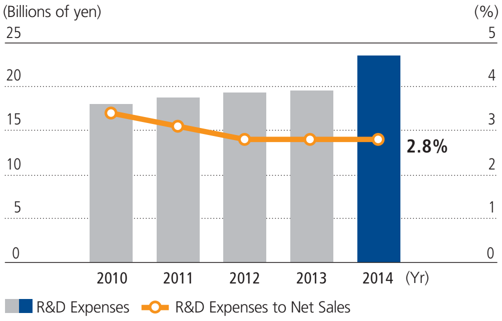
Industrial and Other Products Business

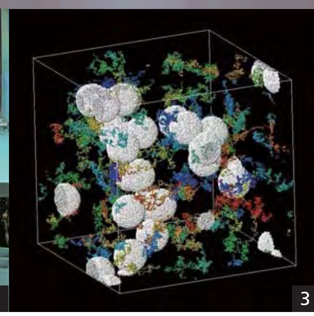
Sumitomo Rubber Industries develops products that meet consumer needs in each product field. In the vibration control system business, the Company expanded the product lineup of MIRAIE brand vibration control units for housing. In the field of medical rubber parts, the Company acquired Lonstroff Holding AG, which specializes in medical rubber parts, in January 2015 in addition to promoting the development of highly functional products. R&D expenses in the Industrial and Other Products business were ¥1.5 billion.

R&D Expenses and R&D Expenses to Net Sales

¥23.5 billion

Year on Year **+7.9%**





1 The K computer
To further the advancement of new material development technology aimed at creating high-performance and quality tires, the Company utilizes the K computer, one of the world's most powerful supercomputers.
Photo provided by RIKEN

2 Inside-Drum Testing Machine
A machine that monitors the key performance metrics of tires when cornering on dry, wet or icy roads

3 A computer simulation showing a molecular-level view of the principal constituents of tires
(gray: silica particles*; color: partially rendered polymers)
* A filling material being compounded to enhance the strength of the rubber (particles approximately 10-20nm in diameter)

4 Golf Science Center (Japan)
With the ability to comprehensively measure, analyze and evaluate golf equipment, our Golf Science Centers boast a wealth of data covering wide-ranging subjects, including the relationships between the golf swing forms of various golfers and such equipment as clubs and balls.

Intellectual Property Strategies

Basic Policy

The Sumitomo Rubber Group proactively carries out intellectual property activities that support its businesses. The Group has set forth a basic policy with regard to such activities in accordance with VISION 2020, a long-term vision established in 2012.

Specifically, the Group undertakes intellectual property activities focusing on three pillars, namely: 1) securing intellectual property rights with regard to such industrial properties as patents, utility models, designs and trademarks; 2) exercising such rights against the infringement of the Group's intellectual properties; and 3) eliminating risk by developing a structure to protect the Group's rights from violation by third parties.

Current Status of Basic Policy Implementation

The current status of the basic policy is as presented below.

Thanks to the success of intellectual property training for employees and the introduction of a structure that connects technological development to patent application, Sumitomo Rubber Industries has been recognized for its world-class intellectual property accomplishments and included among the Thomson Reuters 2014 Top 100 Global Innovators.

The Group seeks to effectively utilize the intellectual property rights that it has acquired, defending such rights against infringement worldwide. For example, in Europe the Group diligently files litigation against infringement while in Asia it is strengthening cooperation with national administrative bodies to ensure that products that infringe on the Group's rights, including imitations and copies, are seized by customs or, when possible, their production sites are identified and dealt with. To secure the competitive advantage of its products and earn greater trust, the Sumitomo Rubber Group will constantly reinforce the structure it has built to ensure the protection of its intellectual property rights against such infringement.

Responding to Globalization

In step with the rapid expansion of its overseas operations, the scope of the Sumitomo Rubber Group's intellectual property activities is growing worldwide, encompassing not only Japan but also the United States, Europe and such Asian countries as China as well as Russia and countries in South America, the Middle East and Africa.

Reflecting this, efforts are now under way to nurture human resources and reinforce our structure for handling intellectual properties. In particular, the Group is providing training sessions not only for Intellectual Property department members but also for employees at every operational base with the aim of upgrading the competencies of the entire workforce. Such action is facilitating the development of a structure that ensures intellectual property activities are carried out smoothly and seamlessly on a Groupwide basis.

To reinforce the intellectual property structure, it is essential to cooperate with such external organizations as legal firms, patent offices, patent agents, research agencies and administrative bodies in Japan and overseas. With the aim of strengthening the connections between the Group and these organizations as well as across-the-board communication, the Sumitomo Rubber Group implements projects that involve internal and external collaborations.

Moreover, the Group renewed its in-house Intellectual Property Management System to improve operational efficiencies and ensure that information is shared globally. Through this renewal, the Group established a network that connects all of its operational bases and agencies around the world. Moreover, the renewal facilitated a switchover from paper-based to paperless operations that utilize a workflow system and database. This significantly accelerated the Group's operations with regard to intellectual property rights.

Focusing on the abovementioned three pillars, the Group will promote the more efficient implementation of intellectual property activities encompassing all regions worldwide.

FUNDAMENTAL PHILOSOPHY OF THE SUMITOMO RUBBER GROUP'S CSR ACTIVITIES

CSR PHILOSOPHY	The Sumitomo Rubber Group carries out its GENKI Activities, which proactively contribute to the environment and communities, in order to become a trusted corporate citizen and part of a sustainable society.		
CSR GUIDELINE	Green	GREEN INITIATIVE	1. Help curb global warming by planting trees 2. Establish better relationships with communities by planting trees
	Ecology	ECOLOGICAL PROCESS	3. Reduce CO_2 emissions 4. Implement worldwide environmental management
	Next	NEXT-GENERATION PRODUCT DEVELOPMENT	5. Develop environmentally friendly products 6. Pursue safety and comfort, economy, and quality
	Kindness	KINDNESS TO EMPLOYEES	7. Foster human resource development and make jobs rewarding 8. Create a safe, employee-friendly workplace 9. Achieve a work-life balance
	Integrity	INTEGRITY FOR STAKEHOLDERS	10. Ensure thorough corporate governance 11. Ensure thorough compliance 12. Promote dialog with stakeholders 13. Keep social contribution in constant motion

The Sumitomo Rubber Group proactively promotes CSR activities under the assumption that not only should efforts be made to raise economic value, but that it is essential to enhance social value as well. These endeavors are undertaken in order to realize sustainable growth and the creation of value, as stated in the Group's VISION 2020 long-term vision.

1,485,000

trees have been planted since 2009

100%

of our domestic factories have switched from heavy oil to cleaner natural gas as boiler fuel

0%

of the Group's production facility waste is disposed of in landfills

CSR Topics

Green Initiatives

To commemorate its 100th anniversary in 2009, the Group commenced the "One Million Trees Project for Local Forests," aiming to plant one million trees over the next 20 years at its production bases and in their neighboring areas in Japan and overseas. Under this project, Group employees gather seeds, raise them into seedlings and plant them in nearby mountain areas with the aim of preserving biodiversity. Also, the Group is setting aside a portion of sales returns from specific tire products to fund the planting of mangrove trees. As part of the project, local residents are invited to interact and work hand in hand with employees in forest development activities. The One Million Trees Project for Local Forests thus encompasses a variety of initiatives, and employees from domestic and overseas business sites have proven enthusiastic participants. As of the end of 2014, the number of trees planted reached 1,485,000.

Contributing to the Environment and Society

Sumitomo Rubber Industries is proactively involved in activities aimed at contributing to communities, society and the environment on a Groupwide basis. For example, we dispatch volunteers, donate funds and cosponsor charity events with the aim of supporting areas devastated by disasters. Moreover, the Group is engaged in cleanup activities around its business sites nationwide, participates in blood donation campaigns, supports education for children, conducts national tire safety inspection campaigns and strives to interact meaningfully with people in local communities. The range of such activities expands each year and encompasses our business sites overseas in addition to those in Japan. Also, the Sumitomo Rubber Group maintains an in-house CSR commendation system to recognize activities deemed to be of particular excellence. Every December, we bestow "Environmental Contribution" and "Social Contribution" awards to outstanding performers in the "Workplace Award" and "Individual Award" categories. In 2014, there were 30 candidates for such commendation.

CSR Fund Granted

In July 2009, Sumitomo Rubber Industries established the Sumitomo Rubber CSR Fund to support various activities aimed at addressing such socially important issues as the global environment. As part of such initiatives, Sumitomo Rubber Industries introduced a matching-gift program in which the Company deducts ¥200 each month from the salaries of participating employees as a donation to the fund, matching these contributions with an equivalent donation. The scope of organizations that the fund helps subsidize includes: environmental preservation activities, including biodiversity promotion; disaster relief; traffic safety; and finding solutions to social issues besetting the communities around individual Group business sites. In the year under review, the Group expanded both the number and the geographical distribution of subsidy recipients. Specifically, in the fifth round of subsidies granted in April 2014, the number of recipients grew from 29 organizations to 32 organizations in six locations in Fukushima Prefecture, Tokyo, Aichi Prefecture, Osaka Prefecture, Hyogo Prefecture and Miyazaki Prefecture.

CSR Procurement

In addition to the expansion of Green Procurement, there is a growing trend toward incorporating such themes as compliance assurance, human rights protection and sound labor practices in procurement activities. Reflecting this, the Sumitomo Rubber Group has compiled Procurement Guidelines encompassing the CSR Code of Conduct, wherein the Company calls for its suppliers to perform CSR activities or cooperate with it in its pursuit of these activities. In addition, the Company periodically provides suppliers with CSR-themed training sessions that reflect issues brought to light by the questionnaires routinely sent out to each supplier in order to assess their CSR efforts. Going forward, the Sumitomo Rubber Group will build on its harmonious and cooperative relationships with its suppliers to continuously expand the scope of its CSR activities along its entire supply chain. At the same time, the Group will work to further promote CSR initiatives on its own as its customers' trusted supplier.

For details on the Group's CSR activities, please read the *Sumitomo Rubber Group CSR Report*, which is also available on the Group website.

http://www.srigroup.co.jp/english/csr/index.html

Corporate Governance

Sumitomo Rubber Industries' basic management policy is to enhance its corporate value as a promising and reliable global company for the benefit of all stakeholders, including shareholders. Under this policy, the Company considers the enhancement of corporate governance as a major management objective in its efforts to better fulfill its social responsibility and enhance its transparency. This policy will help to strengthen Group management and establish deep relationships of trust with society, while ensuring Group-wide business efficiency.

Corporate Governance Structure

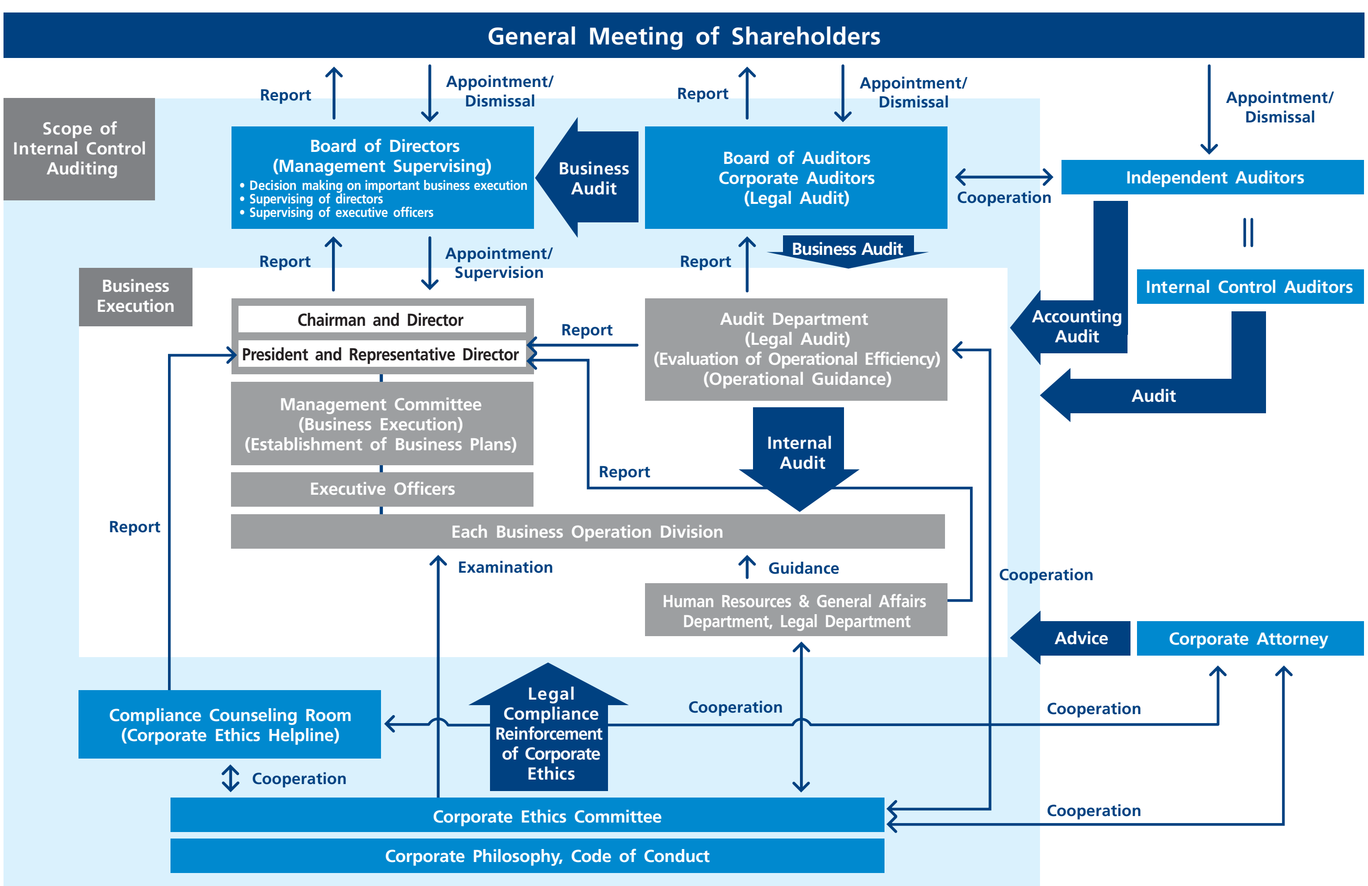
Sumitomo Rubber Industries has adopted a corporate system with a Board of Auditors and maintains directors, a general meeting of shareholders, accounting auditors and the following bodies.

The Company's Board of Directors deliberates and determines matters of managerial importance and supervises directors' execution of operations. As of March 26, 2015, the Board of Directors was composed of 11 members, two of whom were external directors.

Corporate auditors independently audit directors' execution of operations. As of March 26, 2015, the Company maintained a structure of five corporate auditors, two of whom are full-time corporate auditors. Full-time corporate auditors attend important internal meetings and confirm important documents for approval.

The Board of Auditors is composed of all of the Company's corporate auditors. To reinforce the management auditing function, three of the five corporate auditors serve as external auditors, securing a structure to conduct fair and objective audits.

In addition to the abovementioned organizations stipulated under Japan's Corporation Law, the Company established a Management Committee composed of internal directors and executive officers appointed by the president, who concurrently serves as a representative director. With the attendance of full-time corporate auditors, the Management Committee makes prompt managerial



decisions based on discussions or the reporting of matters considered to be important to management.

Furthermore, the Company adopted an executive officer system in March 2003. This system was put in place with the aim of establishing a management structure that promotes the separation of management supervision and execution, clarifies the rights and responsibilities of each business and promptly responds to changes in the business environment. As of March 26, 2015, there were 21 executive officers, 13 of whom did not serve concurrently as directors.

Audits by Corporate Auditors, Intern al Audits and Accounting Audits

In accordance with audit plans and policies set out by the Board of Auditors, each corporate auditor attends important meetings, including Board of Directors' meetings; hears reports on the status of job execution from directors and internal audits; reviews important approval documents; and implements on-site audits at the Head Office, major business sites and subsidiaries. In addition, corporate auditors review each others' reports on auditing status while working closely with accounting auditors to ensure that audits are conducted in an appropriate manner.

Sumitomo Rubber Industries' internal audit function is the responsibility of the Audit Department. Under the direct control of the president, the Audit Department is composed of 12 staff and one full-time assistant to the corporate auditors. The Audit Department conducts audits of the Group as a whole and evaluates its internal control system over the Group's financial reporting. In accordance with audit policies and annual internal audit plans, the Audit Department implements onsite audits of the Head Office, major business sites and subsidiaries to evaluate the efficacy, efficiency and degree of compliance adequacy in connection with the execution of operations at each division and department and related Group company. On the completion of an internal audit, the results and any recommendations for improvement are reported to the president and the Board of Auditors in an effort to ensure reciprocal collaboration. The Audit Department and accounting auditors facilitate closer collaboration as needed to fulfill their duties.

For accounting audits, the Company has entered into an audit agreement with KPMG AZSA LLC in line with the Corporation and the Financial Instruments and Exchange Laws.

External Directors and External Corporate Auditors

As of March 26, 2015, Sumitomo Rubber Industries had two external directors and three external corporate auditors.

Director Keizo Kosaka attended all of the 14 Board of Directors' meetings held during 2014. Leveraging his abundant knowledge as a lawyer who excels at corporate legal affairs, he provides valuable comments and opinions from an objective perspective and, therefore, the Company anticipates that he will help enhance its corporate governance.

Director Fumikiyo Uchioke attended all of the 14 Board of Directors' meetings held during 2014. As a serving member of the board at Sumitomo Electric Industries, Ltd., he leverages his experience in corporate management to provide advice and opinions that are valuable in the broad aspects of the Company's operations. Accordingly, the Company expects that he will make constant contributions to the enhancement of its corporate governance.

Corporate auditor Tadao Kagono attended all of the 14 Board of Directors' meetings as well as the 13 Board of Auditors' meetings held in 2014. Leveraging his academic expertise and considerable knowledge as a university professor specializing in business administration, he provides opinions on directors' execution of operations from an objective perspective. Therefore, the Company anticipates that he will help reinforce its auditing system.

Corporate auditor Morihiro Murata attended all of the 14 Board of Directors' meetings as well as the 13 Board of Auditors' meetings held in 2014. Leveraging his considerable knowledge of finance and accounting as a certified public accountant and a tax accountant as well as auditing experience as a part-time corporate auditor at Kagome Co., Ltd., he provides opinions on directors' execution of operations from an objective perspective and is expected to help strengthen the Company' auditing system.

Corporate auditor Tetsuji Akamatsu, who was appointed at the General Meeting of Shareholders held on March 28, 2014, attended all of 11 Board of Directors' meetings as well as 10 Board of Auditors' meetings held subsequent to said General Meeting of Shareholders. He has served as the president of KINREI CORPORATION and as a corporate auditor at Cogene Techno Service Co., Ltd. (currently, Creative Techno Solution Co., Ltd.) and is expected to leverage his experience in corporate management and abundant knowledge in this area to help the Company reinforce its auditing system.

In accordance with regulations stipulated by the Tokyo Stock Exchange, Sumitomo Rubber Industries has designated and registered all of its external directors and corporate auditors as independent directors and corporate auditors whose interests are not considered to be in conflict with the interests of the general shareholders.

Remuneration of Directors and Corporate Auditors

Total Amount of Remuneration for Directors and Corporate Auditors in Fiscal 2014

	Total amount of remuneration (Millions of yen)	Total amount of remuneration by type (Millions of yen)				Number of persons to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding external directors)	477	322	—	155	—	8
Corporate auditors (excluding external corporate auditors)	44	44	—	—	—	2
External directors and external corporate auditors	36	36	—	—	—	6

Notes:

1. The number of persons to be paid refers to the total number of remuneration recipients.
2. As of December 31, 2014, Sumitomo Rubber Industries had 10 directors and five corporate auditors. The difference between the actual number of directors and corporate auditors and the number of persons to be paid is due to one corporate auditor resigning during the fiscal year under review.
3. In accordance with a resolution at the 123rd Ordinary General Meeting of Shareholders held on March 26, 2015, the maximum total amount of remuneration for directors and corporate auditors was set at ¥800 million per year (of which ¥70 million per year is for external directors) and ¥100 million per year, respectively. In fiscal 2014, the Company paid ¥492 million in total to 10 directors and ¥65 million in total to six corporate auditors, including one who retired during the fiscal year under review.
4. The total amount of remuneration paid for each director or corporate auditor is not presented because there was no director or corporate auditor who received remuneration exceeding ¥100 million on a consolidated basis.

Remuneration Amount and Its Calculation Method

Sumitomo Rubber Industries' remuneration for directors consists of basic compensation and bonuses, and it is paid within the framework approved at its General Meeting of Shareholders. The basic compensation is determined based comprehensively on each director's position, duties, responsibilities and the Company's business results. The amount of each bonus is determined in accordance with an evaluation of the Company's business results as well as each director's business execution.

The amount of remuneration for corporate auditors is determined in discussions among corporate auditors and paid within the framework approved at the Company's General Meeting of Shareholders.

For the determination of the amount of remuneration for directors and corporate auditors, the Company maintains objectivity by making use of a third party's survey of Japanese companies with a business scale equivalent to that of Sumitomo Rubber Industries.

Internal Control System

Implementation and Status of the Internal Control System

Sumitomo Rubber Industries resolved its basic policy regarding the development of its internal control system based on Japan's Corporation Law at a Board of Directors' meeting and disclosed it to the public. In addition, the Company developed an internal control system based on the Financial Instruments and Exchange Law as well as evaluation, audit and practice standards as stipulated by the Financial Service Agency with the aim of reinforcing the Company's structure to ensure the appropriateness of both in-house and subsidiaries' financial reporting.

Compliance System

Based on compliance with social norms, which are stipulated in the Company's Code of Conduct, Sumitomo Rubber Industries maintains the guideline that corporate activities must adhere to laws and ordinances, social norms and public decency. In addition, the Company strives to increase awareness and ensure strict legal compliance. In order to fulfill its corporate social responsibility, Sumitomo Rubber Industries established the basic objective of complying with laws and its Articles of Incorporation while establishing a strict code of corporate ethics and ensuring sound business operations. To that end, the Company formulated its "Regulations on Corporate Ethics Activities" and established the Corporate Ethics Committee in February 2003. In addition, Sumitomo Rubber Industries set up a compliance counseling room directly controlled by the president as a corporate ethics helpline for employees. This enables the Corporate Ethics Committee to investigate any problems that arise and give sufficient attention to ensuring that those employees who come forward are not penalized. Furthermore, with a close eye on legal issues, the Company takes such measures as seeking advice from corporate attorneys as circumstances demand.

Risk Management System

With regard to a variety of management risks that could exert a significant impact on the Company's business operations, including issues with product quality, legal requirements, environmental concerns, credit, accidents and disasters, each division and department undertakes preemptive analyses of potential risks and formulates appropriate countermeasures, which are discussed at management meetings in accordance with the risk management rules. When conducting risk analysis and formulating countermeasures, the Company requests on an as-needed basis advice and instruction from specialists, such as corporate attorneys. For cross-departmental risks, each administration department works in close collaboration with related divisions and departments in their respective areas of operation to conduct Companywide countermeasures.

Furthermore, Sumitomo Rubber Industries established a Risk Management Committee based on its risk management rules. The Risk Management Committee controls Companywide risk management activities and investigates such activities to confirm the effectiveness of the risk management system. Should significant risks materialize, or be expected to materialize, the Company president will establish a risk control headquarters based on the risk management rules.

Corporate Governance

(As of March 26, 2015)

Board of Directors

Chairman of the Board and Director
Tetsuji Mino

President and CEO, Representative Director
Ikuji Ikeda

Representative Director and Executive Vice President
Hiroaki Tanaka

Representative Director and Managing Executive Officer
Minoru Nishi

Director and Senior Executive Officer
Kenji Onga

Director and Senior Executive Officer
Yasutaka Ii

Director and Senior Executive Officer
Hiroki Ishida

Director and Senior Executive Officer
Yutaka Kuroda

Director and Senior Executive Officer
Satoru Yamamoto

Director (External)*
Keizo Kosaka

Director (External)*
Fumikiyo Uchioke

Corporate Auditors

Corporate Auditor (Full-time)
Toshiyuki Noguchi

Corporate Auditor (Full-time)
Yasuyuki Sasaki

Corporate Auditor (External)*
Tadao Kagono

Corporate Auditor (External)*
Morihiro Murata

Corporate Auditor (External)*
Tetsuji Akamatsu

Executive Officers

Senior Executive Officer
Kozaburo Nakaseko

Executive Officer
Naoki Yamada

Executive Officer
Naofumi Harada

Executive Officer
Norifumi Fujimoto

Executive Officer
Masaharu Ono

Executive Officer
Tetsuhiko Yoshioka

Executive Officer
Takanori Aoi

Executive Officer
Hidekazu Nishiguchi

Executive Officer
Takashi Kono

Executive Officer
Toshihiko Komatsu

Executive Officer
Tomohiko Masuta

Executive Officer
Kiyoshige Muraoka

Executive Officer
Masatsugu Nishino

* Registered as independent directors and corporate auditors in accordance with regulations stipulated by the Tokyo Stock Exchange

Financial Section

11-Year Summary of Consolidated Financial Data

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

				Millions of yen
Years ended December 31	**2014**	2013	2012	2011
For the year:				
Net sales	**¥837,647**	¥780,609	¥710,247	¥676,904
Cost of sales	**511,616**	486,704	450,226	445,426
Selling, general and administrative expenses	**239,780**	216,850	190,298	177,554
Operating income	**86,251**	77,055	69,723	53,924
Net income	**53,206**	44,794	35,451	28,386
Depreciation and amortization	**48,204**	43,279	36,278	37,606
Capital expenditures	**62,814**	57,270	56,889	48,515
R&D expenses	**23,543**	21,822	19,539	19,274
Cash flows from operating activities	**108,941**	77,012	76,643	18,945
Cash flows from investing activities	**(71,584)**	(68,275)	(62,167)	(51,569)
Cash flows from financing activities	**(32,507)**	(5,824)	(15,835)	28,009
At year-end:				
Total assets	**¥973,587**	¥867,464	¥737,528	¥671,611
Net assets	**446,960**	358,844	271,103	222,175
Equity	**413,374**	329,813	244,165	197,661
Interest-bearing debt	**295,747**	302,113	275,876	274,216

				Yen
Per share amounts:				
Net income	**¥ 202.82**	¥ 170.76	¥ 135.13	¥ 108.20
Net income—diluted	**—**	—	—	—
Cash dividends paid	**50.00**	40.00	30.00	23.00

				Percent
Key ratios and metrics:				
Operating income ratio	**10.3%**	9.9%	9.8%	8.0%
ROE	**14.3**	15.6	16.0	14.7
ROA (operating income base)	**9.4**	9.6	9.9	8.3
Equity ratio	**42.5**	38.0	33.1	29.4
Tire sales volume (millions of tires)	**109.14**	100.42	96.48	94.88
Number of employees	**30,224**	26,773	23,507	22,320
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	**720,365**	715,318	710,059	707,026

Notes: 1. U.S. dollar amounts are converted solely for convenience at the rate of ¥121 per US$1.00, the approximate exchange rate prevailing at December 31, 2014.
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 include both tangible assets and intangible assets.

						Millions of yen	Thousands of U.S. dollars (Note 1)
2010	2009	2008	2007	2006	2005	2004	**2014**
¥604,549	¥524,535	¥604,974	¥567,307	¥534,086	¥512,838	¥470,562	**$6,922,702**
387,678	334,249	412,824	368,783	342,856	307,538	288,684	**4,228,231**
169,300	161,547	166,491	153,398	154,440	155,374	136,352	**1,981,653**
47,571	28,739	25,659	45,126	36,790	49,926	45,526	**712,818**
21,427	9,093	1,021	19,499	27,586	25,640	19,169	**439,719**
37,885	37,425	35,475	30,165	27,052	25,755	25,098	**398,380**
32,055	32,484	49,601	53,205	45,308	40,415	36,881	**519,124**
18,698	17,983	19,351	18,223	17,291	16,259	15,730	**194,570**
69,725	64,525	25,879	56,594	23,872	38,984	32,056	**900,339**
(35,400)	(34,260)	(58,067)	(65,167)	(33,923)	(42,878)	(37,622)	**(591,603)**
(25,634)	(22,781)	34,088	8,692	14,687	(3,376)	7,609	**(268,653)**
¥622,243	¥613,230	¥639,941	¥671,117	¥606,938	¥563,442	¥520,157	**$8,046,174**
212,964	209,052	202,642	250,799	223,852	—	—	**3,693,884**
189,684	187,028	180,940	227,780	202,003	174,267	145,492	**3,416,314**
241,250	261,572	275,746	239,573	219,372	205,751	201,929	**2,444,190**
						Yen	U.S. dollars (Note 1)
¥ 81.67	¥ 34.66	¥ 3.89	¥ 74.31	¥ 105.13	¥ 97.10	¥ 78.64	**$ 1.676**
—	—	—	—	—	—	—	**—**
20.00	18.00	18.00	20.00	20.00	20.00	14.00	**0.413**
7.9%	5.5%	4.2%	8.0%	6.9%	9.7%	9.7%	
11.4	4.9	0.5	9.1	14.7	16.0	15.0	
7.7	4.6	3.9	7.1	6.3	9.2	9.1	
30.5	30.5	28.3	33.9	33.3	30.9	28.0	
90.87	76.49	87.34	81.70	75.55	73.12	67.10	
22,242	20,832	20,369	18,410	16,031	17,433	16,737	
263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	
704,248	699,745	696,200	688,541	658,071	634,805	467,371	

Scope of Consolidation

The Sumitomo Rubber Group's consolidated financial statements include those of Sumitomo Rubber Industries and its 75 consolidated subsidiaries, as well as 11 equity-method affiliates (3 nonconsolidated subsidiaries and 8 affiliated companies).

In fiscal 2014, ended December 31, 2014, seven subsidiaries were newly included in the Company's scope of consolidation while one subsidiary was excluded. Of these seven subsidiaries, three are tire business subsidiaries, namely, a subsidiary administrating the Company's European business; a tire production and sales subsidiary in Turkey; and a newly established sales subsidiary in Australia. Another three are sports business subsidiaries. Of the latter, two were included in the scope of consolidation due to the acquisition of their stock by Dunlop Sports Co., Ltd., a consolidated subsidiary of the Company, while the other, which had been an equity-method affiliate, was included due to its increased importance to the Group. The remaining subsidiary was newly established to operate in the Industrial and Other Products business segment and thus included in the scope of consolidation. In addition, one company was excluded due to the merger with Dunlop Sports Marketing Co., Ltd.

Business Environment

During fiscal 2014, the U.S. economy enjoyed modest but constant growth, while the European economy was weakened by creeping anxiety about the debt problems confronting some EU members. In Asian and other emerging nations, economic expansion remained moderate, reflecting the far-reaching spillover effects of decelerating growth in China. To summarize, the overall global economy has hardly been robust. In Japan, although the economy has seen gradual recovery thanks to rising stock prices and an upswing in corporate earnings bolstered by the ongoing depreciation of the yen, the April 2014 consumption tax hike and ensuing decline in private-sector consumption led to overall stagnation.

The business environment surrounding the Group remained harsh due to a decline in global tire demand, which in turn triggered intensifying competition, despite such positive factors as an improvement in export conditions accompanying the depreciation of the yen, consistently low natural rubber prices, and a drastic fall in crude oil prices.

Revenues and Earnings

In fiscal 2014, consolidated net sales grew 7.3% from the previous fiscal year to ¥837,647 million. Overseas sales climbed 10.8% to ¥441,504 million and the overseas sales ratio increased 1.6 percentage points to 52.7%.

The cost of sales increased 5.1% year on year to ¥511,616 million. The cost of sales ratio improved, decreasing 1.2 percentage points year on year to 61.1% owing to the consistently low market price of natural rubber and a drastic fall in crude oil prices. Gross profit rose 10.9% to ¥326,031 million.

Selling, general and administrative expenses grew 10.6% year on year to ¥239,780 million. This was mainly attributable to increases in transportation, storage and packaging expenses, incentive bonuses, commission fees and personnel costs as well as advertising costs and other expenses associated with sales expansion measures. The ratio of selling, general and administrative expenses to net sales edged up 0.8 of a percentage point year on year to 28.6%.

As a result, operating income for the fiscal year under review climbed 11.9% to ¥86,251 million and the operating income ratio edged up 0.4 of a percentage point to 10.3%.

Net other income (expenses) improved from a negative ¥3,034 million to a positive ¥1,160 million. The largest factor contributing to the improvement was equity in earnings of unconsolidated subsidiaries and affiliates totaling ¥4,674 million. Reflecting the change, income before income taxes and minority interests rose 18.1% year on year to ¥87,411 million. Income taxes increased 14.0% to ¥30,049 million, representing an effective tax rate of 34.4%, a decrease of 1.2 percentage points. After deducting minority interests in income, net income expanded 18.8% to ¥53,206 million.

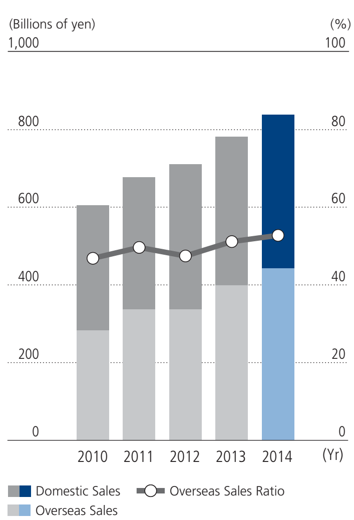
Net income per share was ¥202.82, and ROE (on a net income basis) edged down 1.3 of a percentage point to 14.3%, reflecting a substantial increase in total equity.

Results by Industry Segment

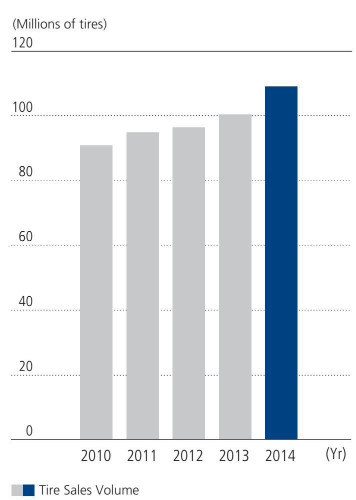
Tire Business

Sales in the Tire business increased 7.4% year on year to ¥731,245 million, while operating income rose 12.3% to ¥78,416 million. During the fiscal year under review, with raw material prices falling, product

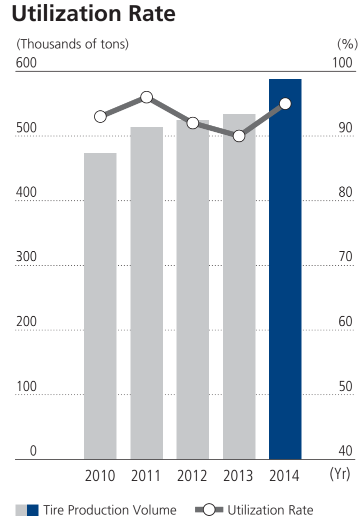
Domestic and Overseas Sales



Tire Sales Volume



Tire Production Volume and Utilization Rate



prices declined and competition intensified, especially in the overseas replacement market. However, sales rose in Japan, China and other markets, including such emerging markets as Brazil and South Africa and were further bolstered by the depreciation of the yen. Despite the fall in sales prices, which decreased profit ¥31.0 billion, operating income was buoyed by the overall decline in raw material prices, which boosted profit ¥26.6 billion, as well as sales growth and the improvement in the product mix, which contributed ¥21.7 billion to profit. Overall costs rose due mainly to an increase in fixed costs that reflected capital expenditure aimed at expanding the Company's overseas production capacity and a rise in expenses due to the reinforcement of the marketing structure. Nevertheless, the profit growth outpaced cost increases, enabling the Company to post a year-on-year increase in earnings.

Sports Business

Sales in the Sports business grew 6.3% year on year to ¥70,462 million, while operating income fell 20.6% to ¥3,170 million. Dunlop Sports' flagship XXIO 8 series golf clubs continued to garner the rave reviews they have enjoyed in the domestic market since their release in December 2013. Looking to capture greater market share, Dunlop Sports also promoted this series overseas. During the fourth quarter of fiscal 2014, the Company launched the wellness promotion business as the segment's third business pillar next to golf goods and tennis equipment. Despite its immediate contribution to growth in segment sales, this start-up business caused segment profit to decline due to an increase in product costs attributable to the depreciation of the yen.

Industrial and Other Products Business

Sales in the Industrial and Other Products business grew 8.1% from the previous fiscal year to ¥35,940 million, while operating income surged 45.0% to ¥4,648 million. Among contributors to sales were the MIRAIE brand vibration control units for housing, a wide ranging line capable of accommodating diverse customer needs. Also contributing to sales was a steadily increasing revenue stream from medical rubber parts and precision rubber parts for printers and photocopiers. Artificial turf for sporting use saw firm sales as well, with a newly introduced product garnering favorable customer reviews, contributing to increases both in revenues and earnings.

R&D Expenses

Research and development expenses increased 7.9% year on year to ¥23,543 million. The ratio of such expenses to consolidated net sales remained unchanged year on year at 2.8%. The Tire business accounted for ¥20,543 million of these expenses, up 8.3% from the previous fiscal year, the Sports business ¥1,478 million, up 10.5%, and the Industrial and Other Products business ¥1,522 million, up 0.9%.

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 2014 increased ¥10 per share from the previous fiscal year to ¥50 per share, which comprised a ¥20 interim dividend and a ¥30 year-end dividend. The dividend payout ratio on a consolidated basis was 24.7%.

Financial Position

Total assets as of December 31, 2014, were up ¥106,123 million year on year to ¥973,587 million.

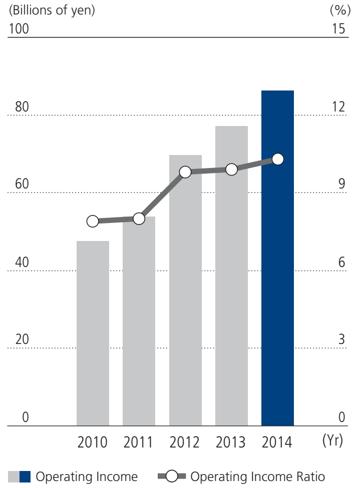
Total current assets rose ¥32,813 million to ¥440,296 million. This was due mainly to increases notes and accounts receivable—trade and inventories.

Total noncurrent assets climbed ¥73,310 million to ¥533,291 million, mainly reflecting an increase in property, plant and equipment.

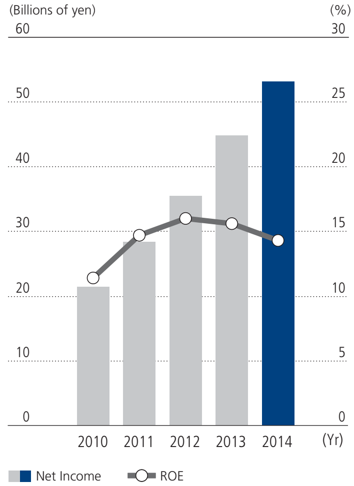
As of the end of the fiscal year under review, total liabilities were up ¥18,007 million year on year to ¥526,627 million. Interest-bearing debt as of the fiscal 2014 year-end decreased ¥6,366 million to ¥295,747 million. As a result, the debt-to-equity ratio improved from 0.9 times as of the previous fiscal year-end to 0.7 times.

Total net assets at the fiscal year-end were up ¥88,116 million to ¥446,960 million, and net assets per share were ¥1,575.82, up from ¥1,257.25 at the previous fiscal year-end. Of the items comprising net

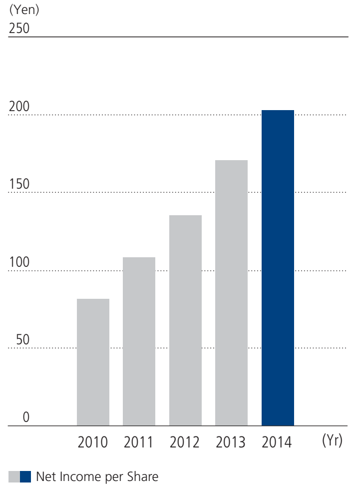
Operating Income and Operating Income Ratio



Net Income and ROE



Net Income per Share



assets, total equity, which is the sum of shareholders' equity and accumulated other comprehensive income, grew ¥83,561 million year on year to ¥413,374 million. The equity ratio was up 4.5 percentage points to 42.5%. Despite the rise in operating income, ROA (on an operating income basis) declined 0.2 of a percentage point to 9.4% in step with the increase in total assets.

Capital Expenditures

During the fiscal year under review, the Group's capital expenditures amounted to ¥63,294 million (including leased tangible assets), a year-on-year rise of 10.5%. The Tire business accounted for ¥59,040 million of the total, up 8.8% year on year. Funds were used mainly for domestic facility renovation aimed at streamlining production with an eye to improving labor efficiency as well as for the reinforcement of production facilities in Thailand and Brazil and the construction of a factory in Turkey. The Sports business spent ¥2,516 million, 35.4% more than the previous fiscal year, mainly for production streamlining and the manufacture of metal molds for new products at domestic factories as well as for the reinforcement of overseas production facilities. The Industrial and Other Products business used ¥1,738 million, up 52.1% year on year, to increase the Kakogawa Factory's production capacity for precision rubber parts for printers and photocopiers. The necessary funds were furnished through a combination of cash on hand, borrowings and corporate bonds.

Cash Flows

Net cash provided by operating activities totaled at ¥108,941 million. The main contributor to cash inflows was income before income taxes totaling ¥87,411 million. Cash outflows included an ¥8,025 million increase in notes and accounts receivable—trade, a ¥4,888 million increase in inventories and a ¥3,676 million decrease in notes and accounts payable—trade.

Net cash used in investing activities totaled at ¥71,584 million. Primary cash outflows included ¥61,846 million spent for the purchase of property, plant and equipment to reinforce production capacity.

After deducting net cash used in investing activities from net cash provided by operating activities, free cash flow was a positive ¥37,357 million.

Net cash used in financing activities included a net outflow of ¥17,309 million from the repayment of short-term loans, corporate bonds and long-term debt and ¥11,805 million appropriated for the payment of cash dividends. As a result, as of the end of the fiscal year under review, cash and cash equivalents after adjusting for the effect of exchange rate change totaled ¥53,584 million.

Over 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. In other words, the Group will make every effort to ensure not only business growth but also to secure its liquidity and improve its financial standing.

Outlook

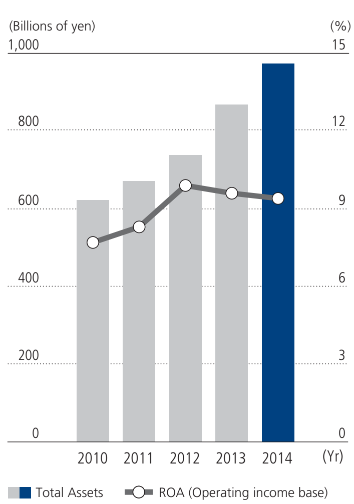
On the global level, the U.S. economy is likely to see continued gradual growth, while the European economy is anticipated to begin recovering despite lingering financial anxieties. Although emerging nations are expected to enjoy stable economic growth, some of these nations might be negatively impacted by heightening geopolitical risks, which could, in turn, trigger economic uncertainty. As for Japan's economic prospects,although the recovery is expected to sustain its current momentum, consumer confidence is likely to be undercut due to a sense of fiscal uncertainty.

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.

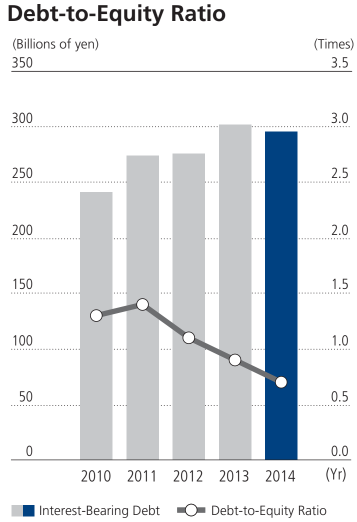
In the Tire business, Sumitomo Rubber Industries will maintain and enhance its presence in the domestic fuel-efficient tire market and, to this end, introduce new items in this category by leveraging its unique and cutting-edge technology. Overseas, the Company will expand sales mainly in promising markets in emerging nations while stepping up marketing in Australia through the aforementioned newly established local sales subsidiary. Moreover, the Company will penetrate markets around the globe by introducing tires compliant with environmental regulations. Also, in concert with its efforts aimed at expanding sales in markets worldwide, the Company will increase production capacity and develop a supply structure to support sustainable business growth.

In the Sports business, the Company will strive to secure greater market share in Japan and overseas by actively introducing new golf goods and tennis equipment. In addition, the Company will expand sales from the wellness promotion business, which it launched in fiscal 2014, by realizing synergies with its golf and tennis school business.

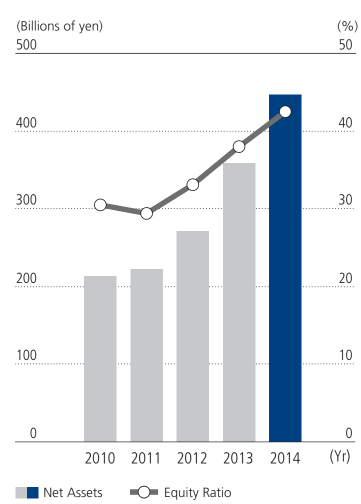
Total Assets and ROA



Interest-Bearing Debt and Debt-to-Equity Ratio



Net Assets and Equity Ratio



In the Industrial and Other Products business, Sumitomo Rubber Industries will strive to boost revenues from the vibration-control damper business, a key growth driver in this segment, as well as sales of medical rubber parts and precision rubber parts for printers and photocopiers. To expand its medical rubber parts business globally, the Company acquired the Swiss-based Lonstroff Holding AG in January 2015, securing a production and sales base from which to penetrate the European market. Also, the Company will develop and introduce new products in the fields of artificial turf for sporting use and rubber gloves, thereby achieving further business growth.

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 52.7% in fiscal 2014, 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 terms.

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.

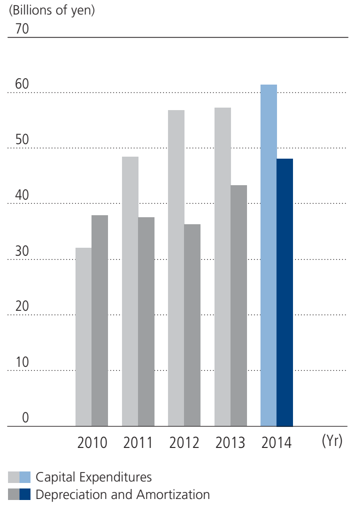
Alliance with Goodyear

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.

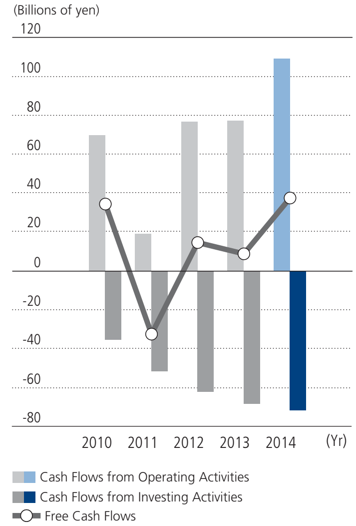
Disasters

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
December 31	**2014**	2013	**2014**
Assets			
Current assets:			
Cash and time deposits (Notes 4 and 5)	**¥ 54,476**	¥ 42,441	**$ 450,215**
Notes and accounts receivable (Note 5)—			
Trade	**208,005**	196,997	**1,719,049**
Unconsolidated subsidiaries and affiliates	**2,022**	1,192	**16,711**
Other	**15,579**	19,389	**128,752**
Allowance for doubtful accounts	**(2,020)**	(1,945)	**(16,694)**
Inventories (Note 6)	**142,043**	130,427	**1,173,909**
Short-term loans	**1,380**	1,415	**11,405**
Deferred tax assets (Note 13)	**11,950**	12,557	**98,760**
Other	**6,861**	5,010	**56,703**
Total current assets	**440,296**	407,483	**3,638,810**
Property, plant and equipment (Note 9):			
Land	**37,569**	37,127	**310,488**
Buildings and structures	**211,688**	187,486	**1,749,488**
Machinery, vehicles and equipment	**619,602**	560,679	**5,120,678**
Leased assets	**9,469**	8,141	**78,256**
Construction in progress	**44,276**	33,224	**365,917**
Accumulated depreciation	**(562,649)**	(509,682)	**(4,649,992)**
Net property, plant and equipment	**359,955**	316,975	**2,974,835**
Investments and other assets:			
Investments in securities (Notes 5 and 7)	**32,291**	27,925	**266,868**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**49,139**	41,664	**406,107**
Long-term loans	**1,280**	1,313	**10,579**
Deferred tax assets (Note 13)	**6,686**	6,010	**55,256**
Long-term prepaid expenses	**4,234**	3,747	**34,992**
Trademarks (Note 10)	**1,538**	1,683	**12,711**
Goodwill and other intangible assets	**29,112**	25,200	**240,595**
Prepaid pension cost (Note 14)	**—**	21,135	**—**
Net defined benefit assets (Note 14)	**30,133**	—	**249,033**
Other	**19,848**	15,294	**164,033**
Allowance for doubtful accounts	**(925)**	(965)	**(7,645)**
Total investments and other assets	**173,336**	143,006	**1,432,529**
Total assets	**¥973,587**	¥867,464	**$8,046,174**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings (Notes 5 and 11)	**¥ 83,008**	¥ 89,719	**$ 686,017**
Current portion of long-term debt (Notes 5 and 11)	**30,456**	58,853	**251,703**
Notes and accounts payable (Note 5)—			
Trade	**70,801**	76,044	**585,132**
Unconsolidated subsidiaries and affiliates	**4,189**	697	**34,620**
Construction	**9,814**	11,733	**81,107**
Other	**48,318**	35,647	**399,322**
Accrued expenses	**22,065**	20,055	**182,355**
Allowance for sales returns	**2,106**	2,645	**17,405**
Accrued income taxes (Note 13)	**12,714**	10,437	**105,074**
Other (Note 13)	**8,834**	7,356	**73,009**
Total current liabilities	**292,305**	313,186	**2,415,744**
Long-term liabilities:			
Long-term debt (Notes 5 and 11)	**182,283**	153,541	**1,506,471**
Deferred tax liabilities (Note 13)	**21,981**	15,983	**181,661**
Provision for retirement benefits (Note 14)	**—**	13,959	**—**
Net defined benefit liabilities (Note 14)	**17,018**	—	**140,645**
Other	**13,040**	11,951	**107,769**
Total long-term liabilities	**234,322**	195,434	**1,936,546**
Contingent liabilities (Note 18)			
Net Assets			
Shareholders' equity:			
Common stock—			
Authorized: 800,000,000			
Issued: 263,043,057 shares in 2014 and 2013	**42,658**	42,658	**352,545**
Capital surplus	**38,661**	38,661	**319,512**
Retained earnings	**265,997**	224,681	**2,198,322**
Less treasury stock, at cost—			
2014—720,365 shares			
2013—715,318 shares	**(559)**	(551)	**(4,619)**
Total shareholders' equity	**346,757**	305,449	**2,865,760**
Accumulated other comprehensive income:			
Net unrealized gains and losses on available-for-sale securities	**14,246**	11,521	**117,736**
Deferred gains and losses on hedges	**507**	164	**4,190**
Currency translation adjustments	**62,913**	31,677	**519,942**
Pension liability adjustments in affiliated foreign companies	**—**	(18,998)	**—**
Remeasurements of defined benefit plans	**(11,049)**	—	**(91,314)**
Total accumulated other comprehensive income	**66,617**	24,364	**550,554**
Minority interests	**33,586**	29,031	**277,570**
Total net assets	**446,960**	358,844	**3,693,884**
Total liabilities and net assets	**¥973,587**	¥867,464	**$8,046,174**

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	**2014**	2013	**2014**
Net sales	**¥837,647**	¥780,609	**$6,922,702**
Cost of sales	**511,616**	486,704	**4,228,231**
Gross profit	**326,031**	293,905	**2,694,471**
Selling, general and administrative expenses	**239,780**	216,850	**1,981,653**
Operating income	**86,251**	77,055	**712,818**
Other income (expenses):			
Interest and dividend income	**2,086**	1,446	**17,240**
Interest expense	**(4,601)**	(4,811)	**(38,025)**
Gain on sales of noncurrent assets	**232**	647	**1,917**
Loss on sales and retirement of noncurrent assets	**(686)**	(761)	**(5,669)**
Foreign exchange gains and losses	**(5,881)**	(3,562)	**(48,603)**
Equity in earnings and losses of unconsolidated subsidiaries and affiliates	**4,674**	(356)	**38,628**
Impairment loss (Note 20)	**(103)**	(136)	**(851)**
Gain on valuation of derivatives	**3,953**	4,098	**32,669**
Other, net	**1,486**	401	**12,281**
	1,160	(3,034)	**9,587**
Income before income taxes and minority interests	**87,411**	74,021	**722,405**
Income taxes (Note 13):			
Current	**28,211**	24,682	**233,149**
Deferred	**1,838**	1,687	**15,190**
	30,049	26,369	**248,339**
Income before minority interests	**57,362**	47,652	**474,066**
Minority interests in income	**(4,156)**	(2,858)	**(34,347)**
Net income	**¥ 53,206**	¥ 44,794	**$ 439,719**

		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥202.82**	¥170.76	**$1.676**
Cash dividends	**50.00**	40.00	**0.413**

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	**2014**	2013	**2014**
Income before minority interests	**¥57,362**	¥47,652	**$474,066**
Other comprehensive income (Note 12):			
Net unrealized gains and losses on available-for-sale securities	**2,709**	6,844	**22,388**
Deferred gains and losses on hedges	**342**	6	**2,827**
Currency translation adjustments	**32,071**	36,886	**265,050**
Adjustments for retirement obligation of foreign affiliates	**—**	(27)	**—**
Remeasurements of defined benefit plans	**(596)**	—	**(4,926)**
Share of other comprehensive income of affiliates under the equity method	**4,468**	7,838	**36,926**
	38,994	51,547	**322,265**
Comprehensive income	**¥96,356**	¥99,199	**$796,331**
Comprehensive income attributed to:			
Owners of the Company	**¥91,078**	¥94,470	**$752,711**
Minority interests	**5,278**	4,729	**43,620**

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	Total shareholders' equity	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges
Balance at beginning of fiscal 2013	¥42,658	¥38,661	¥188,700	¥(543)	¥269,476	¥ 4,737	¥158
Disposal of treasury stock		0		0	0		
Dividends from surplus			(9,182)		(9,182)		
Net income			44,794		44,794		
Purchase of treasury stock				(8)	(8)		
Effect of change in reporting entities			354		354		
Other			15		15	6,784	6
Balance at end of fiscal 2013	¥42,658	¥38,661	¥224,681	¥(551)	¥305,449	¥11,521	¥164

Millions of yen

	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at beginning of fiscal 2013	¥ (8,737)	¥(21,470)	¥—	¥(25,312)	¥26,938	¥271,102
Disposal of treasury stock						0
Dividends from surplus						(9,182)
Net income						44,794
Purchase of treasury stock						(8)
Effect of change in reporting entities						354
Other	40,414	2,472	—	49,676	2,093	51,784
Balance at end of fiscal 2013	¥31,677	¥(18,998)	¥—	¥24,364	¥29,031	¥358,844

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges
Balance at beginning of fiscal 2014	¥42,658	¥38,661	¥224,681	¥(551)	¥305,449	¥11,521	¥164
Disposal of treasury stock		**0**		**0**	**0**		
Dividends from surplus			**(11,805)**		**(11,805)**		
Net income			**53,206**		**53,206**		
Purchase of treasury stock				**(8)**	**(8)**		
Effect of change in reporting entities			**(85)**		**(85)**		
Other						**2,725**	**343**
Balance at end of fiscal 2014	**¥42,658**	**¥38,661**	**¥265,997**	**¥(559)**	**¥346,757**	**¥14,246**	**¥507**

Millions of yen

	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at beginning of fiscal 2014	¥31,677	¥(18,998)	¥ —	¥24,364	¥29,031	¥358,844
Disposal of treasury stock						**0**
Dividends from surplus						**(11,805)**
Net income						**53,206**
Purchase of treasury stock						**(8)**
Effect of change in reporting entities						**(85)**
Other	**31,236**	**18,998**	**(11,049)**	**42,253**	**4,555**	**46,808**
Balance at end of fiscal 2014	**¥62,913**	**¥ —**	**¥(11,049)**	**¥66,617**	**¥33,586**	**¥446,960**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains and losses on available-for-sale securities	Deferred gains and losses on hedges
Balance at beginning of fiscal 2014	$352,545	$319,512	$1,856,868	$(4,553)	$2,524,372	$ 95,215	$1,355
Disposal of treasury stock		**0**		**0**	**0**		
Dividends from surplus			**(97,562)**		**(97,562)**		
Net income			**439,718**		**439,718**		
Purchase of treasury stock				**(66)**	**(66)**		
Effect of change in reporting entities			**(702)**		**(702)**		
Other						**22,521**	**2,835**
Balance at end of fiscal 2014	**$352,545**	**$319,512**	**$2,198,322**	**$(4,619)**	**$2,865,760**	**$117,736**	**$4,190**

Thousands of U.S. dollars (Note 1)

	Currency translation adjustments	Adjustments for retirement obligation of foreign affiliates	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at beginning of fiscal 2014	$261,793	$(157,008)	$ —	$201,355	$239,926	$2,965,653
Disposal of treasury stock						**0**
Dividends from surplus						**(97,562)**
Net income						**439,718**
Purchase of treasury stock						**(66)**
Effect of change in reporting entities						**(702)**
Other	**258,149**	**157,008**	**(91,314)**	**349,199**	**37,644**	**386,843**
Balance at end of fiscal 2014	**$519,942**	**$ —**	**$(91,314)**	**$550,554**	**$277,570**	**$3,693,884**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended December 31	**2014**	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 87,411**	¥ 74,021	**$ 722,405**
Depreciation and amortization	**48,204**	43,279	**398,380**
Impairment loss	**103**	136	**851**
Loss (gain) on sales and retirement of noncurrent assets	**454**	114	**3,752**
Loss (gain) on sales of stocks of subsidiaries and affiliates	**—**	311	**—**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(4,674)**	356	**(38,628)**
Increase (decrease) in allowance for doubtful accounts	**(81)**	106	**(669)**
Increase (decrease) in provision for retirement benefits	**—**	342	**—**
Increase (decrease) in net defined benefit liabilities	**644**	—	**5,322**
(Increase) decrease in prepaid pension costs	**—**	682	**—**
(Increase) decrease in net defined benefit assets	**(609)**	—	**(5,033)**
Interest and dividend income	**(2,086)**	(1,446)	**(17,240)**
Interest expense	**4,601**	4,811	**38,025**
(Increase) decrease in notes and accounts receivable—trade	**(8,025)**	(20,367)	**(66,322)**
(Increase) decrease in inventories	**(4,888)**	10,540	**(40,397)**
Increase (decrease) in notes and accounts payable—trade	**(3,676)**	(1,928)	**(30,380)**
Increase (decrease) in accounts payable—other	**10,361**	3,544	**85,628**
Other, net	**8,526**	(4,528)	**70,463**
Subtotal	**136,265**	109,973	**1,126,157**
Interest and dividend income received	**3,162**	2,547	**26,132**
Interest expense paid	**(4,702)**	(4,852)	**(38,860)**
Income taxes paid	**(25,784)**	(30,656)	**(213,090)**
Net cash provided by (used in) operating activities	**108,941**	77,012	**900,339**
Cash flows from investing activities:			
Payments into time deposits	**(1,992)**	—	**(16,463)**
Proceeds from withdrawal from time deposits	**1,626**	324	**13,438**
Purchase of property, plant and equipment	**(61,846)**	(54,650)	**(511,124)**
Purchase of intangible assets	**(4,663)**	(5,807)	**(38,537)**
Proceeds from sales of noncurrent assets	**459**	1,053	**3,793**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(4,871)**	(5,736)	**(40,256)**
Purchase of investment securities	**(99)**	(12)	**(818)**
Proceeds from sales of investment securities	**34**	0	**281**
Purchase of stocks of subsidiaries and affiliates	**—**	(3,494)	**—**
Net (increase) decrease in short-term loans receivable	**54**	(123)	**446**
Payments of long-term loans receivable	**(21)**	(398)	**(173)**
Collection of long-term loans receivable	**37**	1,058	**306**
Other, net	**(302)**	(490)	**(2,496)**
Net cash provided by (used in) investing activities	**(71,584)**	(68,275)	**(591,603)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(10,087)**	8,422	**(83,364)**
Proceeds from long-term debt and newly issued bonds	**50,182**	23,692	**414,727**
Repayments of long-term debt and redemption of bonds	**(57,404)**	(24,113)	**(474,413)**
Proceeds from issuance of stock to minority shareholders	**1,961**	202	**16,207**
Cash dividends paid	**(11,805)**	(9,182)	**(97,562)**
Cash dividends paid to minority shareholders	**(3,571)**	(3,265)	**(29,512)**
Net (increase) decrease in treasury stock	**(8)**	(8)	**(66)**
Other, net	**(1,775)**	(1,572)	**(14,670)**
Net cash provided by (used in) financing activities	**(32,507)**	(5,824)	**(268,653)**
Effect of exchange rate change on cash and cash equivalents	**4,269**	5,533	**35,281**
Net increase (decrease) in cash and cash equivalents	**9,119**	8,446	**75,364**
Cash and cash equivalents at beginning of period	**42,004**	32,876	**347,140**
Increase (decrease) in cash and cash equivalents due to change in reporting entities	**2,461**	682	**20,339**
Cash and cash equivalents at end of period (Note 4)	**¥ 53,584**	¥ 42,004	**$ 442,843**

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, 2014 and 2013

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Sumitomo Rubber Industries, Ltd. ("the Company") have been prepared in accordance with the provisions set of forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

The accounts of consolidated overseas subsidiaries have been prepared in accordance with either IFRS or U.S. generally accepted accounting principles, as required under "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No.18) issued by the Accounting Standards Board of Japan ("ASBJ"). In this case, adjustments for the following five items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material; (a) Goodwill not subject to amortization; (b) actuarial gains and losses of defined-benefit retirement plans that have been directly recognized in other comprehensive income; (c) Capitalized expenditures for research and development activities; (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets; (e) Accounting for net income attributable to minority interests.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosures from the statutory Japanese language consolidated financial statements. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The U.S. dollar amounts appearing in the consolidated financial statements are included solely for convenience of the readers outside Japan and presented at the rate of ¥121 to US$1.00, the approximate rate prevailing at December 31, 2014. The translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and, with minor exceptions, those of its majority-owned subsidiaries at the relevant balance sheet dates. All significant intercompany accounts, transactions and unrealized profit or losses have been 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 using the equity method. Under the equity method, investments are stated at cost plus/minus the Company's equity in undistributed earnings or losses. The Company's equity in current earnings or losses of such companies is, after the elimination of unrealized intercompany profits, included in the consolidated statements of income.

Dunlop Sports Okinawa Co., Ltd. was merged into Dunlop Sports Marketing Co., Ltd. and excluded from consolidation.

Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş. Ltd. and SRI Europe GmbH, the operations of which became significant, were included in consolidation.

Wako Tennis Co., Ltd. (renamed Dunlop Tennis School Co., Ltd., as of October 1, 2014), the operations of which became significant, was excluded from the equity-method application and included in consolidation.

Sumitomo Rubber Takasago Integrate, Ltd. and Sumitomo Rubber Australia Pty Ltd. were included in consolidation due to their being founded during the year.

Dunlop Sports Co., Ltd., a consolidated subsidiary of the Group, acquired all issued shares of KITZ Wellness Co., Ltd. (renamed Dunlop Sports Wellness Co., Ltd. as of October 1, 2014) and Sapporo Sports Plaza Co., Ltd., (renamed Dunlop Sports Plaza Co., Ltd. as of December 1, 2014), which were therefore included in consolidation.

Consolidated subsidiaries that have a fiscal year ending other than December 31 have prepared provisional financial statements to conform to the fiscal year of the Company for group consolidation purposes.

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, negative goodwill generated on or before March 31, 2010 and goodwill are amortized using the straight-line method over a period within 20 years. Minor goodwill and negative goodwill 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 the rates of exchange prevailing at the balance sheet date, except for those hedged by forward exchange contracts, which are translated at the contract rates. Resulting the exchange gains and losses are included in the consolidated statements of income.

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 for 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 and charged 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) Method of 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 payable covered by these contracts are translated using the contracts' rates (designation method). 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. When interest rate and currency swap contracts which meet above both conditions, hedged items in foreign currencies are translated using the contract rates, and the net amount to be paid or received under the contract is added 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 payable in foreign currencies and forecasted transactions
Interest rate swap contracts	Long-term debt with variable interest rate
Interest rate and currency swap contracts	

(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 until the time of evaluating its effectiveness.

(6) Inventories

Inventories are stated mainly at cost of gross average method or net realizable value.

(7) Allowance for doubtful accounts

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

(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, vehicles and equipment.

(9) Accounting for leases

Finance leases which transfer ownership are depreciated in the same manner as owned noncurrent 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 lives of the assets.

(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) Accounting for retirement benefits

(a) Method of attributing the expected retirement benefits to periods

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year based on the estimated number of total service years.

(b) 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), which is within the average remaining service period of employees commencing with the fiscal year they are incurred. Actuarial differences are amortized on a straight-line basis, over a fixed number of years (10 or 15 years), which is within the average remaining service period of employees when the differences occur commencing in the following year.

(c) Adoption of a simplified method for small-sized companies, etc.

Some consolidated subsidiaries adopt the simplified method, under which the Company records the retirement benefit at 100% of the amount that would be required if all employees are voluntarily resigned as of each balance sheet date.

(14) Income taxes

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss carryforwards and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(15) 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, 2014 or December 31, 2013.

(16) 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.

(17) Reclassifications and restatements

Certain prior year amounts have been reclassified and restated to conform to the current year's presentation. These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

(18) Unapplied accounting standards

Announcement of Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(a) Summary

The aforementioned Accounting Standard and Guidance aim to revise the methods used to recognize unrecognized actuarial differences and prior service costs and to calculate retirement benefit liabilities and service costs as well as to expand the range of disclosure for the purpose of improving financial reporting in line with international accounting trends.

(b) Scheduled date of application

The revisions concerning the method of calculating retirement benefit liabilities and service costs will be applied effective from the beginning of the fiscal year ending December 31, 2015.

Because the Accounting Standard and the Guidance provide for transitional treatment, they are not retrospectively applied to the consolidated financial statements for prior years.

(c) Impact of application

Due to the revision in the method used to calculate retirement benefit liabilities and service costs, net defined benefit liability is expected to increase ¥1,110 million ($9,174 thousand) and net defined benefit asset to decrease ¥7,777 million ($64,273 thousand), with retained earnings decreasing ¥5,570 million ($46,033 thousand) at the beginning of the fiscal year ending December 31, 2015.

The impact of this revision on operating income, ordinary income and income before income taxes and minority interests for fiscal year 2015 is expected to be immaterial.

3. Changes in Accounting Policies

Effective from the end of the fiscal year ended December 31, 2014, 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, May 17, 2012, hereinafter the "Guidance") have been applied, except for the article 35 of the Accounting Standard and the article 67 of the Guidance. According to this application, an amount obtained by deducting the amount of plan assets from retirement benefit obligation is recognized as net defined benefit liability, and unrecognized actuarial differences and unrecognized prior service costs are recognized as net defined benefit liability. If the amount of plan assets exceeds the retirement benefit obligation, the excess is recognized as net defined benefit asset.

For the application of the Accounting Standard and the Guidance, we follow the transitional treatment provided for in the article 37 of the Accounting Standard. Accordingly, the effect of this change is reflected in remeasurements of defined benefit plans under accumulated other comprehensive income.

As a result, as of the end of the fiscal year, net defined benefit asset of ¥30,133 million ($249,033 thousand) and net defined benefit liability of ¥17,018 million ($140,645 thousand) were reported, and there was an increase of ¥4,396 million ($36,331 thousand) in accumulated other comprehensive income.

Following the application of the Accounting Standard and the Guidance, pension liability adjustments in affiliated foreign companies, which was separately stated a component of the consolidated balance sheet, consolidated statements of comprehensive income and consolidated statements of changes in equity for the previous fiscal year, is stated as remeasurements of defined benefit plans in the consolidated balance sheet and consolidated statements of changes in equity, and consolidated statements of comprehensive income is stated as adjustments for retirement obligation of foreign affiliates beginning from the fiscal year.

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
	2014	2013	**2014**
Cash and time deposits	**¥54,476**	¥42,441	**$450,215**
Time deposits with a maturity of over three months	**(892)**	(437)	**(7,372)**
Cash and cash equivalents	**¥53,584**	¥42,004	**$442,843**

In fiscal 2014, a subsidiary of the Company obtained control of Dunlop Sports Wellness Co., Ltd. as a result of an acquisition of the shares (On October 1, 2014, the acquired company changed its trade name from KITZ Wellness Co., Ltd.). The assets and liabilities of the consolidated subsidiary at the time of consolidation in connection with acquisition cost and net cash paid for the acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 515	$ 4,256
Noncurrent assets	2,659	21,975
Goodwill	2,427	20,058
Current liabilities	(1,005)	(8,306)
Noncurrent liabilities	(331)	(2,735)
Acquisition cost	4,265	35,248
Cash and cash equivalents	(275)	(2,273)
Net cash paid for the acquisition	¥3,990	$32,975

In fiscal 2013, the Company obtained control of Apollo Tyres South Africa (Pty) Limited as a result of an acquisition of the shares (On January 27, 2014, the acquired company changed its trade name to Sumitomo Rubber South Africa (Pty) Limited). The assets and liabilities of the consolidated subsidiary at the time of consolidation in connection with acquisition cost and net cash paid for the acquisition were as follows:

	Millions of yen
Current assets	¥7,448
Noncurrent assets	5,230
Goodwill	3,303
Current liabilities	(8,745)
Noncurrent liabilities	(1,018)
Acquisition cost	6,218
Cash and cash equivalents	(482)
Net cash paid for the acquisition	¥5,736

5. Financial Instruments

(1) Qualitative information on financial instruments

(a) 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.

(b) 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 risks through the implementation of rules for credit controls. Operating receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk, but the risk is hedged using forward exchange contracts, etc., for the net position with foreign currency operating payables. The risk of fluctuation in fair value is also hedged using borrowings denominated in foreign currencies by balancing foreign currency operating receivables and foreign currency operating payables. Investment securities are mainly held to build and maintain long-term good relationships with business partners and exposed to the market risks. 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 (business partners).

Payment terms of operating payables such as the trade notes and accounts payable are less than one year. Some operating payables are denominated in foreign currencies arising from import of raw materials and are exposed to foreign exchange fluctuation risk. However these operating payables are almost covered by the same currency denominated accounts receivable.

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 associated with foreign currency debt and credit; currency swap contracts; and interest swap contracts to hedge fluctuation risks associated with interest rates for and fair values of debt. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

(2) Fair value of financial instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet at December 31, 2014 and 2013 were as set forth in the table below. Financial instruments whose fair values were difficult to determine were not included in the table.

	Millions of yen			Thousands of U.S. dollars		
			2014			**2014**
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and time deposits	**¥ 54,476**	**¥ 54,476**	**¥ —**	**$ 450,215**	**$ 450,215**	**$ —**
Trade notes and accounts receivable	**210,027**	**210,027**	**—**	**1,735,760**	**1,735,760**	**—**
Investments in securities	**31,980**	**31,980**	**—**	**264,298**	**264,298**	**—**
Total assets	**¥296,483**	**¥296,483**	**¥ —**	**$2,450,273**	**$2,450,273**	**$ —**
Trade notes and accounts payable	**¥ 74,990**	**¥ 74,990**	**¥ —**	**$ 619,752**	**$ 619,752**	**$ —**
Short-term borrowings	**83,008**	**83,008**	**—**	**686,017**	**686,017**	**—**
Accrued accounts payable	**57,132**	**57,132**	**—**	**472,165**	**472,165**	**—**
Bonds	**65,000**	**66,935**	**(1,935)**	**537,190**	**553,182**	**(15,992)**
Long-term debt	**141,996**	**142,212**	**(216)**	**1,173,521**	**1,175,305**	**(1,784)**
Total liabilities	**¥422,126**	**¥424,277**	**¥(2,151)**	**$3,488,645**	**$3,506,421**	**$(17,776)**
Derivative transactions						
Contracts for which hedge accounting was not adopted	**¥ 8,673**	**¥ 8,673**	**¥ —**	**$ 71,678**	**$ 71,678**	**$ —**
Contracts for which hedge accounting was adopted	**670**	**670**	**—**	**5,537**	**5,537**	**—**

	Millions of yen		
			2013
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 42,441	¥ 42,441	¥ —
Trade notes and accounts receivable	198,189	198,189	—
Investments in securities	27,593	27,593	—
Total assets	¥268,223	¥268,223	¥ —
Trade notes and accounts payable	¥ 76,741	¥ 76,741	¥ —
Short-term borrowings	89,719	89,719	—
Accrued accounts payable	46,371	46,371	—
Bonds	65,000	67,042	(2,042)
Long-term debt	141,927	142,067	(140)
Total liabilities	¥419,758	¥421,940	¥(2,182)
Derivative transactions			
Contracts for which hedge accounting was not adopted	¥ 4,686	¥ 4,686	¥ —
Contracts for which hedge accounting was adopted	264	264	—

(a) 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 long-term borrowings, fair value is based on the present value of long-term borrowings and interest rate swaps with interest discounted based on the interest rate for similar instruments. For long-term borrowings used in interest rate and currency swaps in which foreign currencies are translated using the contract rated and the net amount to be paid or received under the contract is added to or deducted from the interest on long-term borrowings, fair value is based on the present value of unit of long-term borrowings and interest rate and currency swaps with interest discounted based on the interest rate for similar instruments.

Derivative transactions:
See Note 8. Derivative Financial Instruments.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted securities (available-for-sale securities)	**¥ 311**	¥ 332	**$ 2,570**
Unlisted investments in affiliates	**49,139**	41,664	**406,107**

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, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Finished goods	**¥ 87,901**	¥ 79,834	**$ 726,455**
Work-in-process	**6,240**	6,159	**51,570**
Raw materials	**37,632**	35,880	**311,008**
Supplies	**10,270**	8,554	**84,876**
Total	**¥142,043**	¥130,427	**$1,173,909**

7. Investments in Securities

As of December 31, 2014 and 2013, 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
	2014	2013	**2014**
Available-for-sale securities:			
Cost	**¥ 9,908**	¥ 9,736	**$ 81,885**
Book value	**31,980**	27,593	**264,298**
Unrealized gains	**22,074**	17,859	**182,430**
Unrealized losses	**(2)**	(2)	**(17)**

8. Derivative Financial Instruments

Fair value information regarding derivative financial instruments as of December 31, 2014 and 2013 was as follows:

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

Currency related contracts

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts									
Buy	**¥ 5,902**	**¥ 13**	**¥ 13**	¥ 1,923	¥ 22	¥ 22	**$ 48,777**	**$ 107**	**$ 107**
Sell	**8,708**	**(59)**	**(59)**	14,870	(717)	(716)	**71,967**	**(487)**	**(487)**
Currency swap contracts	**38,957**	**8,719**	**3,290**	42,051	5,381	4,385	**321,958**	**72,058**	**27,190**
Total	**¥53,567**	**¥8,673**	**¥3,244**	¥58,844	¥4,686	¥3,691	**$442,702**	**$71,678**	**$26,810**

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

(a) Currency related contracts

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		**2014**	
	Contract amount	Fair value	Contract amount	Fair value	Contract amount	Fair value
Forward foreign exchange contracts						
Deferred hedges						
Buy	**¥20,801**	**¥670**	¥19,717	¥281	**$171,910**	**$5,537**
Sell	**—**	**—**	619	(17)	**—**	**—**
Designation method						
Buy	**¥ 950**	(Note)	¥ 643	(Note)	**$ 7,851**	(Note)
Sell	**236**	(Note)	446	(Note)	**1,950**	(Note)
Total	**¥21,987**	**¥670**	¥21,425	¥264	**$181,711**	**$5,537**

(b) Interest rate related contracts

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		**2014**	
	Contract amount	Fair value	Contract amount	Fair value	Contract amount	Fair value
Interest rate swap contracts						
Receive variable rate, give fixed rate	**¥30,811**	(Note)	¥40,741	(Note)	**$254,636**	(Note)
Interest rate and currency swap contracts						
Receive US dollar variable rate, pay yen fixed rate	**2,411**	(Note)	—	—	**19,926**	(Note)
Total	**¥33,222**	(Note)	¥40,741	(Note)	**$274,562**	(Note)

Note: Fair value above is based on prices provided by financial institutions.
However, the fair value of some derivative financial instruments was included in the fair value of accounts receivable, accounts payable and long-term debt and long-term loans 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 and long-term loans as a unit according to Japanese accounting regulations.

9. Property, Plant and Equipment

The depreciation expense for the years ended December 31, 2014 and 2013 was ¥42,094 million ($347,884 thousand) and ¥38,136 million, respectively.

10. Trademarks

For the years ended December 31, 2014 and 2013, the amortization expense for capitalized trademarks was ¥266 million ($2,198 thousand) and ¥67 million, respectively.

11. Short-Term Borrowings and Long-Term Debt

Short-term borrowings of ¥83,008 million ($686,017 thousand) and ¥89,719 million as of December 31, 2014 and 2013, respectively, bore interest at rates ranging from 0.01% to 27.60% and from 0.09% to 5.13% per annum, respectively.

Long-term debt as of December 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
1.84% unsecured bonds due 2014 payable in Japanese yen	**¥ —**	¥ 10,000	**$ —**
1.25% unsecured bonds due 2014 payable in Japanese yen	**—**	10,000	**—**
0.58% unsecured bonds due 2016 payable in Japanese yen	**10,000**	10,000	**82,645**
2.19% unsecured bonds due 2017 payable in Japanese yen	**5,000**	5,000	**41,320**
2.17% unsecured bonds due 2018 payable in Japanese yen	**10,000**	10,000	**82,645**
2.07% unsecured bonds due 2019 payable in Japanese yen	**10,000**	10,000	**82,645**
0.34% unsecured bonds due 2020 payable in Japanese yen	**10,000**	—	**82,645**
1.38% unsecured bonds due 2021 payable in Japanese yen	**10,000**	10,000	**82,645**
0.76% unsecured bonds due 2024 payable in Japanese yen	**10,000**	—	**82,645**
Loans payable to banks and other financial institutions due from 2015 to 2024 with interest rates of 0.18% to 7.95% for 2014 and 2013			
Unsecured	**141,996**	141,927	**1,173,521**
Finance lease obligations	**5,743**	5,467	**47,463**
Subtotal	**¥212,739**	¥212,394	**$1,758,174**
Less current portion of long-term debt:			
Bonds	**—**	(20,000)	**—**
Finance lease obligations	**(1,644)**	(1,514)	**(13,587)**
Long-term debt	**(28,812)**	(37,339)	**(238,116)**
Subtotal	**(30,456)**	(58,853)	**(251,703)**
Total	**¥182,283**	¥153,541	**$1,506,471**

The aggregate annual maturities of long-term debt as of December 31, 2014 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 30,456	$ 251,703
2016	47,539	392,884
2017	27,350	226,033
2018	25,458	210,397
2019	23,976	198,149
2020 and thereafter	57,960	479,008
Total	¥212,739	$1,758,174

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 Statements 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
	2014	2013	**2014**
Net unrealized gains and losses on available-for-sale securities			
Increase (decrease) during the year	**¥ 4,206**	¥10,541	**$ 34,760**
Reclassification adjustments	**(11)**	—	**(91)**
Subtotal, before tax	**4,195**	10,541	**34,669**
Tax effects	**(1,486)**	(3,697)	**(12,281)**
Subtotal, net of tax	**2,709**	6,844	**22,388**
Deferred gains and losses on hedges			
Increase (decrease) during the year	**¥ 1,215**	¥ 623	**$ 10,041**
Reclassification adjustments	**—**	—	**—**
Adjustment for acquisition cost of hedged items	**(630)**	(719)	**(5,206)**
Subtotal, before tax	**585**	(96)	**4,835**
Tax effects	**(243)**	102	**(2,008)**
Subtotal, net of tax	**342**	6	**2,827**
Currency translation adjustments			
Increase (decrease) during the year	**¥32,255**	¥37,272	**$266,570**
Reclassification adjustments	**—**	—	**—**
Subtotal, before tax	**32,255**	37,272	**266,570**
Tax effects	**(184)**	(386)	**(1,520)**
Subtotal, net of tax	**32,071**	36,886	**265,050**
Adjustments for retirement obligations of foreign affiliates			
Increase (decrease) during the year	**¥ —**	¥ 20	**$ —**
Reclassification adjustments	**—**	—	**—**
Subtotal, before tax	**—**	20	**—**
Tax effects	**—**	(47)	**—**
Subtotal, net of tax	**—**	(27)	**—**
Remeasurements of defined benefit plans			
Increase (decrease) during the year	**¥ (872)**	¥ —	**$ (7,207)**
Reclassification adjustments	**12**	—	**99**
Subtotal, before tax	**(860)**	—	**(7,108)**
Tax effects	**264**	—	**2,182**
Subtotal, net of tax	**(596)**	—	**(4,926)**
Share of other comprehensive income of affiliates under the equity method			
Increase (decrease) during the year	**¥ 3,704**	¥ 7,274	**$ 30,612**
Reclassification adjustments	**764**	564	**6,314**
Subtotal, net of tax	**4,468**	7,838	**36,926**
Total other comprehensive income	**¥38,994**	¥51,547	**$322,265**

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 statutory tax rate of approximately 37.8% for the years ended December 31, 2014 and 2013. 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, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	**37.8%**	37.8%
Undistributed benefits of consolidated subsidiaries	**2.2**	1.7
Valuation allowance	**1.4**	1.6
Expenses not deductible for tax purposes	**1.3**	1.6
Amortization of goodwill	**0.5**	0.3
Effect arising from the change in tax rate	**0.5**	—
Differences in statutory tax rates of foreign subsidiaries	**(4.8)**	(4.2)
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	**(2.0)**	0.2
Tax exemption of foreign subsidiaries	**(1.0)**	(1.1)
Tax credits for research and development costs	**(0.9)**	(0.8)
Other	**(0.6)**	(1.5)
Effective tax rate for consolidated statements of income	**34.4%**	35.6%

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On March 31, 2014, amendments to the Japanese tax regulations, "Act for Partial Revision of the Income Tax Act etc.," (Act No.10 of 2014) was enacted into law. For years beginning on or after April 1, 2014, special corporate tax for reconstruction will not be imposed. As a result of this amendment, the statutory effective tax rate for the Company will be reduced from 37.8% to 35.4% for years beginning on or after January 1, 2015.

The effect of this change in statutory effective tax rate was to decrease net deferred tax assets by ¥425 million ($3,512 thousand) and to increase deferred income taxes by ¥441 million ($3,645 thousand) and deferred gains and losses on hedges by ¥16 million ($132 thousand) for fiscal year 2014.

Significant components of deferred tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Unrealized profits	**¥ 5,417**	¥ 5,883	**$ 44,769**
Tax loss carry forwards	**4,218**	2,954	**34,860**
Provision for retirement benefits	**—**	3,867	**—**
Net defined benefit liabilities	**3,589**	—	**29,661**
Loss on impairment of noncurrent assets	**1,879**	2,665	**15,529**
Accrued bonuses	**1,522**	1,434	**12,579**
Incentive bonuses	**1,359**	1,860	**11,231**
Accrued business enterprise tax	**923**	792	**7,628**
Inventories	**881**	818	**7,281**
Advertising	**793**	976	**6,554**
Allowance for doubtful accounts	**774**	617	**6,397**
Allowance for sales returns	**745**	1,000	**6,157**
Loss on impairment of investment securities	**355**	496	**2,934**
Depreciation	**429**	422	**3,545**
Loss on impairment of golf club memberships	**205**	199	**1,694**
Other	**7,375**	5,693	**60,950**
Total deferred tax assets	**¥ 30,464**	¥ 29,676	**$ 251,769**
Less valuation allowance	**(6,371)**	(5,681)	**(52,653)**
Net deferred tax assets	**¥ 24,093**	¥ 23,995	**$ 199,116**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥ (7,657)**	¥ (6,170)	**$ (63,281)**
Undistributed benefits of consolidated subsidiaries	**(5,981)**	(4,038)	**(49,430)**
Prepaid pension cost	**—**	(3,281)	**—**
Net defined benefit assets	**(3,328)**	—	**(27,504)**
Deferred gains on sales of property, plant and equipment	**(1,828)**	(1,906)	**(15,107)**
Unrealized gain on land of a consolidated subsidiary	**(1,146)**	(1,146)	**(9,471)**
Other	**(7,513)**	(4,872)	**(62,092)**
Total deferred tax liabilities	**¥(27,453)**	¥(21,413)	**$(226,885)**
Deferred tax assets, net	**¥ (3,360)**	¥ 2,582	**$ (27,769)**

Deferred income taxes, net as of December 31, 2014 and 2013 were included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current assets—deferred tax assets	**¥11,950**	¥12,557	**$ 98,760**
Investments and other assets—deferred tax assets	**6,686**	6,010	**55,256**
Current liabilities—deferred tax liabilities (current liabilities—other)	**(15)**	(2)	**(124)**
Long-term liabilities—deferred tax liabilities	**(21,981)**	(15,983)	**(181,661)**

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 defined contribution pension 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.

(1) Summary of defined benefit pension plans for fiscal year 2014

(a) Movements in retirement benefit obligations, except plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Beginning balance	**¥51,029**	**$421,727**
Service cost	**2,411**	**19,926**
Interest cost	**953**	**7,876**
Actuarial gains and losses	**1,185**	**9,793**
Prior service cost	**696**	**5,752**
Payment of benefit	**(3,408)**	**(28,165)**
Others	**740**	**6,116**
Ending balance	**¥53,606**	**$443,025**

(b) Movements in plan assets, except plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Beginning balance	**¥66,647**	**$550,802**
Expected return on plan assets	**1,029**	**8,504**
Actuarial gains and losses	**1,593**	**13,165**
Contributions paid by the employer	**1,724**	**14,248**
Payment of benefits	**(2,578)**	**(21,306)**
Others	**427**	**3,529**
Ending balance	**¥68,842**	**$568,942**

(c) Movements in net defined benefit liabilities (assets) for plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Beginning balance	**¥1,900**	**$15,702**
Retirement benefit cost	**144**	**1,190**
Payment of benefits	**(182)**	**(1,504)**
Others	**259**	**2,141**
Ending balance	**¥2,121**	**$17,529**

(d) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liabilities (assets) in the consolidated balance sheet, including the plans applying the simplified method:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Funded retirement benefit obligations	**¥ 40,173**	**$ 332,008**
Plan assets	**(43,966)**	**(363,355)**
Retirement benefit trust	**(24,876)**	**(205,587)**
	(28,669)	**(236,934)**
Unfunded retirement benefit obligations	**15,554**	**128,546**
Net of liabilities and assets of consolidated balance sheet	**(13,115)**	**(108,388)**
Net defined benefit liabilities	**17,018**	**140,645**
Net defined benefit assets	**(30,133)**	**(249,033)**
Net of liabilities and assets of consolidated balance sheet	**¥(13,115)**	**$(108,388)**

(e) Breakdown of retirement benefit cost:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Service cost	**¥2,411**	**$19,926**
Interest cost	**953**	**7,876**
Expected return on plan assets	**(1,029)**	**(8,504)**
Amortization of actuarial gains and losses	**55**	**454**
Amortization of prior service cost	**(97)**	**(802)**
Severance and retirement benefit cost by simplified method	**144**	**1,190**
Total	**¥2,437**	**$20,140**

(f) Breakdown of remeasurements of defined benefit plans (before tax effect):

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Unrecognized prior service cost	**¥ (204)**	**$ (1,686)**
Unrecognized actuarial gains and losses	**5,920**	**48,926**
Total	**¥5,716**	**$47,240**

(g) Allocation of plan assets as a percentage of total plan assets:
① Plan assets comprise

	2014
Equity securities	**50.3%**
Debt securities	**34.2**
General account	**12.4**
Cash and deposit	**0.0**
Others	**3.1**
Total	**100.0%**

Note: 36.1% of total plan assets includes retirement benefit trust.

② Long-term expected rate of return
In determining the long-term expected rate of return, the Company and its consolidated subsidiaries take into consideration present and expected asset allocation and present and expected long-term rate of return arising from various plan assets.

(h) Actuarial assumption:
The discount rate used by the Company and its consolidated subsidiaries was mainly 2.0% in 2014, and the expected return on plan assets was mainly 2.5% in 2014.

(2) Summary of defined contribution pension plans for fiscal year 2014

The Company and its consolidated subsidiaries provided ¥730 million ($6,033 thousand) for defined contribution plans in 2014.

(3) Summary of defined benefit pension plans for fiscal year 2013

The liability for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of December 31, 2013 consisted of the following:

	Millions of yen
	2013
Benefit obligation	¥(52,929)
Plan assets	66,647
Funded status:	
Benefit obligation in excess of plan assets	13,718
Unrecognized actuarial gains and losses	(5,965)
Unrecognized prior service cost	(577)
Subtotal	7,176
Prepaid pension cost	21,135
Provision for retirement benefits	¥(13,959)

The retirement and pension costs of the Company and its consolidated subsidiaries for the years ended December 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥2,570
Interest cost	951
Expected return on plan assets	(898)
Amortization of actuarial differences	879
Amortization of prior service cost	(100)
Retirement benefit cost	3,402
Contributions to the defined contribution pension plan	717
Net periodic benefit costs	¥4,119

The discount rate used by the Company and the domestic consolidated subsidiaries was mainly 2.0% in 2013, and the expected return on plan assets was mainly 2.5% in 2013.

15. Research and Development Expenses

Research and development expenses for the years ended December 31, 2014 and 2013 was ¥23,543 million ($194,570 thousand) and ¥21,822 million, respectively.

16. 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, other golf related goods and tennis related goods. 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.

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2014**	2013	**2014**
Net sales:			
Tires—			
Sales to unaffiliated customers	**¥731,245**	¥681,100	**$6,043,347**
Intersegment sales and transfers	**14**	19	**116**
	731,259	681,119	**6,043,463**
Sports—			
Sales to unaffiliated customers	**70,462**	66,260	**582,331**
Intersegment sales and transfers	**368**	337	**3,041**
	70,830	66,597	**585,372**
Industrial and Other Products—			
Sales to unaffiliated customers	**35,940**	33,249	**297,025**
Intersegment sales and transfers	**20**	46	**165**
	35,960	33,295	**297,190**
Adjustments	**(402)**	(402)	**(3,323)**
	¥837,647	¥780,609	**$6,922,702**
Segment profit or loss:			
Tires	**¥ 78,416**	¥ 69,850	**$ 648,066**
Sports	**3,170**	3,992	**26,199**
Industrial and Other Products	**4,648**	3,205	**38,413**
	86,234	77,047	**712,678**
Adjustments	**17**	8	**140**
	¥ 86,251	¥ 77,055	**$ 712,818**
Segment assets:			
Tires	**¥835,085**	¥749,705	**$6,901,529**
Sports	**68,246**	56,794	**564,016**
Industrial and Other Products	**31,307**	28,148	**258,736**
	934,638	834,647	**7,724,281**
Adjustments	**38,949**	32,817	**321,893**
	¥973,587	¥867,464	**$8,046,174**
Increase in tangible and intangible fixed assets:			
Tires	**¥ 64,650**	¥ 62,470	**$ 534,298**
Sports	**2,429**	2,903	**20,074**
Industrial and Other Products	**1,771**	1,224	**14,636**
	68,850	66,597	**569,008**
Adjustments	**—**	—	**—**
	¥ 68,850	¥ 66,597	**$ 569,008**
Depreciation and amortization:			
Tires	**¥ 45,323**	¥ 40,773	**$ 374,570**
Sports	**1,931**	1,697	**15,959**
Industrial and Other Products	**950**	809	**7,851**
	48,204	43,279	**398,380**
Adjustments	**—**	—	**—**
	¥ 48,204	¥ 43,279	**$ 398,380**
Amortization of goodwill:			
Tires	**¥ 707**	¥ 325	**$ 5,843**
Sports	**659**	613	**5,446**
Industrial and Other Products	**—**	—	**—**
	1,366	938	**11,289**
Adjustments	**—**	—	**—**
	¥ 1,366	¥ 938	**$ 11,289**

Years ended December 31	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Investments in equity method affiliates:			
Tires	**¥ 47,623**	¥ 36,703	**$ 393,579**
Sports	**110**	69	**909**
Industrial and Other Products	**—**	—	**—**
	47,733	36,772	**394,488**
Adjustments	**—**	—	**—**
	¥ 47,733	¥ 36,772	**$ 394,488**

(a) Segment profit included in "Adjustments" comprised elimination of intersegment transactions.
(b) Segment assets included in "Adjustments" comprised corporate assets of ¥39,263 million ($324,488 thousand) and ¥33,079 million at December 31, 2014 and 2013, respectively, which consisted mainly of cash and time deposits, investment securities owned by the Company and assets for administration divisions, as well as the elimination of intersegment transactions of ¥314 million ($2,595 thousand) and ¥262 million at December 31, 2014 and 2013, respectively.
(c) Segment profit corresponds to operating income.
(d) Depreciation and amortization included the amount of depreciation in long-term prepaid expenses.
(e) The increase in tangible and intangible noncurrent assets included the amount of an increase in long-term prepaid expenses.

(2) Related information

(a) Information about geographical areas

Years ended December 31	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Net sales:			
Japan	**¥396,143**	¥382,077	**$3,273,909**
Asia	**164,829**	150,792	**1,362,223**
North America	**91,534**	89,231	**756,479**
Other areas	**185,141**	158,509	**1,530,091**
Total	**¥837,647**	¥780,609	**$6,922,702**
Net property, plant and equipment:			
Japan	**¥141,654**	¥138,490	**$1,170,694**
Asia	**167,782**	150,189	**1,386,628**
Other areas	**50,519**	28,296	**417,513**
Total	**¥359,955**	¥316,975	**$2,974,835**

(b) Information about impairment losses on fixed assets by reportable segment

Years ended December 31	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Impairment losses on fixed assets:			
Tires	**¥103**	¥136	**$851**
Sports	**—**	—	**—**
Industrial and Other Products	**—**	—	**—**
Total	**¥103**	¥136	**$851**

(c) Information about goodwill by reportable segment

Years ended December 31	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Amortization:			
Tires	**¥ 707**	¥ 325	**$ 5,843**
Sports	**659**	613	**5,446**
Industrial and Other Products	**—**	—	**—**
Total	**¥ 1,366**	¥ 938	**$11,289**
Balance at end of year:			
Tires	**¥ 2,984**	¥3,623	**$24,661**
Sports	**7,481**	5,204	**61,827**
Industrial and Other Products	**—**	—	**—**
Total	**¥10,465**	¥8,827	**$86,488**

17. Related Party Information

The condensed financial information of a significant affiliate, Goodyear Dunlop Tires Europe B.V., as of fiscal 2014 and 2013 was as follows:

	Millions of U.S. dollars	
	2014	2013
Current assets	**$1,992**	$2,210
Noncurrent assets	**2,220**	2,200
Current liabilities	**1,408**	1,772
Noncurrent liabilities	**1,398**	1,366
Shareholders' equity	**1,406**	1,272
Net sales	**5,555**	5,857
Income (loss) before income taxes	**162**	(2)
Net income (loss)	**132**	(46)

18. Contingent Liabilities

As of December 31, 2014 and 2013, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trade notes discounted	**¥1,073**	¥943	**$8,868**
Guarantees and arrangements similar to guarantees of indebtedness of employees, unconsolidated subsidiaries and affiliates	**430**	390	**3,554**

19. 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, 2014 and 2013 were as follows:

As of December 31, 2014	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, vehicles and equipment	**¥4,835**	**¥3,809**	**¥355**	**¥671**	**$39,959**	**$31,479**	**$2,934**	**$5,546**
Other	**463**	**221**	**—**	**242**	**3,826**	**1,826**	**—**	**2,000**
Total	**¥5,298**	**¥4,030**	**¥355**	**¥913**	**$43,785**	**$33,305**	**$2,934**	**$7,546**

As of December 31, 2013	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net leased property
Machinery, vehicles and equipment	¥4,929	¥3,423	¥355	¥1,151
Other	472	202	—	270
Total	¥5,401	¥3,625	¥355	¥1,421

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, 2014 and 2013 amounted to ¥497 million ($4,107 thousand) and ¥588 million, respectively.

The balances of future finance lease payments, including interest, as of December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥ 413**	¥ 497	**$3,413**
Due later	**627**	1,111	**5,182**
Total	**¥1,040**	¥1,608	**$8,595**

The balances of future lease payments under non-cancelable operating leases, including interest, as of December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥1,813**	¥1,020	**$14,983**
Due later	**7,474**	3,432	**61,769**
Total	**¥9,287**	¥4,452	**$76,752**

20. Impairment Loss

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2014.

			Millions of yen	Thousands of U.S. dollars
Group	Location	Assets	Impairment loss	
Idle assets	Izumiotsu City, Osaka and other	Land, buildings and other	**¥103**	**$851**

The Company and its consolidated subsidiaries recognized impairment loss for the following asset groups for the year ended December 31, 2013.

			Millions of yen
Group	Location	Assets	Impairment loss
Rental property	Abashiri City, Hokkaido and other	Land and buildings	¥96
Idle assets	Daisen City, Akita	Land	1
Assets to be disposed of	—	Machinery and other	39

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 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.

21. Business Combination

Business combination by means of acquisition by consolidated subsidiary

(1) Overview of business combination

(a) Name of acquiring company/ Name and business of acquired company
Name of acquiring company: Dunlop Sports Co. Ltd.
Name of acquired company: KITZ Wellness Co. Ltd.
Main business: Planning and operation of comprehensive fitness club.

(b) Purpose of business combination
With the acquisition of these business operations, the Sumitomo Rubber Group will expand the business area related to sport and reinforce the business infrastructure of the existing golf and tennis equipment business and related service business with the synergy of the acquisition.

(c) Date of business combination
October 1, 2014

(d) Legal form of business combination
Acquisition of shares in exchange for cash payment.

(e) Name of acquired company after business combination
Dunlop Sports Wellness Co. Ltd.
(Changed its trade name form KITZ Wellness Co. Ltd. on October 1, 2014)

(f) Ratio of voting rights acquired

Voting right ratio before acquisition:	0%
Voting right ratio acquired at acquisition:	100%
Voting right ratio after acquisition:	100%

(g) Main basis behind the determination of the acquiring company
Dunlop Sports Co. Ltd., a consolidated subsidiary of the Group, acquired 100% portion of the voting rights of the acquired company in exchange for a cash payment.

(2) Period for which the operating results of the acquired company are included in the Company's consolidated financial statements
From October 1, 2014 to December 31, 2014.

(3) Acquisition cost and its details

	Millions of yen	Thousands of U.S. dollars
Acquisition price	**¥4,200**	**$34,711**
Expenses related to the acquisition	**65**	**537**
Total	**¥4,265**	**$35,248**

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

	Millions of yen	Thousands of U.S. dollars
Amount of goodwill recognized:	**¥2,427**	**$20,058**

Reason for recognition: Future business activities are expected to generate excess profitability.

Amortization method and amortization period: Straight-line method over 15 years

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 515**	**$ 4,256**
Noncurrent assets	**2,659**	**21,975**
Total assets	**¥3,174**	**$26,231**
Current liabilities	**¥1,005**	**$ 8,306**
Long-term liabilities	**331**	**2,735**
Total liabilities	**¥1,336**	**$11,041**

(6) Amount allocated to intangible assets other than goodwill and amortization period

In the purchase price allocation, those allocated to intangible assets other than goodwill and amortization period classified by category.

	Millions of yen	Thousands of U.S. dollars
Customer related assets	**¥79**	**$653**

(amortization period:3 years)

(7) Estimated impact on consolidated financial results if the business combination had been completed at the beginning of fiscal year 2014

This estimated amount was omitted because of immaterial.

22. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Both appropriations of legal reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. However, all additional paid-in capital and legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The law also provides for companies to purchase treasury stock and cancel of such treasury stock by resolution of the board of directors.

At the General Meeting of Shareholders held on March 26, 2015, the distribution of cash dividends amounting to ¥7,870 million ($65,041 thousand) was resolved. Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2014 since they are recognized in the period in which they are resolved at the board of directors' meeting.

KPMG

Independent Auditor's 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, 2014 and 2013, 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, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2014 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.

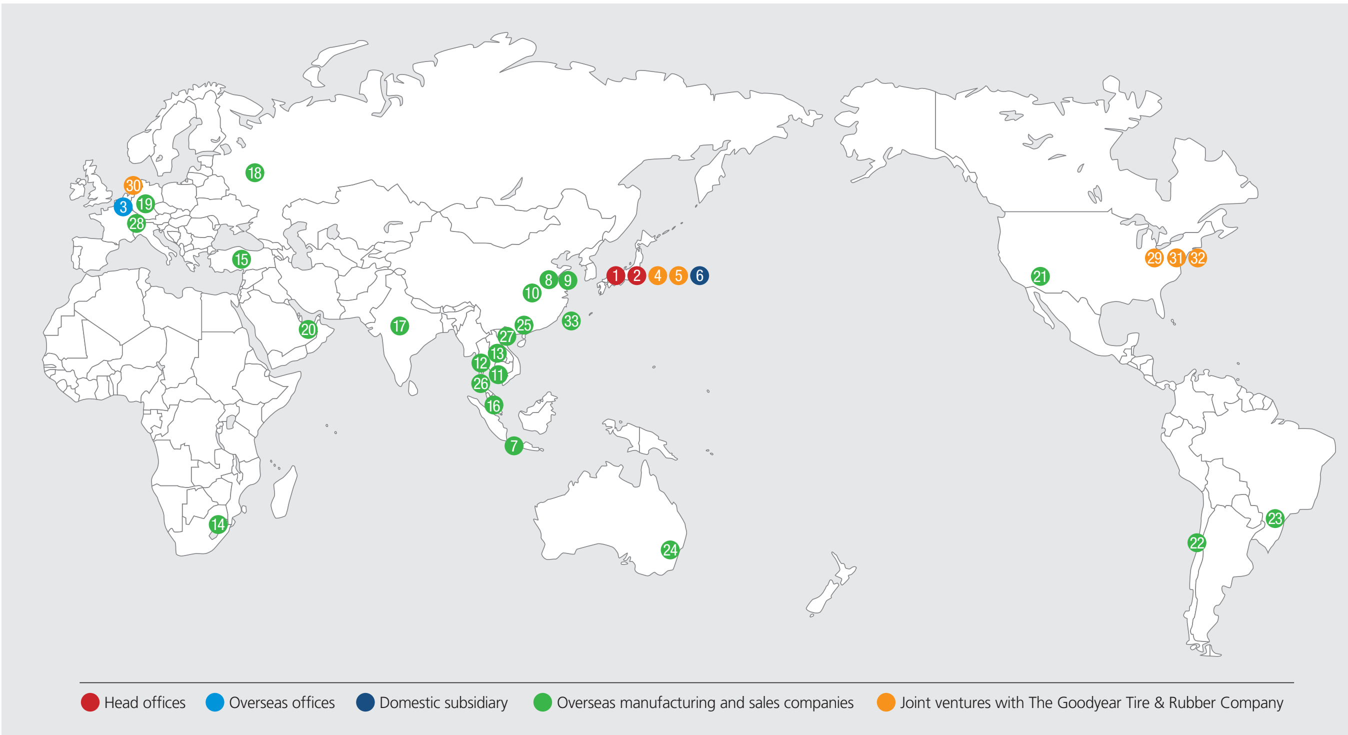
KPMG AZSA LLC

May 8, 2015
Kobe, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Global Network

(As of May 2015)



Domestic Offices and Facilities

1 Head Office
3-6-9, Wakinohama-cho,
Chuo-ku, Kobe,
Hyogo 651-0072, Japan
Tel: (078) 265-3000
Fax: (078) 265-3111

2 Tokyo Head Office
3-3-3, Toyosu, Koto-ku,
Tokyo 135-6005, Japan
Tel: (03) 5546-0111
Fax: (03) 5546-0140

Facilities
Nagoya Factory
Shirakawa Factory
Izumiotsu Factory
Miyazaki Factory
Ichijima Factory
Kakogawa Factory
Tyre Technical Center
Golf Science Center
Okayama Tire Proving Ground
Nayoro Tire Proving Ground
Asahikawa Tire Proving Ground
Central Training Center
Shirakawa Manufacturing Training Center

Overseas Offices

3 Brussels Office
Diegem, Belgium

Major Subsidiaries

4 Goodyear Japan Ltd.
Minato-ku, Tokyo, Japan

5 Dunlop Goodyear Tires Ltd.
Koto-ku, Tokyo, Japan

6 Dunlop Sports Co. Ltd.
Chuo-ku, Kobe, Japan

7 P.T. Sumi Rubber Indonesia
Jakarta, Indonesia

8 Sumitomo Rubber (China) Co., Ltd.
Jiangsu Province, China

9 Sumitomo Rubber (Changshu) Co., Ltd.
Jiangsu Province, China

10 Sumitomo Rubber (Hunan) Co., Ltd.
Hunan Province, China

11 Sumitomo Rubber (Thailand) Co., Ltd.
Rayong, Thailand

12 Dunlop Tire (Thailand) Co., Ltd.
Bangkok, Thailand

13 Sumirubber Thai Eastern Corporation Co., Ltd.
Udon Thani, Thailand

14 Sumitomo Rubber South Africa (Pty) Limited
KwaZulu-Natal, South Africa

15 Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.
(under construction)
Cankiri Province, Turkey

16 Sumitomo Rubber Asia (Tyre) PTE. Ltd.
Singapore, Singapore

17 Falken Tyre India Private Limited
Haryana, India

18 Dunlop Tire CIS LLC
Moscow, Russia

19 Falken Tyre Europe GmbH
Offenbach, Germany

20 Sumitomo Rubber Middle East FZE
Dubai, UAE

21 Falken Tire Corporation
California, U.S.A.

22 Sumitomo Rubber Latin America Limitada
Santiago, Chile

23 Sumitomo Rubber do Brasil Ltda.
Parana State, Brazil

24 Sumitomo Rubber Australia Pty. Ltd.
Sydney, Australia

25 Zhongshan Sumirubber Precision Rubber Ltd.
Guangdong Province, China

26 Sumirubber Malaysia Sdn. Bhd.
Kedah, Malaysia

27 Sumirubber Vietnam, Ltd.
Haiphong, Vietnam

28 Lonstroff AG
Aargau, Switzerland

Major Affiliates

29 Goodyear Dunlop Tires North America, Ltd.
Ohio, U.S.A.

30 Goodyear Dunlop Tires Europe B.V.
Amsterdam, Netherlands

31 Goodyear-SRI Global Purchasing Company
Ohio, U.S.A.

32 Goodyear-SRI Global Technology LLC
Ohio, U.S.A.

33 Kuo Chu Rubber Co., Ltd.
Taipei, Taiwan

Investor Information

(As of December 31, 2014)

Paid-in Capital
¥42,658,014 thousand

Number of Shares of Common Stock
Authorized: 800,000,000

Issued: 263,043,057

Number of Shareholders
18,407

Major Shareholders

Sumitomo Electric Industries, Ltd.	26.93%
Sumitomo Corporation	3.66%
National Mutual Insurance Federation of Agricultural Cooperatives	3.00%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.82%
Japan Trustee Services Bank, Ltd. (Trust Account)	2.27%
Sumitomo Mitsui Banking Corporation	1.99%
JP MORGAN CHASE BANK 385632	1.63%
BNP Paribas Securities (Japan), Ltd.	1.34%
The Goodyear Tire & Rubber Company	1.30%
MELLON BANK, N. A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1.19%

Note: The percentage of shares in the above list was calculated using the total number of shares of common stock, excluding 720,365 shares of treasury stock.

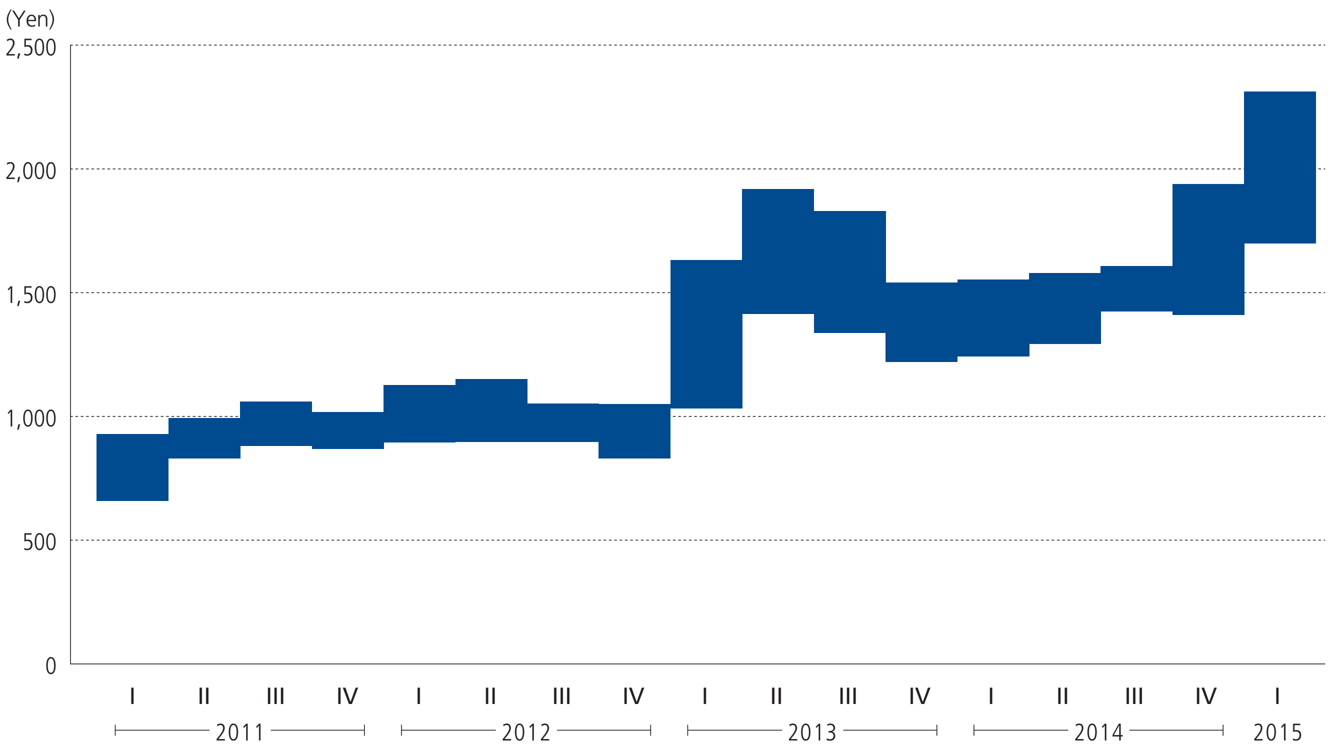
Stock Exchange Listing
Tokyo

Ticker Symbol
5110

Transfer Agent and Special Account Management Institution
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi,
Chiyoda-ku, Tokyo, Japan

Independent Auditors
KPMG AZSA LLC
3-6-5, Kawaramachi,
Chuo-ku, Osaka, Japan

Stock Price



SUMITOMO RUBBER GROUP

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