# 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.

| 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2014 |
|---|---|---|---|---|---|---|---|
| | | | | | | Millions of yen | Thousands of U.S. dollars (Note 1) |
| ¥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.

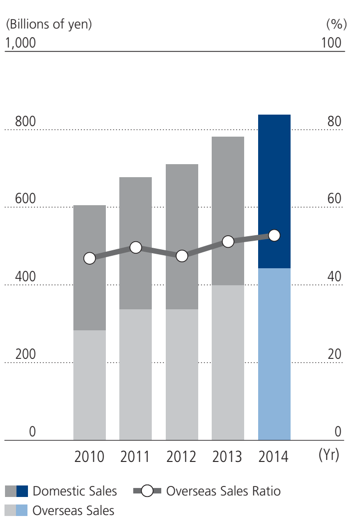
Net income per share was ¥202.82, and ROE (on a net income basis) edged down 1.3 of a percentage point to 14.3%, reflecting a substantial increase in total equity.

## Results by Industry Segment

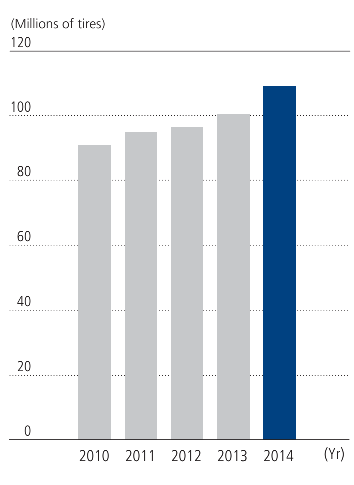
### Tire Business

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

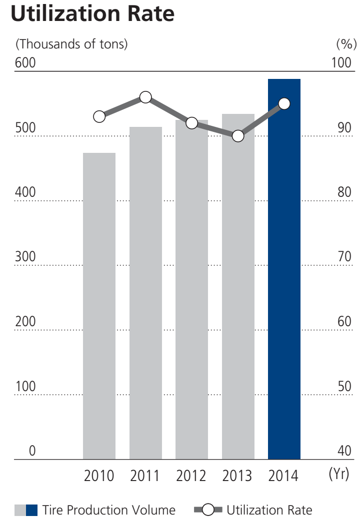
### Domestic and Overseas Sales




### 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.

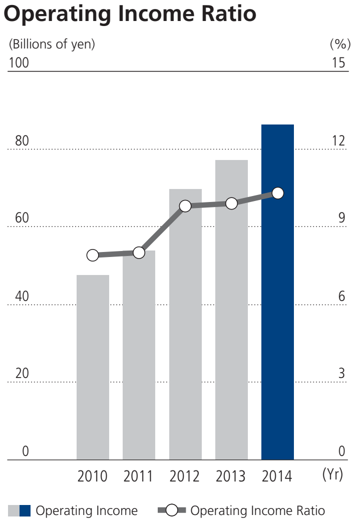
Total current assets rose ¥32,813 million to ¥440,296 million. This was due mainly to increases notes and accounts receivable—trade and inventories.

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

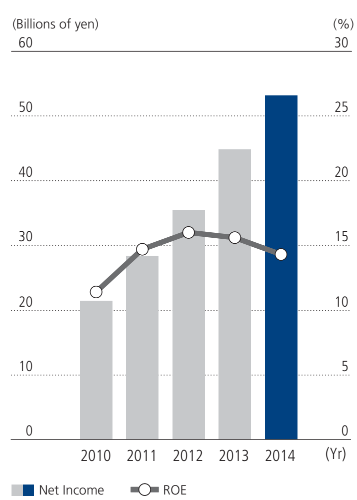
As of the end of the fiscal year under review, total liabilities were up ¥18,007 million year on year to ¥526,627 million. Interest-bearing debt as of the fiscal 2014 year-end decreased ¥6,366 million to ¥295,747 million. As a result, the debt-to-equity ratio improved from 0.9 times as of the previous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

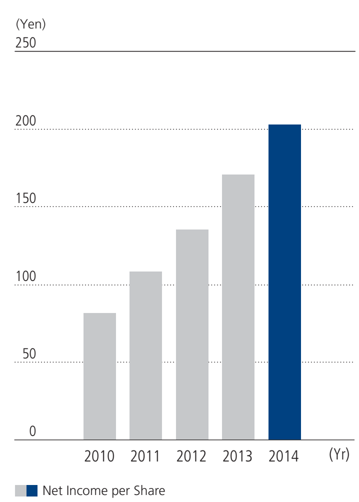
### Operating Income and Operating Income Ratio




### 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

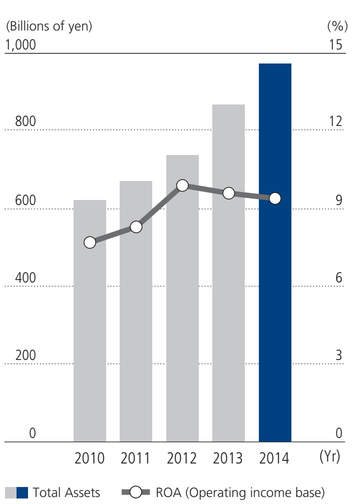
On the global level, the U.S. economy is likely to see continued gradual growth, while the European economy is anticipated to begin recovering despite lingering financial anxieties. Although emerging nations are expected to enjoy stable economic growth, some of these nations might be negatively impacted 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.

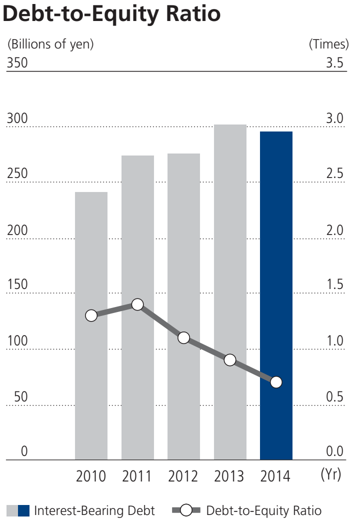
In the Tire business, Sumitomo Rubber Industries will maintain and enhance its presence in the domestic fuel-efficient tire market and, to this end, introduce new items in this category by leveraging its unique and cutting-edge technology. Overseas, the Company will expand sales mainly in promising markets 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.

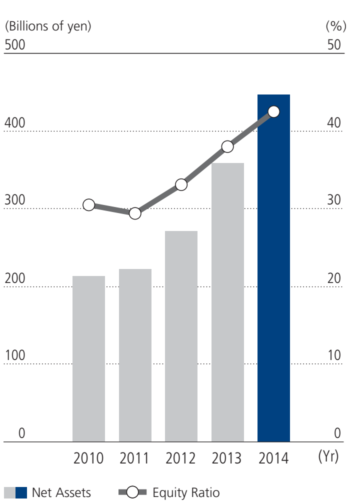
### Total Assets and ROA




### 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.

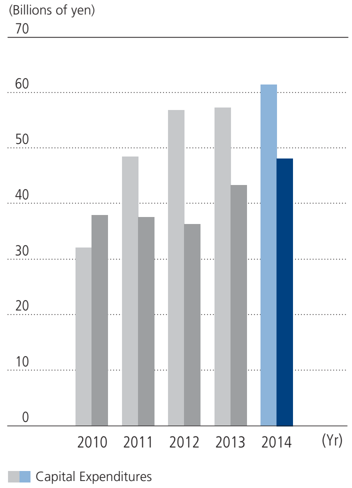
### Alliance with Goodyear

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

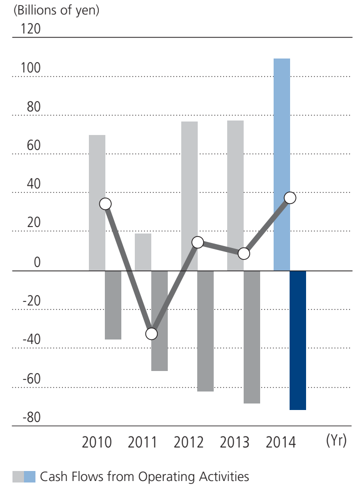
Concentrating on Japan and other Asian countries, the Sumitomo Rubber Group develops its business on a global scale. The Group's operating results may be affected directly or indirectly by such events as natural disasters, disease, war and terrorism. Such events may have a negative impact on the Group's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

### Capital Expenditures/ Depreciation and Amortization




Capital Expenditures
Depreciation and Amortization

### Cash Flows




Cash Flows from Operating Activities
Cash Flows from Investing Activities
Free 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.

# Independent Auditors' Report

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