Financial Section

11-Year Summary of Consolidated Financial Data

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

				Millions of yen
	IFRS		JGAAP	
Years ended December 31	**2016**	2015	**2016**	2015
For the year:				
Sales revenue[2] / Net sales[1]	**¥756,696**	¥798,483	**¥804,964**	¥848,663
Cost of sales	**(499,650)**	(528,393)	**496,680**	523,217
Selling, general and administrative expenses	**(182,130)**	(191,237)	**233,959**	248,379
Business profit[3] / Operating income[1]	**74,916**	78,853	**74,325**	77,067
Operating profit[2]	**73,284**	89,173	**—**	—
Profit attributable owners of the parent company[2, 4] / Net income[1, 4]	**41,364**	71,976	**49,937**	55,834
Depreciation and amortization[1]	**51,248**	51,419	**53,442**	55,145
Capital expenditures	**49,606**	58,911	**49,606**	58,911
R&D expenses	**24,257**	23,372	**24,257**	23,372
Cash flows from operating activities	**128,190**	86,864	**128,190**	86,995
Cash flows from investing activities	**(42,144)**	(30,672)	**(42,144)**	(32,991)
Cash flows from financing activities	**(71,055)**	(52,707)	**(71,055)**	(50,554)
At year-end:				
Total assets	**¥897,634**	¥932,432	**¥899,646**	¥936,154
Total equity[2] / Net assets[1]	**459,541**	451,837	**461,688**	453,768
Total equity attributable to owners of parent	**429,316**	422,287	**431,870**	423,857
Interest-bearing debt	**204,218**	261,867	**203,024**	260,631

				Yen
Per share amounts:				
Basic profit per share[2] / Net income[1]	**¥ 157.69**	¥ 274.38	**¥ 190.37**	¥ 212.85
Cash dividends per share	**55.00**	55.00	**55.00**	55.00

				Percent
Key ratios and metrics:				
Business profit ratio[3] / Operating income ratio[1]	**9.9%**	9.9%	**9.2%**	9.1%
ROE	**9.7**	17.5	**11.7**	13.3
ROA (Business profit base / operating income base)	**8.2**	8.4	**8.1**	8.1
Ratio of equity attributable to owners of parent[2] / Equity ratio[1]	**47.8**	45.3	**48.0**	45.3
Tire sales volume (millions of tires)	**11,264**	10,962	**11,264**	10,962
Number of employees	**33,792**	33,197	**33,788**	33,185
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	**726,168**	724,513	**726,168**	724,513

Notes: 1 Based on JGAAP
2 Based on IFRS
3 Defined by Sumitomo Rubber Industries, Ltd. as its primary management indicator, business profit is calculated using the following formula: Sales revenue – (Cost of sales + Selling, general and administrative expenses)
4 Profit attributable to owners of the parent company is as calculated under IFRS while net income represents net income attributable to owners of the parent calculated under JGAAP.

								Millions of yen
								JGAAP
2014	2013	2012	2011	2010	2009	2008	2007	2006
¥837,647	¥780,609	¥710,247	¥676,904	¥604,549	¥524,535	¥604,974	¥567,307	¥534,086
511,616	486,704	450,226	445,426	387,678	334,249	412,824	368,783	342,856
239,780	216,850	190,298	177,554	169,300	161,547	166,491	153,398	154,440
86,251	77,055	69,723	53,924	47,571	28,739	25,659	45,126	36,790
—	—	—	—	—	—	—	—	—
53,206	44,794	35,451	28,386	21,427	9,093	1,021	19,499	27,586
48,204	43,279	36,278	37,606	37,885	37,425	35,475	30,165	27,052
62,814	57,270	56,889	48,515	32,055	32,484	49,601	53,205	45,308
23,543	21,822	19,539	19,274	18,698	17,983	19,351	18,223	17,291
108,941	77,012	76,643	18,945	69,725	64,525	25,879	56,594	23,872
(71,584)	(68,275)	(62,167)	(51,569)	(35,400)	(34,260)	(58,067)	(65,167)	(33,923)
(32,507)	(5,824)	(15,835)	28,009	(25,634)	(22,781)	34,088	8,692	14,687
¥973,587	¥867,464	¥737,528	¥671,611	¥622,243	¥613,230	¥639,941	¥671,117	¥606,938
446,960	358,844	271,103	222,175	212,964	209,052	202,642	250,799	223,852
413,374	329,813	244,165	197,661	189,684	187,028	180,940	227,780	202,003
295,747	302,113	275,876	274,216	241,250	261,572	275,746	239,573	219,372
								Yen
¥ 202.82	¥ 170.76	¥ 135.13	¥ 108.20	¥ 81.67	¥34.66	¥3.89	¥74.31	¥105.13
50.00	40.00	30.00	23.00	20.00	18.00	18.00	20.00	20.00
								Percent
10.3%	9.9%	9.8%	8.0%	7.9%	5.5%	4.2%	8.0%	6.9%
14.3	15.6	16.0	14.7	11.4	4.9	0.5	9.1	14.7
9.4	9.6	9.9	8.3	7.7	4.6	3.9	7.1	6.3
42.5	38.0	33.1	29.4	30.5	30.5	28.3	33.9	33.3
10,914	10,042	9,648	9,488	9,087	7,649	8,734	8,170	7,555
30,224	26,773	23,507	22,320	22,242	20,832	20,369	18,410	16,031
263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057	263,043,057
720,365	715,318	710,059	707,026	704,248	699,745	696,200	688,541	658,071

The Company has adopted IFRS in place of Japanese GAAP from the consolidated financial results for the fiscal year ended December 31, 2016. Therefore, consolidated figures for the previous fiscal year and comparisons are based on IFRS. In addition, the Company has used business profit as its unique management indicator. It is calculated by deducting the total of cost of sales and selling, general and administrative expenses from sales revenue.

Scope of Consolidation

The Sumitomo Rubber Group's consolidated financial statements include those of Sumitomo Rubber Industries and its 73 consolidated subsidiaries as well as 3 equity-method affiliates.

In fiscal 2016, ended December 31, 2016, two subsidiaries were newly included in the Company's scope of consolidation while six subsidiaries were excluded. Of the two newly included subsidiaries, one tire business subsidiary, which engages in sales in Taiwan, was included. Another, a sports business subsidiary, was included due to its increased importance to the Group. The six subsidiaries excluded were all tire business subsidiaries. One of the subsidiaries was absorbed into Sumitomo Rubber Industries, Ltd. and the other five were liquidated Chinese subsidiaries.

Two companies were excluded from the scope of equity-method affiliation. One of the companies was liquidated and the other was excluded due to a revision of the scope of consolidation following the adoption of IFRS.

Business Environment

During fiscal 2016, the U.S. economy saw continued expansion and gradual economic growth was seen in Europe, albeit at different paces among the various countries and regions. The rate of economic growth slowed in China, but remained relatively high. The Indian economy also showed continued solid growth. Meanwhile, the economies in countries like Russia and Brazil continued to be stagnant. In addition, the overall global economy weakened due to increased geopolitical risks around the world, growing uncertainty about the European economy due to Brexit and rising concern about future policies in light of the U.S. presidential election results.

The Japanese economy remained weak due to such factors as weak capital investment and personal consumption that reflect uncertainty about corporate earnings mainly caused by further yen appreciation during the current fiscal year.

Looking at the business environment surrounding the Group, natural rubber and crude oil prices were at relatively low levels through the current fiscal year, though they rebounded moderately and soared towards the fiscal year-end. Meanwhile, sales prices were significantly affected by foreign exchange rates, due to further yen appreciation against currencies except some emerging currencies during the current fiscal year.

Revenues and Earnings

In fiscal 2016, consolidated sales revenue fell 5.2% from the previous fiscal year to ¥756,696 million. Overseas sales decreased 4.5% to ¥449,406 million and the overseas sales ratio increased 0.5 percentage points to 59.4%.

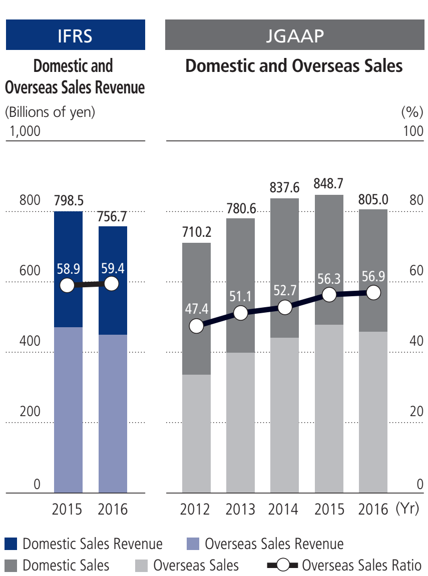
The cost of sales declined 5.4% year on year to ¥499,650 million. The cost of sales ratio increased slightly, edging up 0.2 of a percentage point year on year to 66.0% of sales revenue due to intensifying sales competition linked to the decline in global tire demand. Gross profit fell 4.8% to ¥257,046 million.

Selling, general and administrative expenses fell 4.8% year on year to ¥182,130 million. This was mainly attributable to the continued appreciation of the yen. The ratio of selling, general and administrative expenses to sales revenue edged up 0.1 of a percentage point year on year to 24.1%.

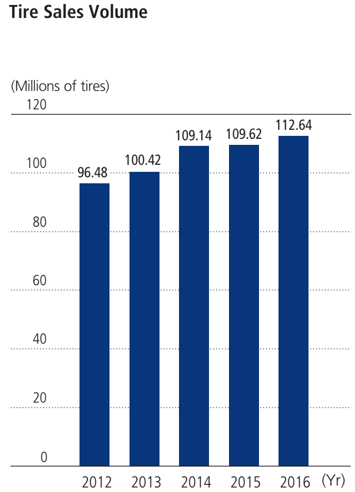
As a result, business profit, which is sales revenue less cost of sales and selling, general and administrative expenses, declined 5.0% to ¥74,916 and the business profit ratio remained unchanged at 9.9%. Operating profit for the fiscal year under review decreased 17.8% to ¥73,284 million. Profit before tax fell 21.2% to ¥70,093 million. The decline in the three indicators above is attributable to the effects from the dissolution of the alliance with The Goodyear Tire & Rubber Company in the previous fiscal year.

Income tax expenses rose 84.4% to ¥27,822 million and the effective tax rate increased 22.7 percentage points to 39.7%. Profit attributable to owners of the parent fell 42.5% to ¥41,364 million.

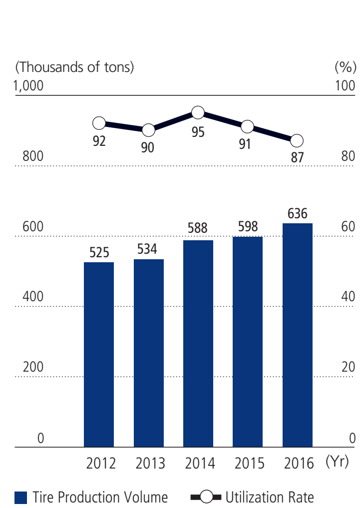
Per share profit attributable to owners of the parent totaled ¥1,636.63. ROE (on a profit attributable to owners of the parent basis) declined 7.8 percentage points to 9.7% due to the drop in profit attributable to owners of the parent.



Tire Sales Volume



Tire Production Volume and Utilization Rate



Results by Industry Segment

Tire Business

Sales in the Tire business decreased 5.0% year on year to ¥648,445 million and business profit fell 8.2% to ¥67,924 million.

The Group's worldwide marketing efforts, particularly in the robust U.S. market, led to an increase in sales volume. However, in step with a fall in raw material prices, product prices declined and competition intensified, especially in the overseas replacement market, with such unfavorable factors as the appreciation of the yen suppressing revenues. On the earnings front, however, a fall in sales prices contributed to a ¥20,700 million decrease in profit. A decline in raw material prices, however, helped boost profit ¥26,500 million along with a ¥10,900 million increase provided by robust sales of winter tires and a boost in sales volume. Nevertheless, there was an overall decline in earnings due in part to an increase in fixed costs that mainly reflected the Company's acquisition of a North American plant and a rise in expenses due to the reinforcement of the marketing structure.

Sports Business

Sales in the Sports business fell 6.4% year on year to ¥72,772 million, while business profit grew 63.3% to ¥4,303 million.

Although Dunlop Sports' flagship XXIO9 series golf clubs enjoyed steady growth in domestic sales, sales revenue decreased primarily due to the appreciation of the yen and conversion of the golf wear business into a licensing business with DESCENTE Ltd. from fiscal 2016. However, business profit rose thanks in part to reduced costs on the back of the appreciation of the yen.

Industrial and Other Products Business

Sales in the Industrial and Other Products business fell 7.8% year on year to ¥35,479 million, while business profit rose 26.7% to ¥2,673 million.

Sales of MIRAIE brand vibration control units for housing remained firm. Sales of medical rubber parts expanded globally, especially in Europe, where the Group's Switzerland-based subsidiary forms the core of the business. On the other hand, sales revenue decreased mainly due to a fall in revenues from precision rubber parts for printers and photocopiers as the market worsened and production decreased while the yen appreciated. Another contributing factor was sluggish sales of infrastructure-related products mainly due to delays in the completion of properties. Business profit, however, increased primarily owing to cost controls.

R&D Expenses

Research and development expenses increased 3.8% year on year to ¥24,257 million. The ratio of such expenses to consolidated sales revenue rose 0.3 of a percentage point year on year to 3.2%. The Tire business accounted for ¥20,966 million of these expenses, up 5.5% from the previous fiscal year, the Sports business ¥1,449 million, down 9.6%, and the Industrial and Other Products business ¥1,842 million, down 3.3%.

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 decided on at the General Shareholders' meeting, while the interim dividend payment is determined at the Board of Directors' meeting.

The full-year dividend for fiscal 2016 remained unchanged from that of the previous fiscal year at ¥55 per share and comprised a ¥25 interim dividend and a ¥30 year-end dividend. The dividend payout ratio on a consolidated basis was 34.9%.

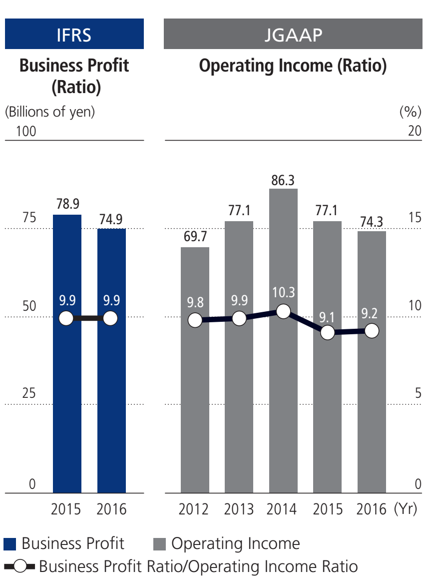
Financial Position

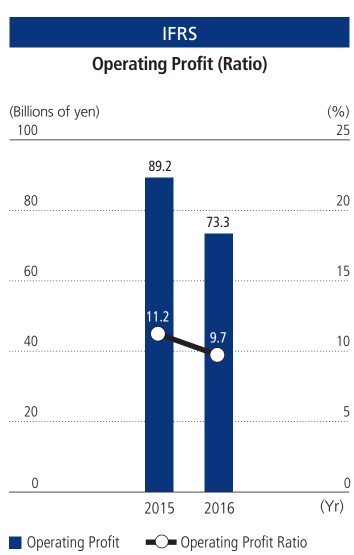
Total assets as of December 31, 2016, were down ¥34,798 million year on year to ¥897,634 million.

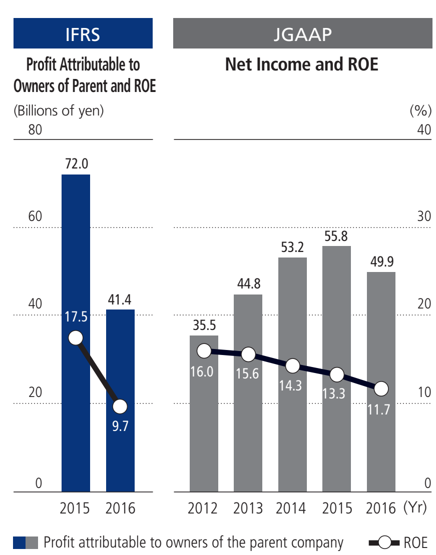
Total current assets decreased ¥8,802 million to ¥412,559 million. This was due mainly to decreases in trade and other receivable and inventories.

Total noncurrent assets decreased ¥25,996 million to ¥485,075 million, due mainly to a decrease in investment securities with the selling of shares in The Goodyear Tire & Rubber Company following the dissolution of the alliance as well as a drop mainly in property, plant and equipment attributable to the appreciation of the yen.

As of the end of the fiscal year under review, total liabilities were down ¥42,502 million year on year to ¥438,093 million. Interest-bearing debt as of the fiscal 2016 year-end decreased ¥57,649 million to ¥204,218 million. As a result, the debt-to-equity ratio decreased from 0.6 times to 0.5 times, a 0.1 point improvement compared with the previous fiscal year-end.







Total equity at the fiscal year-end was ¥459,541 million. Equity attributable to owners of parent was ¥429,316 million. Equity attributable to owners of parent per share stood at ¥1,636.63. The equity attributable to owners of parent ratio was up 2.5 percentage points to 47.8%.

Despite the decline in total assets, ROA (on an business profit basis) declined 0.2 of a percentage point to 8.2% in step with the decrease in business profit.

Capital Expenditures

During the fiscal year under review, the Group's capital expenditures amounted to ¥49,606 million, a year-on-year decrease of 15.8%. The Tire business accounted for ¥46,384 million of the total, down 17.0% 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 augmentation of production capacities of the Group's South African and Turkish facilities. The Sports business spent ¥2,002 million, 9.8% more than in the previous fiscal year. Funds were spent mainly for business sites overseas to help them develop a more robust marketing structure. The Industrial and Other Products business used ¥1,220 million, down 0.5% year on year, mainly for overseas facilities. The necessary funds were furnished through a combination of cash on hand and borrowings.

Cash Flows

Net cash provided by operating activities totaled ¥128,190 million. The main contributors to cash inflows were the posting of profit before tax totaling ¥70,093 million, the posting of depreciation and amortization of ¥51,248 million, a decrease in inventories of ¥3,802 million and a ¥4,518 million decrease in notes and accounts receivable. Cash outflows included a ¥1,190 million decrease in trade and other payables.

Net cash used in investing activities totaled ¥42,144 million. The primary contributor to cash outflows was ¥48,222 million spent for the purchase of property, plant and equipment to reinforce production capacity. Cash inflows included proceeds totaling ¥10,353 from the sale of shares in The Goodyear Tire & Rubber Company in connection with the aforementioned dissolution of the alliance agreement.

As a result, free cash flow, which is computed by subtracting net cash used in investing activities from net cash provided by operating activities, was a positive balance of ¥86,046 million.

Net cash used in financing activities included net repayments of short-term loans, corporate bonds and long-term debt totaling ¥54,447 million as well as the payment of cash dividends totaling ¥15,739 million. 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 changes totaled ¥66,492 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 aims 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 not only ensure business growth but also to secure its liquidity and improve its financial standing.

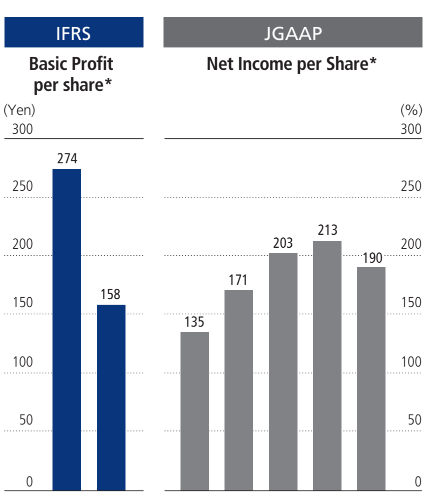
Outlook

With regard to the outlook for the global economy, there was a growing sense of uncertainty about the future due to factors that included the impact of Brexit on the United Kingdom and the European Union as well as the global effects of the protectionist policies of the new U.S. administration. Economic uncertainty is expected to further increase amid concerns about rising prices of crude oil and natural rubber, foreign exchange trends and the manifestation of geopolitical risks.

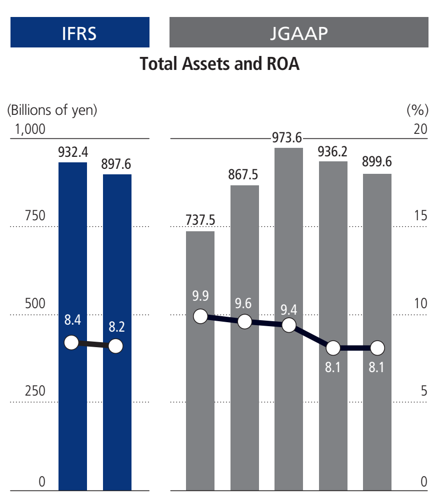
As for Japan's economic prospects, consumer confidence is likely to be undercut by the effects of the financial uncertainty and global economic uncertainty.

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.

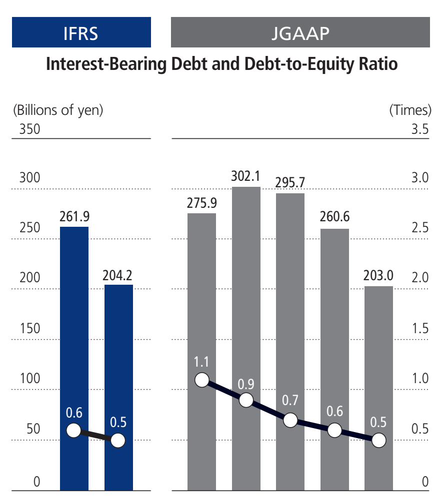
In the Tire business, Sumitomo Rubber Industries will maintain and enhance its presence in the domestic fuel-efficient tire market and, to this end, will leverage its unique and cutting-edge technology to introduce new items in this category. Overseas, the Company will aim for ongoing sales expansion in emerging nations. On January 5, 2017, the Company announced it would buy all the shares of the British tire sales company Micheldever Group Ltd. and completed the acquisition on February 10. With this acquisition, the Company intends to heighten the market presence of its Falken brand in the United Kingdom. In addition, the Company will aggressively work to penetrate the European and U.S. markets, as it now possesses improved marketing flexibility in these



Basic Profit per Share and Net Income per Share
*Based on Profit Attributable to Owners of Parent



Total Assets
ROA (Business Profit base / Operating Income Base)



Interest-Bearing Debt
Debt-to-Equity Ratio

regions. In concert with these efforts aimed at expanding sales in markets worldwide, the Company will develop a supply structure that will support sustainable business growth.

In the Sports business, the Company will proactively introduce new golf goods and tennis equipment with the aim of securing greater market share in Japan and overseas. In the wellness promotion business, the Company will expand the network of its Gym Style 24 facilities to boost sales.

In the Industrial and Other Products business, the Company will engage in marketing activities centered on such growth fields as the vibration-control damper business as well as precision rubber parts for printers and photocopiers and medical rubber parts. In particular, the Company will strive to penetrate markets in Europe and elsewhere in the world. At the same time, the Company will also pursue business expansion in infrastructure-related and other businesses by meeting the needs of upgraded port properties already ordered due to demand caused by the Tokyo Olympics as well as properties to be built going forward.

Risk Information

The Sumitomo Rubber Group has identified the following key risk factors that may affect its business performance and financial position. Risk factors related 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 59.4% in fiscal 2016 (under IFRS), 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.

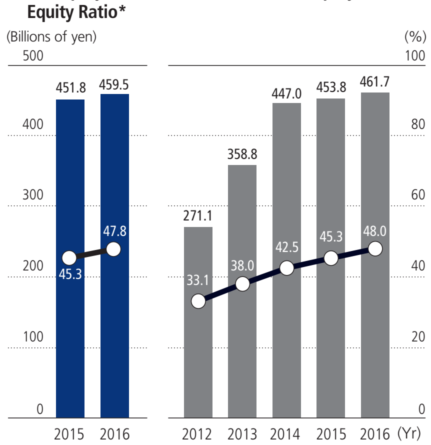
Product Quality

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.

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.

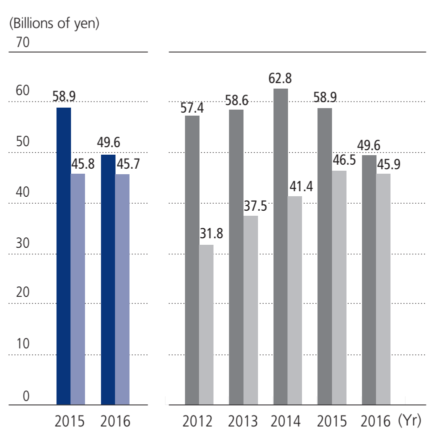
IFRS: **Total Equity and Equity Ratio*** JGAAP: **Net Assets and Equity Ratio**



Total Equity Net Assets Equity Ratio

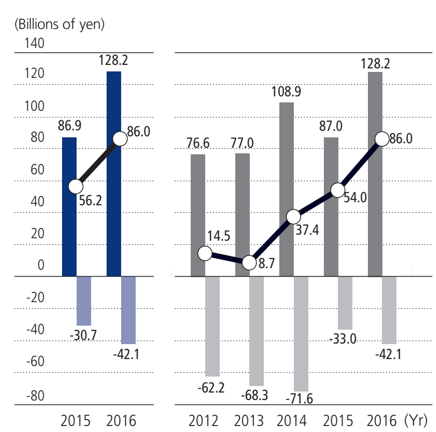
*Ratio of Equity Attributable to Owners of Parent

IFRS / JGAAP: **Capital Expenditures/Depreciation and Amortization**



Capital Expenditures Depreciation and Amortization

IFRS / JGAAP: **Cash Flows**



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

Consolidated Financial Statements

(1) Consolidated Financial Statements

Consolidated Statement of Financial Position

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Assets				
Current assets				
Cash and cash equivalents	7, 19	¥ 53,653	¥ 53,556	**¥ 66,492**
Trade and other receivables	8, 19	212,395	189,940	**182,855**
Other financial assets	19	3,919	5,470	**3,821**
Inventories	9	140,301	144,507	**138,993**
Other current assets		16,906	27,888	**20,398**
Total current assets		427,174	421,361	**412,559**
Non-current assets				
Property, plant and equipment	10	362,434	371,130	**363,293**
Goodwill	11	5,895	15,623	**15,351**
Intangible assets	11	15,332	20,793	**21,445**
Investments accounted for using equity method	13	47,742	4,045	**4,071**
Other financial assets	19	54,146	56,743	**41,239**
Net defined benefit assets	17	22,356	24,167	**20,635**
Deferred tax assets	18	13,686	13,100	**13,888**
Other non-current assets		5,665	5,470	**5,153**
Total non-current assets		527,256	511,071	**485,075**
Total assets		¥954,430	¥932,432	**¥897,634**

Millions of yen

	Note	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Liabilities and Equity				
Liabilities				
Current liabilities				
Bonds and loans payable	15, 19	¥113,299	¥125,173	**¥ 77,056**
Trade and other payables	14, 19	128,798	119,763	**120,236**
Other financial liabilities	12, 19	2,415	2,352	**2,624**
Income tax payable		12,714	3,517	**9,960**
Provisions	16	6,184	5,160	**7,350**
Other current liabilities		30,307	29,189	**34,777**
Total current liabilities		293,717	285,154	**252,003**
Non-current liabilities				
Bonds and loans payable	15, 19	178,357	130,877	**121,556**
Other financial liabilities	12, 19	5,389	5,539	**4,577**
Net defined benefit liabilities	17	18,140	22,821	**22,188**
Provisions	16	1,039	1,214	**1,197**
Deferred tax liabilities	18	10,256	10,110	**12,154**
Other non-current liabilities		17,440	24,880	**24,418**
Total non-current liabilities		230,621	195,441	**186,090**
Total liabilities		524,338	480,595	**438,093**
Equity				
Capital stock	20	42,658	42,658	**42,658**
Capital surplus	20	37,789	37,916	**37,937**
Retained earnings		304,150	360,143	**389,970**
Treasury stock	20	(559)	(567)	**(570)**
Other components of equity	20	14,621	(17,863)	**(40,679)**
Total equity attributable to owners of the parent		398,659	422,287	**429,316**
Non-controlling interests	28	31,433	29,550	**30,225**
Total equity		430,092	451,837	**459,541**
Total liabilities and equity		¥954,430	¥932,432	**¥897,634**

Consolidated Statement of Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan.1 to Dec. 31, 2015	**Jan.1 to Dec. 31, 2016**
Sales revenue	6	¥798,483	**¥756,696**
Cost of sales		(528,393)	**(499,650)**
Gross profit		270,090	**257,046**
Selling, general and administrative expenses	22	(191,237)	**(182,130)**
Other income	23	13,487	**3,930**
Other expenses	23	(3,167)	**(5,562)**
Operating profit		89,173	**73,284**
Financial income	24	2,604	**3,168**
Financial expenses	24	(8,439)	**(6,416)**
Share of (Profit) loss of entities accounted for using equity method	13	5,613	**57**
Profit before tax		88,951	**70,093**
Income tax expenses	18	(15,087)	**(27,822)**
Profit for the year		73,864	**42,271**
Profit attributable to:			
Owners of the parent company		71,976	**41,364**
Non-controlling interests	28	1,888	**907**
Profit for the year		¥ 73,864	**¥ 42,271**
Earning per share			
Basic earning per share (Yen)	25	¥274.38	**¥157.69**

Consolidated Statement of Comprehensive Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan.1 to Dec. 31, 2015	**Jan.1 to Dec. 31, 2016**
Profit for the year		¥73,864	**¥42,271**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	21	477	**(84)**
Remeasurements of defined benefit plan	21	1,216	**(1,471)**
Share of other comprehensive income of associates accounted for using equity method	21	(2,803)	**—**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	21	(113)	**312**
Currency translation differences of foreign operations	21	(33,557)	**(19,216)**
Share of other comprehensive income of associates accounted for using equity method	21	(1)	**—**
Other comprehensive income, net of tax		(34,781)	**(20,459)**
Total comprehensive income for the year		¥39,083	**¥21,812**
Total comprehensive income for the year attributable to:			
Owners of the parent company		38,444	**22,669**
Non-controlling interests		639	**(857)**
Total comprehensive income for the year		¥39,083	**¥21,812**

Consolidated Statement of Changes in Equity

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

January 1 to December 31, 2015 — Millions of yen

		Equity attributable to owners of the parent company					
						Other components of equity	
	Note	Capital stock	Capital surplus	Retained earnings	Treasury stock	Currency translation differences of foreign operations	Cash flow hedge
Balance as of January 1, 2015		¥42,658	¥37,789	¥304,150	¥(559)	¥ —	¥ 42
Profit for the year				**71,976**			
Other comprehensive income	21					**(32,266)**	**(113)**
Total comprehensive income		**—**	**—**	**71,976**	**—**	**(32,266)**	**(113)**
Purchase of treasury stock	20				**(8)**		
Disposal of treasury stock	20		**0**		**0**		
Dividends	26			**(14,428)**			
Changes in ownership interests in subsidiaries without a loss of control	27		**127**				
Changes in scope of consolidation							
Transfer to retained earnings				**(1,555)**			
Other increase and decrease							**(507)**
Total transactions with owners		**—**	**127**	**(15,983)**	**(8)**	**—**	**(507)**
Balance as of December 31, 2015		**¥42,658**	**¥37,916**	**¥360,143**	**¥(567)**	**¥(32,266)**	**¥(578)**

Millions of yen

		Equity attributable to owners of the parent company					
		Other components of equity					
	Note	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total	Total	Non-controlling interests	Total
Balance as of January 1, 2015		¥14,579	¥ —	¥ 14,621	¥398,659	¥31,433	¥430,092
Profit for the year				**—**	**71,976**	**1,888**	**73,864**
Other comprehensive income	21	**452**	**(1,605)**	**(33,532)**	**(33,532)**	**(1,249)**	**(34,781)**
Total comprehensive income		**452**	**(1,605)**	**(33,532)**	**38,444**	**639**	**39,083**
Purchase of treasury stock	20			**—**	**(8)**		**(8)**
Disposal of treasury stock	20			**—**	**0**		**0**
Dividends	26			**—**	**(14,428)**	**(3,385)**	**(17,813)**
Changes in ownership interests in subsidiaries without a loss of control	27			**—**	**127**	**1,910**	**2,037**
Changes in scope of consolidation				**—**	**—**	**(1,047)**	**(1,047)**
Transfer to retained earnings		**(50)**	**1,605**	**1,555**	**—**		**—**
Other increase and decrease				**(507)**	**(507)**		**(507)**
Total transactions with owners		**(50)**	**1,605**	**1,048**	**(14,816)**	**(2,522)**	**(17,338)**
Balance as of December 31, 2015		**¥14,981**	**¥ —**	**¥(17,863)**	**¥422,287**	**¥29,550**	**¥451,837**

January 1 to December 31, 2016

Millions of yen

	Note	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Currency translation differences of foreign operations	Cash flow hedge
Balance as of January 1, 2016		¥42,658	¥37,916	¥360,143	¥(567)	¥(32,266)	¥(578)
Profit for the year				**41,364**			
Other comprehensive income	21					**(17,391)**	**312**
Total comprehensive income		**—**	**—**	**41,364**	**—**	**(17,391)**	**312**
Purchase of treasury stock	20				**(3)**		
Disposal of treasury stock	20		**0**		**0**		
Dividends	26			**(15,739)**			
Changes in ownership interests in subsidiaries without loss of control			**21**				
Changes in scope of consolidation							
Transfer to retained earnings				**4,202**			
Other increase and decrease							**81**
Total transactions with owners		**—**	**21**	**(11,537)**	**(3)**	**—**	**81**
Balance as of December 31, 2016		**¥42,658**	**¥37,937**	**¥389,970**	**¥(570)**	**¥(49,657)**	**¥(185)**

Millions of yen

	Note	Equity attributable to owners of the parent company					
		Other components of equity					
		Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total	Total	Non-controlling interests	Total
Balance as of January 1, 2016		¥14,981	¥ —	¥(17,863)	¥422,287	¥29,550	¥451,837
Profit for the year				**—**	**41,364**	**907**	**42,271**
Other comprehensive income	21	**(83)**	**(1,533)**	**(18,695)**	**(18,695)**	**(1,764)**	**(20,459)**
Total comprehensive income		**(83)**	**(1,533)**	**(18,695)**	**22,669**	**(857)**	**21,812**
Purchase of treasury stock	20			**—**	**(3)**		**(3)**
Disposal of treasury stock	20			**—**	**0**		**0**
Dividends	26			**—**	**(15,739)**	**(1,314)**	**(17,053)**
Changes in ownership interests in subsidiaries without loss of control				**—**	**21**	**2,574**	**2,595**
Changes in scope of consolidation				**—**	**—**	**272**	**272**
Transfer to retained earnings		**(5,735)**	**1,533**	**(4,202)**	**—**		**—**
Other increase and decrease				**81**	**81**		**81**
Total transactions with owners		**(5,735)**	**1,533**	**(4,121)**	**(15,640)**	**1,532**	**(14,108)**
Balance as of December 31, 2016		**¥ 9,163**	**¥ —**	**¥(40,679)**	**¥429,316**	**¥30,225**	**¥459,541**

Consolidated Statement of Cash Flows

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan.1 to Dec. 31, 2015	**Jan.1 to Dec. 31, 2016**
Cash flows from operating activities			
Profit before tax		¥ 88,951	**¥ 70,093**
Depreciation and amortization		51,419	**51,248**
Impairment loss		345	**395**
Interest and dividends income		(2,360)	**(2,413)**
Interest expenses		4,476	**3,712**
Share of (profit) loss of entities accounted for using equity method		(5,613)	**(57)**
Loss (gain) on sales and retirement of non-current assets		875	**672**
Loss (gain) on sales of shares of subsidiaries and associates		(9,067)	**—**
Decrease (increase) in inventories		(8,579)	**3,802**
Decrease (increase) in trade and other receivables		19,275	**4,518**
Increase (decrease) in trade and other payables		(13,460)	**(1,190)**
Other, net		(5,034)	**7,820**
Subtotal		121,228	**138,600**
Interest received		1,488	**1,749**
Dividend income received		874	**659**
Interest expense paid		(4,290)	**(3,446)**
Income taxes paid		(32,436)	**(9,372)**
Net cash provided by (used in) operating activities		86,864	**128,190**
Cash flows from investing activities			
Purchase of property, plant and equipment		(57,706)	**(48,222)**
Proceeds from sales of property, plant and equipment		968	**440**
Purchase of intangible assets		(4,232)	**(5,170)**
Purchase of investment securities		(152)	**(89)**
Proceeds from sales of investment securities		81	**10,353**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation		—	**120**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	27	(17,463)	**—**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation		2,837	**—**
Proceeds from sales of shares of associates		45,471	**—**
Payment for transfer of business		(1,910)	**—**
Other, net		1,434	**424**
Net cash provided by (used in) investing activities		(30,672)	**(42,144)**
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable		(6,204)	**(24,829)**
Proceeds from long-term debt and newly issued bonds		955	**14,673**
Repayments of long-term debt and redemption of bonds		(29,289)	**(44,291)**
Proceeds from contributions of non-controlling interests		3,717	**2,604**
Cash dividends paid	26	(14,428)	**(15,739)**
Cash dividends paid to non-controlling interests		(3,385)	**(1,314)**
Purchase of shares of non-controlling interests		(1,714)	**(19)**
Other, net		(2,359)	**(2,140)**
Net cash provided by (used in) financing activities		(52,707)	**(71,055)**
Effect of exchange rate changes on cash and cash equivalents		(3,582)	**(2,055)**
Net increase (decrease) in cash and cash equivalents		(97)	**12,936**
Cash and cash equivalents at the beginning of current period	7	53,653	**53,556**
Cash and cash equivalents at the end of current period	7	¥ 53,556	**¥ 66,492**

Accounting Status

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

1. Preparation of Consolidated Financial Statements

(1) In accordance with Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of October 30, 1976, hereinafter "the Ordinance on Consolidated Financial Statements"), the accompanying consolidated financial statements of Sumitomo Rubber Industries, Ltd. (hereinafter "the Company") have been prepared in conformity with International Financial Reporting Standards (IFRS).

(2) The Company's financial statements have been prepared in accordance with the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc. (Ordinance of the Ministry of Finance No. 59 of November 27, 1963).

The Company has prepared its financial statements in conformity with Article 127 of the aforementioned ordinance as a "Specified Company" stipulated in said article.

2. Audit

In accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Law, the Company's consolidated financial statements for the January 1 through December 31, 2016 fiscal period and financial statements covering its operations during said period have been audited by KPMG AZSA LLC.

3. Special Measures to Ensure the Accuracy of the Consolidated Financial Statements and Systematic Conformity with IFRS

The Company undertakes special measures to ensure the accuracy and relevance of its consolidated financial statements and other key documents while developing systems to coordinate those documents in conformity with IFRS. Details follow.

(1) To ensure the latest accounting standards are reflected in its accounting practices, the Company updates its systems to accommodate changes in said standards and maintains membership in such organizations as the Financial Accounting Standards Foundation, which holds seminars that the Company participates in.

(2) In regard to the adoption of IFRS, the Company stays abreast of updates and standards published by the International Accounting Standards Board, with the aim of remaining apprised of the latest standards. Moreover, the Company developed consolidated accounting policies in conformity with IFRS and applies these policies in its accounting treatment.

Notes to Consolidated Financial Statements

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

1. Reporting Company

Sumitomo Rubber Industries, Ltd. (hereinafter the "Company") is based in Japan. The consolidated financial statements presented herein comprise the operating results for the fiscal year ended December 31, 2016 recorded by the Sumitomo Rubber Group and the Company's affiliates. For a description of the Group's primary business activities, please refer to Note 6. "Segment Information."

2. Basis for Preparation

(1) Compliance with IFRS

In accordance with Article 93 of "the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 in 1976), the Group's consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS), as the Company meets the requirements concerning the "Designated International Accounting Standards Specified Company" prescribed in Article 1-2.

The consolidated financial statements presented herein were approved by Ikuji Ikeda, Representative Director and President of the Company, on May 10, 2017.

The Sumitomo Rubber Group adopted IFRS from the current fiscal year, which extended from January 1 to December 31, 2016. Accordingly, the consolidated financial statements presented in this report are the Company's first such IFRS-compliant documents. The date of transition to IFRS was January 1, 2015, and these consolidated financial statements were subject to the provisions of the IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" (hereinafter "IFRS 1"). The impacts of the transition to IFRS on the Group's financial position, business performance and cash flows as of the date of transition to IFRS, as well as year-on-year comparisons, are presented in Note 31. "First-Time Adoption of IFRS."

(2) Basis for Measurements

As stated in Note 3. "Significant Accounting Policies," the consolidated financial statements have been prepared based on historical cost, except for specific financial instruments that are measured at fair value.

(3) Presentation Currency and Unit

The Company uses Japanese yen as the primary functional currency for its operations and as the presentation currency used in preparing its consolidated financial statements. Figures are rounded to the nearest million yen.

(4) Early Adoption of New Standards

The Sumitomo Rubber Group complies with IFRS in effect at December 31, 2016. The Group is an early adopter of IFRS 9 *"Financial Instruments"* (revised in July 2014).

3. Significant Accounting Policies

Unless otherwise noted, the accounting policies described below have been consistently applied throughout the entirety of each fiscal year presented in the consolidated financial statements (including the consolidated statement of financial position as of the date of transition to IFRS).

(1) Basis for Consolidation

(i) Subsidiaries

A subsidiary is defined as a company under the control of the Sumitomo Rubber Group. The term "control" refers to the Group's exposure or entitlement to variable returns due to its involvement in the management of said company, the returns of which the Group is able to impact through the exercise of its power. The financial statements of subsidiaries are included in the scope of consolidation from the date that control over said company is established to the date that such control is relinquished.

All intragroup balances, transactions within the Group as well as unrealized profit and loss resulting from transactions within the Group are eliminated in preparation of the consolidated financial statements.

A subsidiary's comprehensive income is allocated to owners of the parent and non-controlling interests even when that portion attributable to non-controlling interests is negative.

To disclose the most accurate information, the operating results of subsidiaries whose fiscal year end differs from that of the parent company are subject to provisional closing. This is undertaken at the closing date of the consolidated financial results, with the results of the provisional closing included therein.

Changes in equity held by the Group in subsidiaries under its control are treated as capital transactions. The difference between adjustments for non-controlling interests and the fair value of such interests is classified as equity attributable to owners of the parent and directly recognized as capital.

(ii) Affiliates

An affiliate is defined as a company over which the Group exerts neither sole nor joint control but nevertheless is able to exert significant influence with regard to financial and management decisions. Investments in affiliates are accounted for using equity method from the date on which the Group gains significant influence until the date on which it ceases to hold that influence.

(2) Business Combinations

Business combinations are accounted for using the "Acquisition Method." Identifiable assets, identifiable liabilities and contingent liabilities acquired in a business combinations are measured at fair value as of the date of acquisition. Acquisition-related costs incurred by a business combination are accounted for as an expense in the period incurred. Non-controlling interests are identified separately from equity held by the Group. The Group chooses its non-controlling interests in the acquire based on a) fair value or b) the proportion of the non-controlling interest's share in the net value of identifiable assets and liabilities of the acquire on a transaction by transaction basis respectively.

Goodwill is measured when the total of a) the price of business combination, b) the value of non-controlling interests acquired and c) the fair value of equity capital in the investee held by the acquiring company prior to the new acquisition surpasses d) the net value of the investee's identifiable assets and liabilities as of the date of acquisition. Goodwill thus is measured as the excess of the total of a), b) and c) over d).

In cases where the total of a), b) and c) falls short of the value of d) due to a bargain purchase, the difference is recognized as profit or loss.

The Group applies the exemption under IFRS 1, and does not apply IFRS 3, *"Business Combinations,"* (hereinafter "IFRS 3") retrospectively to business combinations recognized before the transition date.

(3) Foreign Currencies Translation

(i) Foreign Currency Denominated Transactions

The financial statements of Sumitomo Rubber Group subsidiaries have been prepared based on functional currencies, that is, the primary currencies of the respective business economies in which each subsidiary conducts business operations.

Transactions denominated in other foreign currencies have been translated into the functional currencies of the relevant subsidiaries using exchange rates at the date of the transactions or rates that approximate the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies as of each fiscal year-end have been translated into the functional currencies using the exchange rates at the fiscal year-end. Exchange differences resulting from translation and settlements are recognized as profit or loss. However, financial assets measured through other comprehensive income and exchange differences resulting from cash flow hedging are recognized as other comprehensive income.

(ii) Foreign Operations

The assets and liabilities of foreign operations have been translated into Japanese yen using the exchange rates at the fiscal year-end. Income and expenses recorded by such foreign operations have been translated into Japanese yen using the average exchange rate during the fiscal year, except for cases of significant exchange rate movements during the fiscal year. Exchange differences resulting from the translation of financial statements of foreign operations are recognized in other comprehensive income (or loss). The exchange differences are included in other components of equity as "currency translation differences of foreign operations."

The Group applies the exemptions under IFRS 1, and the cumulative translation differences that existed at the transition date are transferred to retained earnings.

(4) Cash and Cash Equivalents

Cash and cash equivalents consist of a) cash on hand, b) readily available deposits and c) short-term highly liquid investments with original maturities of three months or less that entail insignificant price fluctuation risk.

(5) Financial Instruments

(i) Financial Assets Other than Derivatives

i. Classification

The Group classifies financial assets other than derivatives into the following categories: (a) those measured at amortized cost; (b) those measured at fair value through other comprehensive income; and (c) those measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are measured at amortized cost when the following conditions are met:

- Contained within a business model with the objective of holding financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal

(b) Financial assets measured at fair value through other comprehensive income:

(b. 1) Debt equivalents

Financial assets are classified as debt equivalents when the following conditions are met:

- Contained within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

(b. 2) Equity equivalents

Excluding the financial assets classified as (b. 1) above, the Group holds investments that are equity equivalents (excluding assets held for trading) that would otherwise meet the requirements of (a) above. Once any such investment is recognized as an equity equivalent, the Group's decision to present subsequent changes in fair value in other comprehensive income becomes irrevocable.

In addition, as the Sumitomo Rubber Group exercised the exemption stipulated in IFRS 1, the Group remeasured the value of its investments in equity equivalents at fair value through other comprehensive income based on conditions as of the date of transition to IFRS.

(c) Financial assets measured at fair value through profit or loss
Financial assets that do not meet the criteria of (a) or (b) above are measured at fair value through profit or loss. The Sumitomo Rubber Group has not classified any of its investments in debt equivalents in this category as it aims to promote accounting consistency.

ii. Initial Recognition and Measurement

The Sumitomo Rubber Group recognizes trade and other receivables as of their accrual date. As for all other financial assets, the Sumitomo Rubber Group undertakes the initial recognition as of the transaction date on which the Group becomes a signatory on contracts for such assets. The value of all financial assets, except for those classified as financial assets measured at fair value through profit or loss, reflects initial measurements based on the total of fair value and transaction costs.

iii. Subsequent Measurement

To remeasure the value of financial assets after initial recognition, the Group applies the following methods by asset category.

(a) Financial assets measured at amortized cost
The Group undertakes subsequent measurement using amortized cost based on the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income
(b.1) Debt equivalents
Changes in the fair value of financial assets in this category, excluding gains and losses attributable to impairment and foreign exchange, are recognized as other comprehensive income until the Group derecognizes said assets. After derecognition, previously recognized other comprehensive income is reclassified to profit or loss.
(b.2) Equity equivalents
Changes in the fair value of financial assets in this category are recognized as other comprehensive income. In cases where the Group derecognizes said assets or the fair value of such assets falls significantly, previously recognized other comprehensive income is directly reclassified to retained earnings. In addition, dividends derived from these financial assets are recognized as profit.

(c) Financial assets measured at fair value through profit or loss
Following initial recognition, the value of financial assets in this category is measured at fair value. Changes in the fair value are recognized as profit or loss.

iv. Impairment of Financial Assets

The Sumitomo Rubber Group recognizes an allowance for doubtful accounts to counter expected credit loss in relation to financial assets measured at amortized cost.

Determination of a significant increase in credit risk

At every fiscal year-end, the Group evaluates whether there has been a significant increase in the credit risk of financial assets after initial recognition by comparing the default risk of such assets at the account closing date and at the date of initial recognition.

In addition, the Group undertakes the aforementioned evaluation based on changes in default risk following the initial recognition. To determine whether there has been a change in the default risk of financial assets, the Group takes the following factors into consideration.

• Significant changes in ratings by external credit rating agencies
• Downward revisions in internal credit ratings
• Deterioration in the business performance of borrowers
• Information about lapses in maturity dates

Measurement of expected credit loss

Expected credit loss refers to the present value of differences between contractual cash flows that are due to the Group in accordance with the contract; and the cash flows that the Group expects to receive. The allowance for doubtful accounts associated with financial assets is determined at an amount equal to the present value of the expected credit loss over the lifetime of such assets if the credit risk has increased significantly since initial recognition or at an amount equal to the expected credit loss over the 12-month period if the credit risk of such assets has not increased significantly.

However, notwithstanding the above, the allowance for doubtful accounts associated with operating receivables that include no significant financial elements is determined at an amount equal to lifetime expected credit loss.

Allowance for doubtful accounts in relation to financial assets is recognized as profit or loss. In cases where the allowance for doubtful accounts decreases, the reversal of such allowance is recognized as profit or loss.

v. Derecognition of Financial Assets

Financial assets are derecognized if the Group's contractual rights to the cash flows expire or if the Group transfers such rights or otherwise transfers substantially all the risks and rewards of ownership of the financial assets.

If there is no reasonable expectation for the partial or full collection of the Group's claims associated with a financial asset, the Group directly deducts the value from the carrying amount of total financial assets.

(ii) Financial Liabilities Other than Derivatives

i. Classification

The Group classifies financial liabilities other than derivatives as those measured at amortized cost.

ii. Initial Recognition and Measurement

The Group undertakes the initial recognition of debt securities issued by the Group at the date of issuance. All other financial liabilities are subject to initial recognition undertaken at the transaction date, that is, the date on which the Group became a signatory to contracts associated with such liabilities. All financial liabilities are measured at fair value less transaction cost.

iii. Subsequent Measurement

To remeasure the value of financial liabilities, the Group uses amortized cost based on the effective interest method.

iv. Derecognition of Financial Liabilities

Financial liabilities are derecognized when they have been extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

(iii) Offset of Financial Assets and Liabilities

Financial assets and liabilities are offset only when the Group currently has a legally enforceable right to offset the transactions and intends either to settle on a net basis or to simultaneously realize the financial assets and settle the financial liabilities. The outcome of such offset is included in the consolidated statement of financial position.

(iv) Derivatives and Hedge Accounting

The Group utilizes such derivatives as forward exchange contracts and interest rate swaps as hedges against foreign exchange risk and interest rate risk. These derivatives are initially measured at fair value as of the contract date. The Group undertakes subsequent remeasurement using fair value.

When derivatives are designated as eligible hedging instruments, accounting treatment methods for changes in the fair value of such derivatives are determined by hedging objective and designation. When they are not designated as such, the changes in the fair value of such derivatives are recognized as profit or loss.

i. Qualifying Criteria for Hedge Accounting

When a derivative transaction is initiated, the Group documents the relationship between hedging instruments and hedged items as well as its risk management goals and strategies for various hedging transactions, with the aim of evaluating whether the hedge relationship meets hedge accounting requirements. Moreover, from the inception of hedging, the performance of derivatives (used for hedge transactions to offset changes in the fair value of or cash flows from hedged items) is constantly evaluated and documented to determine whether they meet all the applicable hedging efficacy requirements. The evaluation of hedge effectiveness is undertaken at the earlier of the closing date of each fiscal year or whenever a significant change in circumstances may affect hedge effectiveness requirements.

ii. Accounting Treatment of Qualifying Hedge Relationships

Derivatives that meet the strict criteria for hedge accounting are treated as follows.

Fair value hedge

Changes in the fair value of hedging instruments are recognized as profit or loss. Changes in the fair value of hedged items are adjusted in the carrying amount of such items and recognized as profit or loss.

Cash flow hedges

The effective portion of gain or loss on hedging instruments is recognized as other comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

If a hedged forecast transaction subsequently results in the recognition of non-financial assets or non-financial liabilities, the Group directly transfers cash flow hedge reserves to the initial cost or other carrying amount of such assets or liabilities.

Cash flow hedge reserves, other than those derived from the aforementioned cash flow hedges, are reclassified to profit or loss in the same period or periods during which the hedged expected future cash flow affects profit or loss.

However, if the initial amount is negative and the partial or full recovery of such amount may not be expected in the future, the estimated loss is immediately reclassified to profit or loss.

Cash flow hedge reserves are retained until cash flows are generated even when the Group decides to discontinue hedge accounting, provided that the future generation of cash flows from hedged accounts is expected. However, if the future generation of such cash flows cannot be expected, cash flow hedge reserves are immediately reclassified to profit or loss.

(v) Fair Value of Financial Instruments

To determine the fair value of financial instruments being traded in active markets as of the reporting dates for each fiscal year, the Group refers to quoted market prices. The fair value of financial instruments without active markets is calculated using appropriate valuation models.

(6) Inventories

Inventories are stated at the lower of acquisition cost or net realizable value. Historical cost is calculated mainly based on the gross average method and includes purchase price, processing cost and all other expenses incurred in bringing such inventories to their present location and state. Net realizable value is calculated by deducting the estimated cost of completion as well as relevant variable selling expenses from selling prices estimated in the course of regular business operations.

(7) Property, Plant and Equipment

All property, plant and equipment is stated at acquisition cost less accumulated depreciation and accumulated impairment loss. Acquisition cost includes any costs directly attributable to the acquisition of the assets, their dismantlement , removal and restoration cost, as well as borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets.

Subsequent expenditures are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Other expenses for maintenance and repair are recognized as profit or loss as incurred.

The depreciation of assets other than land and construction in progress is calculated using the straight-line method over their estimated useful lives.

The estimated useful lives of primary assets by category are as follows:

- Building and structures: 2 to 60 years
- Machinery, equipment and vehicles: 2 to 20 years
- Tools, furniture and fixture: 1 to 20 years

The depreciation methods, residual values and estimated useful lives are reviewed at the end of each fiscal year, and if any changes are made, those changes are applied prospectively as a change in an accounting estimate.

(8) Intangible Assets

(i) Goodwill

Goodwill resulting from the acquisition of subsidiaries is stated as an intangible asset.

Matters regarding the measurement of goodwill as of the initial recognition are presented in "(2) Business Combinations." Goodwill is measured at the amount of acquisition cost less accumulated impairment loss. Goodwill is not amortized and is subject to impairment testing. Matters regarding the impairment of such assets are presented in "(10) Impairment of Non-Financial Assets."

The Group undertakes the initial recognition of intangible assets acquired through business combination and recognized as separate from goodwill at fair value as of the date of acquisition. Except for those with indefinite useful lives, such assets are amortized using the straight-line method over their estimated useful lives.

(ii) Other Intangible Assets

Other intangible assets acquired on an individual basis are stated at acquisition cost less accumulated amortization and impairment loss if their useful lives are definite. Such assets are amortized using the straight-line method over their estimated useful lives. The value of intangible assets with indefinite useful lives is stated at acquisition cost less accumulated impairment loss.

The estimated useful lives of major intangible assets are as follows:

- Software: 3 to 5 years

The amortization methods for assets and their residual value and estimated useful lives are reviewed at the end of every fiscal year. Changes in these factors are subsequently reflected in future accounting periods which changes affect as accounting estimates.

(9) Leases

Leases are classified as finance leases if substantially all the risks and rewards incidental to ownership of such assets are transferred to the Group. Other leases are classified as operating leases.

Lease assets and liabilities resulting from finance lease transactions are recognized at the lower of the fair value of leased properties calculated at the inception of the lease or the present value of the minimum lease payments. In accordance with applicable accounting policies, such assets are depreciated after initial recognition by using the straight-line method over their estimated useful life, or if shorter, the term of lease.

Lease payments for operating leases are recognized as expenses using the straight-line method over the lease terms and presented in the consolidated statement of income.

(10) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever there is an indication that the carrying amount of such assets may not be recoverable due to unforeseen events or changes in circumstance. The carrying amount of said assets in excess of the recoverable amount is recognized as impairment loss. In addition, the recoverable amount is the higher of fair value less selling cost or value in use. In calculating value in use, estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and risks specific to the assets. When assets are reviewed for impairment, they are grouped into minimum units (cash-generating units) where individual cash flows can be identified.

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are not subject to amortization. The recoverable amount of such assets is estimated annually and is subject to impairment testing.

Goodwill is also subject to annual impairment testing, with its carrying amount representing acquisition costs less accumulated impairment loss. To perform impairment testing, the Group allocates goodwill to individual cash-generating units or cash-generating unit groups that are expected to bring benefits by creating synergies attributable to business combination.

As for property, plant and equipment and intangible assets (excluding goodwill) for which impairment has been recognized previously, the Group evaluates the possibility of reversal of impairment at the end of each reporting period.

(11) Non-Current Assets Held for Sale (Disposal Group)

Of assets and asset groups whose value is expected to be recovered through sale and not through ongoing use, those that can be sold immediately in present condition are classified as assets held for sale when plans call for completing the sale within one year and the Group's management is committed to executing the sale. Assets classified as such are measured at the lower of carrying amount or fair value less selling cost.

(12) Employee Benefits

(i) Short-Term Employee Benefits

Short-term employee benefits are not subject to discount and are recognized as expenses whenever relevant services have been provided. Whenever a reliable estimation can be undertaken, bonuses and the cost of paid leave are recognized as liabilities based on the estimated cost in accordance with the applicable schemes to which the Group has legal or constructive obligations.

(ii) Postretirement Benefit Plans

i. Defined Benefit Plans

The Company and some of its subsidiaries have adopted defined benefit plans. Assets and liabilities recognized in relation to said plans are classified by individual plan, with their value being determined by deducting the fair value of plan assets from the present value of the defined benefit obligation at the end of reporting period. Defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. With the determination of the discount period based on the residual term until the future payment date in each fiscal year, the discount rate applied is determined by reference to market yields on high-quality corporate bonds at the end of the corresponding reporting period.

Actuarial differences resulting from adjustments based on performance and changes in actuarial assumptions are immediately reclassified to retained earnings after recognizing them in other comprehensive income for the period in which such differences were recorded.

Prior service costs are recognized as profit or loss for the period in which such costs were incurred.

ii. Defined Contribution Plans:

The Company and some of its subsidiaries have adopted defined contribution plans. Upon payment, each defined contribution is recognized as employee benefit cost since the retirement benefit cost of such plans entails no additional obligation. Such contribution is the sole expense associated with these plans.

(iii) Other Long-Term Employee Benefits

Liabilities due to long-term employee benefits (other than retirement benefits) are calculated by estimating the future amount for benefits that employees will have earned as consideration for their services in the current and prior fiscal years and discounting such amount in order to determine the present values.

(13) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; settlement is expected to result in an outflow of resources embodying economic benefits: and the amount of obligation can be reliably estimated.

In cases where the effect of the time value of money is material, the amount of a provision is measured at the present value of expenditures expected to be required to settle the obligation after applying a discount rate (pre-tax rate) that reflects current market assessments and risks specific to the liability. Increases due to passage of time are recognized as financial expenses.

(i) Provision for Loss on Voluntary Recall of Products

This item represents the amount of reliably estimated loss that may directly arise from a product recall in the fiscal year under review or later and other relevant expenses.

(ii) Provision for Sales Returns

This item is provided for losses incurred on the return of tires that are sold but subsequently returned. The amount is based on an estimate using the average rate of such returns in prior years.

(iii) Asset Retirement Obligation

This item represents estimated expenses for returning leased offices and buildings to their original condition. The amount is expected to be paid after the passage of one year or later and is affected by future business plans and other factors.

(14) Equity

(i) Common share

In terms of common share, capital stock and capital surplus are stated at the issuance price.

(ii) Treasury Stock

Treasury stock is evaluated at acquisition cost and deducted from equity. Proceeds or losses are not recognized at the time of the purchase, sale or retirement. However, differences between the carrying amount and proceeds from sales are recognized as capital surplus.

(15) Revenue Recognition

Revenues consist of the fair value of consideration or receivables received resulting from the sales of goods and the provision of services in the course of ordinary business operations of the Group. The Group recognizes revenues as follows.

(i) Sale of Goods
Revenues from the sale of goods are recognized when: the underlying significant risk and economic value associated with the ownership of goods have been transferred to the buyer; the Group has no ongoing involvement in the management of the sold goods nor substantial control over them; future economic benefits associated with the transactions are highly likely to be secured by the Group; and the amount of relevant costs and revenues can be measured with reliability. Specifically, such revenues are recognized in according to the timing of transfer the principal risk and economic value associated with ownership to the buyer, such as the goods are loaded on vessels, delivered to or accepted by the buyer following final inspection.

Revenues from the sale of goods are measured at the fair value of considerations or receivables determined by contracts between the Group and the buyer or user of the goods. The effect of discounts and rebates, where applicable, may be reasonably calculated based on past transactions and deducted from sales revenue.

(ii) Provision of Services
Revenues from rendering services are recognized when: future economic benefits associated with the transactions are highly likely to be secured by the Group; the costs entailed, including those for completing the transaction, and ensuing revenues can be reliably measured; and the progress of such transaction can be reliably measured at the end of fiscal year. Revenues from rendering services are thus recognized by reference to the stage of completion of the transaction.

(iii) Royalty Income
The Group has entered into licensing agreements granting rights to the manufacture of its products and to the use of its technologies to third parties. Royalty income associated with licensing is recognized on an accrual basis in accordance with the substance of relevant agreements.

(iv) Interest Income
Interest income is recognized using the effective interest method. If loans and receivables have been impaired, the Group decreases their carrying amount to a recoverable amount. The recoverable amount is discount estimates of future cash flows based on the initial effective interest rates set for the financial instruments. Interest income associated with the impaired loans and receivables is recognized using initial interest rates.

(v) Dividend Income
Dividend income is recognized when the Group establishes its right to receive dividends.

(16) Government Grants

Recognition of eligibility for the receipt of government grants may be secured if conditions for the receipt of grants have been met and reasonable guarantee for the receipt could be obtained. Grants for the acquisition of assets are recognized as revenues with regularity over the useful lives of the related assets, with unearned grant income being included in liabilities as deferred income. Grants for other business expenses are recognized as revenues in the fiscal year in which relevant expenses are recognized.

(17) Income Taxes

Income tax expenses consist of current income taxes and deferred taxes. As such they are recognized as loss or profit, with the exception of taxes on items recognized as other comprehensive income or taxes directly included in equity.

Income tax expenses are calculated using the statutory tax rates and tax laws enforced or substantially enforced at the end of the fiscal year in countries where taxable income is generated from business activities undertaken by the Company and its subsidiaries.

Deferred tax assets and liabilities are recognized using the asset and liability method on the basis of temporary differences arising between the tax bases of said assets or liabilities and their carrying amount as presented in the consolidated financial statements.

In addition, deferred tax assets and liability are not recognized for the following temporary differences.

- The initial recognition of goodwill
- The initial recognition of assets or liabilities in relation to transactions (excluding business combinations) that affect neither accounting profit or loss nor taxable income (tax loss carryforwards)
- Taxable temporary differences arising from investments in subsidiaries or affiliates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed annually. Such amount is reduced proportionately with the utilization of deferred tax assets, which may be partial or full depending on the sufficiency of taxable income. An unrecognized deferred tax asset is reviewed every fiscal year and is recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the statutory tax rates and tax laws that will be enforced or substantially enforced by the end of the accounting period and applied to the period in which deferred tax assets are realized or deferred tax liabilities are settled.

Deferred tax assets and liabilities are offset if the Company and its subsidiaries have a legally enforceable right to offset a current tax asset against a current tax liability and if the same taxation authority levies income taxes either on the same taxable entity or on different taxable entities that intend to settle current tax assets and liabilities on a net basis.

(18) Dividends Paid

Dividends paid to owners of the parent comprise year-end and interim dividends, each of which requires approval of a general meeting of shareholders or the Board of Directors. These dividends are recognized as liabilities for the period in which such approval was furnished.

(19) Profit per Share

Basic profit per share is calculated by dividing profit attributable to owners of the parent by the weighted-average number of outstanding common shares adjusted by number of treasury shares.

(20) Segment Information

An operating segment is the basic source of business activities that generate revenues and incur expenses, including through transactions with other operating segments. Discrete financial information is available for each of these segments and reviewed regularly by the Board of Directors, which the Group has positioned as the highest body in charge of management decision making. As such, the Board of Directors is responsible for making decisions about the allocation of resources and assessing performance of each operating segment.

4. Important Accounting Estimates and Judgment

In preparation of consolidated financial statements of the Group, management is required to establish judgments, estimates and assumptions that have an effect on the application of accounting policies, as well as the reported amounts of assets, liabilities, revenues and expenses. Actual operating results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of revisions to the accounting estimates are recognized in the fiscal period where such estimates are revised and the future fiscal periods.

Of the items subject to the estimates and judgments, the following have a significant impact on the amounts stated in the consolidated financial statements for the fiscal year under review and subsequent fiscal years:

- Impairment of intangible assets (Note 11. "Goodwill and Other Intangible Assets")
- Accounting treatment and valuation of provisions (Note 16. "Provisions")
- Measurement of defined benefit obligation (Note 17. "Employee Benefits")
- Recoverability of deferred tax assets (Note 18. "Income Taxes")
- Measurement of fair value of financial instruments (Note 19. "Financial Instruments")

5. Accounting Standards and Guidelines Not Yet Applied

The Group has yet to adopt the following accounting standards and guidelines, which have been newly released or revised as of the date on which the accompanying consolidated financial statements were approved. These standards are not subject to earlier adoption.

As an assessment of the possible impact from adoption of these standards is ongoing, an estimate of their impact on the Group's consolidated financial statements cannot yet be provided.

IFRS		Mandatory adoption date	To be adopted by the Group for the fiscal year ending:	Description of new or revised standards
IFRS 15	Revenue from contracts with customers	Jan. 1, 2018	Dec. 31. 2018	Accounting treatment and disclosure of the recognition of revenues
IFRS 16	Leases	Jan. 1, 2019	Dec. 31. 2019	Accounting treatment and disclosure of leases

6. Segment Information

(1) Overview of the Reportable Segments

The reportable segments of the Sumitomo Rubber Group are the units for which separate financial information is available and periodically reviewed by the Board of Directors, the body in charge of the highest decision making, for the purposes of deciding the allocation of management resources and evaluating business performance.

The Group has 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. The main products, service and content of operations of these reportable segments are described below.

Reportable segments	Main products, services and content of operations
Tires	Tires and tubes (for automobiles, construction machinery, industrial vehicles, racing and rally cars, motorcycles, etc.) Automotive business (instant mobility systems, tire deflation warning systems, etc.)
Sports	Sports goods (golf clubs, golf balls and other golf-related goods, as well as tennis-related goods, etc.) Operation of golf tournaments Management of golf and tennis schools Fitness club operations, etc.
Industrial and Other Products	Highly functional rubber products (vibration-control dampers, precision rubber parts for office machines, medical rubber parts, etc.) Daily life products (rubber gloves for food preparation and work, portable ramps for wheelchairs, etc.) Infrastructure (marine fenders, various flooring materials for factories and sports facilities, etc.)

(2) Reportable Segment Sales, Profit or Loss and Other Material Items

Accounting treatment methods adopted by reportable segments are the same as those described in Note 3. "Significant Accounting Policies."

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

Figures for reportable segment profit or loss are based on business profit.
Information on reportable segments for the previous fiscal year and the fiscal year is as follows.

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

Millions of yen

	Reportable segments					
	Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	¥682,220	¥77,778	¥38,485	¥798,483	¥ —	¥798,483
Intersegment sales and transfers	10	314	35	359	(359)	—
Total	¥682,230	¥78,092	¥38,520	¥798,842	¥(359)	¥798,483
Segment income (Note 1)	74,021	2,634	2,110	78,765	88	78,853
Other income and expenses						10,320
Operating profit						89,173
Other important items						
Depreciation and amortization	47,180	2,768	1,471	51,419	—	51,419
Impairment loss	345	0	—	345	—	345
Capital expenditures	63,144	2,454	1,680	67,278	—	67,278

Notes: 1. Segment income (business profit) is calculated by deducting the total of cost of sales and selling, general and administrative expenses from sales revenue.
2. Adjustments for segment income include the elimination of intersegment transactions.

(ii) January 1 to December 31, 2016

Millions of yen

	Reportable segments					
	Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	**¥648,445**	**¥72,772**	**¥35,479**	**¥756,696**	**¥ —**	**¥756,696**
Intersegment sales and transfers	**56**	**293**	**639**	**988**	**(988)**	**—**
Total	**¥648,501**	**¥73,065**	**¥36,118**	**¥757,684**	**¥(988)**	**¥756,696**
Segment income (Note 1)	**67,924**	**4,303**	**2,673**	**74,900**	**16**	**74,916**
Other income and expenses						**(1,632)**
Operating profit						**73,284**
Other important items						
Depreciation and amortization	**47,311**	**2,492**	**1,445**	**51,248**	**—**	**51,248**
Impairment loss	**393**	**—**	**2**	**395**	**—**	**395**
Capital expenditures	**52,068**	**2,268**	**2,087**	**56,423**	**—**	**56,423**

Notes: 1. Segment income (business profit) is calculated by deducting the total of cost of sales and selling, general and administrative expenses from sales revenue.
2. Adjustments for segment income include the elimination of intersegment transactions.

(3) Products and Services Information

Revenue by products and services are not presented since the segmentation of products and services is the same as that for reportable segments.

(4) Geographic Information

The regional breakdown of sales to external customers and non-current assets by country and region are as follows.

(i) Sales to External Customers

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Japan	¥328,017	**¥307,290**
North America	126,798	**132,848**
Europe	56,954	**55,088**
Asia	174,123	**157,261**
Other	112,591	**104,209**
Total	¥798,483	**¥756,696**

Note: Breakdown is based on product destination.

(ii) Non-Current Assets

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Japan	¥157,324	¥158,135	**¥160,737**
North America	3,365	34,992	**35,240**
Europe	931	9,055	**9,117**
Asia	176,049	160,140	**138,864**
Other	51,657	50,694	**61,284**
Total	¥389,326	¥413,016	**¥405,242**

Note: Breakdown is based on the location of assets. The above figures exclude investments accounted for using equity method and other financial assets, as well as net defined benefit assets and deferred tax assets.

(5) Information on Major Customers

The Group had no transaction with a single external customer amounting to 10% or more of total external revenue.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Cash and deposits	¥54,546	¥53,604	**¥66,539**
Time deposits with a maturity of over three months	(893)	(48)	**(47)**
Total	¥53,653	¥53,556	**¥66,492**

Note: As of the date of transition to IFRS, the value of cash and cash equivalents presented in the consolidated statement of financial position and consolidated statement of cash flows is identical. The same applies to the value as of the previous fiscal year and the value as of the current fiscal year, respectively.

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Trade notes	¥ 44,344	¥ 43,109	**¥ 41,661**
Accounts receivable	164,385	145,929	**138,151**
Accrued accounts receivable	5,666	2,982	**5,428**
Allowance for doubtful accounts	(2,000)	(2,080)	**(2,385)**
Total	¥212,395	¥189,940	**¥182,855**

9. Inventories

The breakdown of inventories is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Finished products	¥ 88,992	¥ 91,821	**¥ 88,981**
Work-in-progress	6,240	6,936	**7,049**
Raw materials and supplies	45,069	45,750	**42,963**
Total	¥140,301	¥144,507	**¥138,993**

Note: The write-down of inventories recognized as expenses totaled 292 million yen and 93 million yen as of the previous and current fiscal year, respectively.

10. Property, Plant and Equipment

(1) Acquisition Cost, Changes in Accumulated Depreciation, Accumulated Impairment Loss and Carrying Amount

The acquisition cost of property, plant and equipment, changes in accumulated depreciation and accumulated impairment loss on such assets and their carrying amount are as follows.

(i) Acquisition Cost

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2015	¥40,711	¥213,214	¥527,946	¥105,842	¥46,170	¥933,883
Individual acquisitions	—	1,575	3,016	2,238	52,898	59,727
Transfer from construction in progress	—	9,378	38,090	10,519	(57,987)	—
Acquisition through business combination	606	9,879	13,238	40	1,224	24,987
Disposal	(40)	(588)	(8,468)	(7,129)	(197)	(16,422)
Decrease through sales of subsidiaries	(8)	(48)	(93)	(3,143)	—	(3,292)
Foreign currency translation differences	(315)	(7,581)	(20,773)	(2,934)	(6,374)	(37,977)
Other	—	416	(9,534)	13,016	(155)	3,743
Balance as of December 31, 2015	¥40,954	¥226,245	¥543,422	¥118,449	¥35,579	¥964,649
Individual acquisitions	459	659	1,123	2,022	46,638	50,901
Transfer from construction in progress	—	8,118	27,250	9,787	(45,155)	—
Disposal	(309)	(1,070)	(7,905)	(5,282)	(54)	(14,620)
Foreign Currency translation differences	(208)	(2,872)	(8,854)	(1,600)	(2,061)	(15,595)
Other	663	(488)	(215)	233	(1,560)	(1,367)
Balance as of December 31, 2016	¥41,559	¥230,592	¥554,821	¥123,609	¥33,387	¥983,968

(ii) Accumulated Depreciation and Accumulated Impairment Loss

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2015	¥(3,957)	¥(109,398)	¥(379,127)	¥(78,967)	¥—	¥(571,449)
Depreciation	—	(7,033)	(28,420)	(11,072)	—	(46,525)
Impairment loss	(322)	(23)	—	—	—	(345)
Disposal	8	484	7,721	6,887	—	15,100
Decrease through sales of subsidiaries	—	35	78	2,402	—	2,515
Foreign currency translation differences	26	1,416	8,235	1,570	—	11,247
Other	(45)	(577)	3,610	(7,050)	—	(4,062)
Balance as of December 31, 2015	¥(4,290)	¥(115,096)	¥(387,903)	¥(86,230)	¥—	¥(593,519)
Depreciation	—	(7,099)	(28,150)	(10,985)	—	(46,234)
Impairment loss	(295)	(74)	(21)	(0)	—	(390)
Disposal	172	831	7,121	5,026	—	13,150
Foreign Currency translation differences	97	762	4,394	956	—	6,209
Other	(89)	34	278	(114)	—	109
Balance as of December 31, 2016	¥(4,405)	¥(120,642)	¥(404,281)	¥(91,347)	¥—	¥(620,675)

(iii) Carrying Amount

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2015	¥36,754	¥103,816	¥148,819	¥26,875	¥46,170	¥362,434
Balance as of December 31, 2015	36,664	111,149	155,519	32,219	35,579	371,130
Balance as of December 31, 2016	¥37,154	¥109,950	¥150,540	¥32,262	¥33,387	¥363,293

Notes: 1. No material borrowings are included in acquisition cost of property, plant and equipment as of January 1, 2015, December 31, 2015, or December 31, 2016.
2. Depreciation of property, plant and equipment is included in "cost of sales" and "selling, general and administrative expenses" presented in the consolidated statement of income.
3. Impairment loss on property, plant and equipment is included in "other expenses" presented in the consolidated statement of income.

(2) Lease Assets under Finance Leases

The carrying amounts of lease assets that have been held under finance leases and included in property, plant and equipment are as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Buildings and structures	¥ 794	¥ 915	**¥ 657**
Machinery, equipment and vehicles	3,423	2,994	**2,437**
Tools, furniture and fixtures	1,758	2,097	**1,855**
Total	¥5,975	¥6,006	**¥4,949**

11. Goodwill and Other Intangible Assets

(1) Acquisition Cost, Changes in Accumulated Amortization, Accumulated Impairment Loss and Carrying Amount

The acquisition cost of goodwill and other intangible assets, changes in accumulated amortization and accumulated impairment loss on such assets and their carrying amount for the years ended December 31, 2015 and 2016 are as follows.

(i) Acquisition Cost

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2015	¥10,371	¥ —	¥2,521	¥25,365	¥2,887	¥41,144
Individual acquisitions	—	—	404	4,632	315	5,351
Acquisition through business combination	10,645	5,681	—	403	—	16,729
Disposal	—	—	(420)	(5,238)	(138)	(5,796)
Currency translation differences	(917)	24	(281)	(350)	(27)	(1,551)
Other	—	—	—	233	(246)	(13)
Balance as of December 31, 2015	¥20,099	¥5,705	¥2,224	¥25,045	¥2,791	¥55,864
Individual acquisitions	—	—	14	5,150	388	5,552
Disposal	—	—	(10)	(3,035)	(212)	(3,257)
Currency translation differences	(272)	(233)	77	(236)	(8)	(672)
Other	—	—	—	941	(376)	565
Balance as of December 31, 2016	¥19,827	¥5,472	¥2,305	¥27,865	¥2,583	¥58,052

(ii) Accumulated Amortization and Accumulated Impairment Loss

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2015	¥(4,476)	¥ —	¥(983)	¥(12,901)	¥(1,557)	¥(19,917)
Amortization	—	(250)	(36)	(4,264)	(344)	(4,894)
Impairment loss	—	—	—	—	(0)	(0)
Disposal	—	—	420	5,007	73	5,500
Currency translation differences	—	6	0	206	25	237
Other	—	—	—	(374)	—	(374)
Balance as of December 31, 2015	¥(4,476)	¥(244)	¥(599)	¥(12,326)	¥(1,803)	¥(19,448)
Amortization	—	(435)	(30)	(4,451)	(98)	(5,014)
Impairment loss	—	—	—	—	(5)	(5)
Disposal	—	—	9	3,032	149	3,190
Currency translation differences	—	(13)	(0)	210	27	224
Other	—	—	—	(186)	(17)	(203)
Balance as of December 31, 2016	¥(4,476)	¥(692)	¥(620)	¥(13,721)	¥(1,747)	¥(21,256)

(iii) Carrying Amount

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2015	¥ 5,895	¥ —	¥1,538	¥12,464	¥1,330	¥21,227
Balance as of December 31, 2015	15,623	5,461	1,625	12,719	988	36,416
Balance as of December 31, 2016	15,351	4,780	1,685	14,144	836	36,796

Notes: 1. No borrowings are included in acquisition cost.
2. Amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" presented in the consolidated statement of income.
3. Impairment loss on intangible assets is included in "other expenses" presented in the consolidated statement of income.
4. Research and development costs recognized as expenses for the fiscal years ended December 31, 2015 and 2016, totaled 23,372 million yen and 24,257 million yen, respectively.

(2) Lease Assets under Finance Leases

The carrying amount of lease assets that have been held under finance lease and included in intangible assets is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Software	¥686	¥846	**¥883**

(3) Impairment Test of Goodwill and Intangible Assets with Indefinite Useful Lives

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to each cash-generating unit is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015		As of Dec. 31, 2015		**As of Dec. 31, 2016**	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Tires	¥2,984	¥1,733	¥ 8,299	¥1,498	¥ 8,293	**¥1,576**
Sports	2,911	—	2,911	—	2,911	**—**
Industrial and Other Products	—	—	4,413	—	4,147	**—**
Total	¥5,895	¥1,733	¥15,623	¥1,498	¥15,351	**¥1,576**

The recoverable amount used in the impairment test of goodwill and intangible assets with indefinite useful lives is calculated based on value in use. Value in use is the present value of future cash flows calculated under the business plan for a period of up to 5 years, a management-approved formula, with the discount rate (8% to 18%) set at the pre-tax weighted average cost of capital (WACC) for each cash-generating unit. The terminal value has been estimated on the basis of the long-term average growth rate of the markets where cash-generating units are based.

As of December 31, 2015 and 2016, impairment loss on goodwill and intangible assets with indefinite useful lives was not recognized.

12. Leases

(1) Finance Lease Obligations

The total and present value of minimum future lease payments under finance lease contracts are as follows.

Millions of yen

	Minimum lease payments			Present value of minimum lease payments		
	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Due within 1 year	¥2,104	¥2,055	**¥1,932**	¥2,058	¥2,018	**¥1,900**
Between 1 and 5 years	3,876	3,949	**3,177**	3,752	3,838	**3,077**
More than 5 years	1,101	1,101	**805**	973	997	**722**
Total	¥7,081	¥7,105	**¥5,914**	¥6,783	¥6,853	**¥5,699**
Future financing expenses	(298)	(252)	**(215)**			
Total present value of minimum lease payments	¥6,783	¥6,853	**¥5,699**			

(2) Operating Lease Obligations

Having signed operating lease contracts, the Group utilizes such leased properties as buildings, structures, machinery, equipment and vehicles.

Minimum lease payments under non-cancelable operating leases stated as expenses in the consolidated statement of income as of December 31, 2015 and 2016 are 2,208 million yen and 2,486 million yen, respectively.

Total minimum future lease payments under non-cancelable operating leases are as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Due within 1 year	¥1,813	¥ 2,307	**¥ 2,344**
Between 1 and 5 years	4,794	6,236	**5,620**
More than 5 years	2,680	5,121	**3,837**
Total	¥9,287	¥13,664	**¥11,801**

13. Investments Accounted for Using Equity Method

(1) Summary of Consolidated Financial Statements Prepared by Significant Affiliates

The Company sold all of its shares in the formerly important Group affiliate Goodyear Dunlop Tires Europe B.V. on October 1, 2015 in conjunction with the dissolution of an alliance agreement with The Goodyear Tire & Rubber Company and associated joint ventures. Accordingly, Goodyear Dunlop Tires Europe has been excluded from the scope of equity-method affiliates. The summary of consolidated financial statements for the fiscal year ended December 31, 2015, reflecting items stated in the consolidated statement of income prepared by Goodyear Dunlop Tires Europe for the first nine months from January 1 to September 30, 2015, is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Current assets	¥240,136	¥—	**¥—**
Non-current assets	267,621	—	**—**
Current liabilities	169,734	—	**—**
Non-current liabilities	168,530	—	**—**
Equity attributable to:			
Owners of parent	169,493	—	**—**
Non-controlling interests	—	—	**—**

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Sales revenue	¥425,366	**¥—**
Profit	15,002	**—**
Other comprehensive income (after taxes)	(9,779)	**—**
Total comprehensive income	¥ 5,223	**¥—**

In the fiscal years ended December 31, 2015 and 2016, the Group received no dividends from the aforementioned former affiliate.

In addition, adjustments for equity attributable to owners of the parent stated in the summary of consolidated financial statements as well as the carrying amount of such equity are as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Equity attributable to owners of parent	¥169,493	¥—	**¥—**
Equity holding (%)	25.00	—	**—**
Equity attributable to the Company	42,373	—	**—**
Goodwill and consolidation adjustments	(9,961)	—	**—**
Carrying amount of equity	32,412	—	**—**

(2) Information on Total Investments in Insignificant Affiliates

Excluding those stated in (1) above, the amount of total investments (equity held by the Company) in insignificant affiliates accounted for using equity method are as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Carrying amount	¥15,330	¥ 4,045	**¥4,071**

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Profit	¥ 1,736	**¥57**
Other comprehensive income	(3,279)	**—**
Total comprehensive income	¥(1,543)	**¥57**

14. Trade and Other Payables

The breakdown of trade and other payables is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Notes payable—trade	¥ 3,665	¥ 3,535	¥ 4,131
Accounts payable—trade	71,519	68,708	63,888
Accounts payable—other	53,614	47,520	52,217
Total	¥128,798	¥119,763	¥120,236

15. Bonds and Loans payable

The breakdown of bonds and loans payable is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	As of Dec. 31, 2016	Average interest rate (%)	Maturity
Current liabilities					
Short-term loans payable	¥ 84,487	¥ 78,015	**¥ 52,870**	1.68	—
Bonds payable (maturities of 1 year or less)	—	9,995	**4,998**	—	—
Long-term debt (maturities of 1 year or less)	28,812	37,163	**19,188**	2.06	—
Subtotal	113,299	125,173	**77,056**	—	—
Non-current liabilities					
Bonds payable (maturities of over1 year)	64,804	54,851	**49,889**	—	2018–2024
Long-term debt (maturity of over 1 year)	113,553	76,026	**71,667**	0.99	2018–2024
Subtotal	178,357	130,877	**121,556**	—	—
Total	¥291,656	¥256,050	**¥198,612**	—	—

Notes: 1. Average interest rates are stated at the weighted average interest rates as of December 31, 2016, for the balance of loans outstanding.

2. Summary of issuance conditions for bonds payable is as follows.

Millions of yen

Company name	Series	Issuance	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	As of Dec. 31, 2016	Interest rate (%)	Collateral	Maturity
Sumitomo Rubber Industries, Ltd.	16th series of unsecured bonds	Jun. 28, 2007	¥ 4,992	¥ 4,995	**¥ 4,998**	2.19	None	Jun. 28, 2017
Sumitomo Rubber Industries, Ltd.	18th series of unsecured bonds	Jun. 19, 2008	9,979	9,985	**9,992**	2.17	None	Jun. 19, 2018
Sumitomo Rubber Industries, Ltd.	20th series of unsecured bonds	Jun. 26, 2009	9,974	9,979	**9,986**	2.07	None	Jun. 26, 2019
Sumitomo Rubber Industries, Ltd.	21st series of unsecured bonds	Jun. 28, 2011	9,986	9,995	**—**	0.58	None	Jun. 28, 2016
Sumitomo Rubber Industries, Ltd.	22nd series of unsecured bonds	Jun. 28, 2011	9,963	9,969	**9,975**	1.38	None	Jun. 28, 2021
Sumitomo Rubber Industries, Ltd.	23rd series of unsecured bonds	Jun. 25, 2014	9,958	9,966	**9,974**	0.34	None	Jun. 25, 2020
Sumitomo Rubber Industries, Ltd.	24th series of unsecured bonds	Jun. 25, 2014	9,952	9,957	**9,962**	0.76	None	Jun. 25, 2024
Total			¥64,804	¥64,846	**¥54,887**		¥ —	
Bonds payable with maturities of 1 year or less			—	9,995	**4,998**		—	
Bonds payable with maturities of over 1 year			64,804	54,851	**49,889**		—	

16. Provisions

(1) Breakdown of Provisions

The breakdown of provisions is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Current liabilities			
Provision for loss on voluntary recall of products	¥ 181	¥ 131	**¥ 370**
Provision for sales returns	4,179	3,619	**5,000**
Asset retirement obligation	35	—	**—**
Other	1,789	1,410	**1,980**
Total	¥6,184	¥5,160	**¥7,350**
Non-current liabilities			
Asset retirement obligation	1,035	1,113	**1,172**
Other	4	101	**25**
Total	¥1,039	¥1,214	**¥1,197**

(2) Changes in Provisions

					Millions of yen
					Jan. 1 to Dec. 31, 2016
	Provision for loss on voluntary recall of products	Provision for sales returns	Asset retirement obligation	Others	Total
Beginning balance	**¥131**	**¥3,619**	**¥1,113**	**¥1,511**	**¥6,374**
Increase during the year	**710**	**4,670**	**62**	**1,757**	**7,199**
Decrease resulting from settlement	**(471)**	**(3,387)**	**(17)**	**(435)**	**(4,310)**
Decrease due to reversal	**—**	**(22)**	**—**	**(530)**	**(552)**
Increase due to passage of time	**—**	**—**	**12**	**0**	**12**
Exchange differences on translation of foreign operations	**—**	**2**	**0**	**(92)**	**(90)**
Other	**—**	**118**	**2**	**(206)**	**(86)**
Ending balance	**¥370**	**¥5,000**	**¥1,172**	**¥2,005**	**¥8,547**

Note: Descriptions of each item are presented in Note 3. "Significant Accounting Policies" (13) "Provisions."

17. Employee Benefits

(1) Outline of Retirement Benefit Plans

The Company and its subsidiaries have a corporate pension plan and a retirement lump-sum plan in place as defined benefit plans. In addition, the Company and some of its subsidiaries maintain a defined contribution plan. Of those plans, the corporate pension plan is a defined benefit plan designed to share the burden of risk among domestic the Company and its domestic subsidiaries under the Company's control. The amount of defined benefit costs borne by each company enrolling in the plan is determined based on the assessment of that company's service costs for individual employees during a fiscal year. Net interest expenses are also borne by each company enrolling in the plan; based on the assessment of retirement benefit obligation for individual employees, each company is allocated a portion of the value of total plan assets, subject to discount rates.

Some consolidated subsidiaries maintain a defined benefit contribution plan. And the Company has established a retirement benefit trust for defined benefit plans. Moreover some consolidated subsidiaries pay additional retirement benefits to retiring employees.

(2) Defined Benefit Plans

(i) The value of defined benefit plans presented in the consolidated statement of financial position is as follows.

			Millions of yen
	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Present value of defined benefit obligation	¥64,776	¥126,956	¥126,857
Fair value of plan assets	(68,992)	(128,302)	(125,304)
Total	¥ (4,216)	¥ (1,346)	¥ 1,553
Value of assets and liabilities presented in consolidated statement of financial position			
Net defined benefit liabilities	18,140	22,821	22,188
Net defined benefit assets	22,356	24,167	20,635

(ii) The following amount is recognized as expenses presented in the consolidated statement of income.

		Millions of yen
	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Service costs for the year	¥3,288	**¥3,324**
Net interest expense	162	**382**
Total	¥3,450	**¥3,706**

(iii) Changes in defined benefit obligation are as follows.

		Millions of yen
	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Beginning balance	¥ 64,776	**¥126,956**
Service costs for the year	3,288	**3,324**
Interest expense	1,041	**2,448**
Remeasurements due to:		
Actuarial differences attributable to changes in demographic assumptions	1,405	**28**
Actuarial differences attributable to changes in financial assumptions	(1,886)	**4,936**
Actuarial differences attributable to adjustment of investment performance	(150)	**(1,061)**
Wages paid	(6,959)	**(7,409)**
Liabilities transferred to the Company through business combination	65,489	**—**
Others	(48)	**(2,365)**
Ending balance	¥126,956	**¥126,857**

(iv) Changes in the fair value of plan assets are as follows.

		Millions of yen
	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Beginning balance	¥ 68,992	**¥128,302**
Interest income	879	**2,066**
Remeasurements due to:		
Income from plan assets (excluding interest income)	865	**(201)**
Contributions by employer	1,869	**3,255**
Benefits paid	(5,924)	**(6,172)**
Assets transferred to the Company through business combination	61,252	**—**
Others	369	**(1,946)**
Ending balance	¥128,302	**¥125,304**

(v) The fair value of plan assets by component is as follows.

						Millions of yen
	Date of transition to IFRS As of Jan. 1, 2015		As of Dec. 31, 2015		**As of Dec. 31, 2016**	
	Traded at quoted market prices in active markets	Not traded at quoted market prices in active markets	Traded at quoted market prices in active markets	Not traded at quoted market prices in active markets	Traded at quoted market prices in active markets	Not traded at quoted market prices in active markets
Domestic stocks	¥28,395	¥ —	¥ 28,525	¥ —	¥26,278	**¥ —**
Overseas stocks	5,857	453	29,506	455	12,203	**441**
Domestic bonds	10,882	—	10,105	—	9,214	**—**
Overseas bonds	9,262	—	41,308	—	54,415	**—**
General account of life insurance	—	8,546	—	10,816	—	**10,989**
Others	5,593	4	7,574	13	11,764	**—**
Total	¥59,989	¥9,003	¥117,018	¥11,284	¥113,874	**¥11,430**

(vi) Primary actuarial assumptions are as follows.

			%
	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Discount rate	0.96%	2.59%	**2.23%**

Other than the above, actuarial assumptions include an assumed wage increase rate, a mortality rate and an employee turnover rate.

(vii) The sensitive analysis of defined benefit obligation against changes in assumed weighted average is as follows.

		Millions of yen
	As of Dec. 31, 2015	**As of Dec. 31, 2016**
0.25% increase in discount rate	¥(3,535)	**¥(3,427)**
0.25% decrease in discount rate	3,750	**3,715**

The abovementioned sensitive analysis was performed by changing one assumption, with all other assumptions remaining fixed. In actual circumstances, however, multiple interrelated assumptions may change simultaneously. In calculating the sensitivity of the defined benefit obligation to changes in significant actuarial assumptions, the Group applies the same method as the method it uses to calculate defined benefit liabilities recognized in the statement of financial position: measuring the present value of defined benefit obligation as of the closing date of reporting period using the projected unit credit method.

(viii) Impact of defined benefit plan on future cash flows

i. The Group adopted a policy of satisfying legal requirements pertaining to funds as well as rules for securing funds that affect contributions in the future, thereby ensuring its responsiveness to structural risk associated with benefit liabilities.
ii. Estimated contributions in the fiscal year ending December 31, 2017 totaled 2,883 million yen.
iii. The weighted-average duration of defined benefit obligation is 12.7 years and 12.1 years, respectively, for the fiscal years ended December 31, 2015 and 2016.

(3) Defined Contribution Plan

Costs recognized in relation with defined contribution plan are as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Retirement benefit costs	¥739	**¥1,460**

The above figure includes expenses recognized in relation to public pension systems.

(4) Other Expenses in Relation to Employee Benefits

Expenses associated with employee benefits other than retirement benefits include the following item.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Employee benefit costs	¥141,298	**¥141,020**

18. Income Taxes

(1) Deferred Taxes

The breakdown of deferred tax assets and liabilities is as follows.

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	Recognized through profit or loss (Note)	Recognized through other comprehensive income	Acquisitions through business combinations	Other	As of Dec. 31, 2015
Deferred tax assets						
Tax loss carryforwards	¥ 1,786	¥ 1,223	¥ —	¥ —	¥ —	¥ 3,009
Inventories	4,904	171	—	—	—	5,075
Property, plant and equipment	4,029	(748)	—	—	—	3,281
Intangible assets	269	(171)	—	—	—	98
Net defined benefit liability	7,442	(2,111)	(137)	—	—	5,194
Accrued expenses and provisions	4,582	(1,432)	—	—	—	3,150
Other	9,208	1,566	28	—	220	11,022
Total deferred tax assets	¥ 32,220	¥(1,502)	¥(109)	¥ —	¥220	¥ 30,829
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	(7,860)	—	850	—	—	(7,010)
Property, plant and equipment	(2,008)	217	—	—	—	(1,791)
Inventories	(328)	44	—	—	—	(284)
Intangible assets	(2,145)	(344)	—	(281)	—	(2,770)
Undistributed profit of overseas subsidiaries	(4,914)	(1,140)	—	—	—	(6,054)
Net defined benefit assets	(6,415)	2,894	(143)	—	—	(3,664)
Other	(5,120)	(1,010)	69	(222)	17	(6,266)
Total deferred tax liabilities	¥(28,790)	¥ 661	¥ 776	¥(503)	¥ 17	¥(27,839)
Net deferred tax assets	¥ 3,430	¥ (841)	¥ 667	¥(503)	¥237	¥ 2,990

Note: Exchange differences are included in amounts recognized through profit or loss.

						Millions of yen
	As of Dec. 31, 2015	Recognized through profit or loss (Note)	Recognized through other comprehensive income	Acquisitions through business combinations	Other	As of Dec. 31. 2016
Deferred tax assets						
Tax loss carryforwards	¥ 3,009	¥(1,473)	¥—	¥—	¥ —	**¥ 1,536**
Inventories	5,075	1,501	—	—	—	**6,576**
Property, plant and equipment	3,281	504	—	—	—	**3,785**
Intangible assets	98	7	—	—	—	**105**
Net defined benefit liability	5,194	(749)	(1,150)	—	—	**3,295**
Accrued expenses and provisions	3,150	1,483	—	—	—	**4,633**
Other	11,022	(4,553)	(198)	—	(48)	**6,223**
Total deferred tax assets	¥ 30,829	¥(3,280)	¥(1,348)	¥—	¥(48)	**¥ 26,153**
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	(7,010)	2,548	515	—	—	**(3,947)**
Property, plant and equipment	(1,791)	(185)	—	—	—	**(1,976)**
Inventories	(284)	(135)	—	—	—	**(419)**
Intangible assets	(2,770)	1,086	—	—	—	**(1,684)**
Undistributed profit of overseas subsidiaries	(6,054)	(4,430)	—	—	—	**(10,484)**
Net defined benefit assets	(3,664)	(2,714)	3,783	—	—	**(2,595)**
Other	(6,266)	2,978	(34)	—	8	**(3,314)**
Total deferred tax liabilities	¥(27,839)	¥(852)	¥ 4,264	¥—	¥ 8	**¥(24,419)**
Net deferred tax assets	¥ 2,990	¥(4,132)	¥ 2,916	¥—	¥(40)	**¥ 1,734**

Note: Exchange differences are included in amounts recognized through profit or loss.

The Group evaluates the recoverability of deferred tax assets on an annual basis. The recognition of such assets takes into account significant uncertainties with regard to the recoverability of deferred tax assets held by the Group.

Deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized were as follows.

			Millions of yen
	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
Tax loss carryforwards (Note)	¥ 9,417	¥12,474	**¥14,882**
Deductible temporary differences	56,423	18,345	**17,080**
Total	¥65,840	¥30,819	**¥31,962**

Note: The expiration of tax loss carryforwards for which deferred tax assets were not recognized was as follows.

			Millions of yen
	Date of transition to IFRS As of Jan. 1, 2015	As of Dec. 31, 2015	**As of Dec. 31, 2016**
1st year	¥ —	¥ —	**¥ —**
2nd year	—	7	**69**
3rd year	238	85	**542**
4th year	104	675	**1,834**
5th year onwards	9,075	11,707	**12,437**
Total	¥9,417	¥12,474	**¥14,882**

No deferred tax liability is recognized in respect to these differences if the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability were not recognized were 99,075 million yen, 110,623 million yen and 53,365 million yen as of January 1, 2015, December 31, 2015 and December 31, 2016, respectively.

(2) Income Tax Expenses

The breakdown of income tax expenses is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Current tax expenses	¥15,470	**¥24,689**
Deferred tax expenses	(383)	**3,133**
Total	¥15,087	**¥27,822**

Current tax expenses include the benefits arising from previously unused tax loss, tax credits and temporary differences of prior periods.

Primary factors contributing to differences between the applicable tax rate and the average effective tax rate are as follows.

%

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Applicable tax rate	35.4%	**33.0%**
Adjustments		
Undistributed benefit of consolidated subsidiaries	1.2%	**6.8%**
Foreign withholding tax	0.1%	**2.8%**
Dividend income	(0.1)%	**1.7%**
Income taxes for past fiscal years	—	**1.6%**
Non-deductible expenses for tax purposes	0.3%	**1.0%**
Effect arising from the change in tax rate	0.5%	**0.9%**
Changes in unrecognized deferred tax assets	(0.2)%	**0.5%**
Gains on sales of shares of affiliates	1.9%	**—**
Loss on impairment of shares of affiliates	(13.8)%	**—**
Differences in tax rates applied to consolidated subsidiaries	(3.9)%	**(6.3)%**
Tax credits for research and development costs	(0.0)%	**(2.6)%**
Tax exemption for overseas subsidiaries	(1.7)%	**(0.7)%**
Share of (profit) loss of entities accounted for using equity method	(2.2)%	**(0.0)%**
Other	(0.5)%	**1.0%**
Average effective tax rate	17.0%	**39.7%**

Note: Loss on impairment of shares of affiliates in the fiscal year ended December 31,2015 was caused by the realization of the tax burden of the past fiscal year's impairment of a Europe joint venture in association with the dissolution of the alliance with the Goodyear Tire & Rubber Company.

On March 29, 2016, amendments to the Japanese tax regulations, "Act for Partial Revision of the Income Tax Act etc.," (Act No. 15 of 2016) and "Act for Partial Revision of the Local Tax Act etc." (Act No. 13 of 2016) were enacted into law by the Diet. As a result of these amendments, the statutory effective tax rate for years beginning April 1, 2016 or later was revised downward. More specifically, the statutory effective tax rate for calculating deferred tax assets and liabilities was decreased from the conventional 32.2% to 30.8% for temporary differences expected to be reversed in the fiscal years beginning January 1, 2017 and 2018, and to 30.6% for the temporary difference expected to be eliminated in fiscal years beginning in January 1, 2019 and later.

In conjunction with this, deferred tax expenses increased by 440 million yen.

19. Financial Instruments

(1) Capital Management

Aiming to secure the soundness and efficiency of its business operations and realize sustainable growth, the Group has positioned the establishment and maintenance of stable financial position as its basic capital risk management policy. Guided by this policy, the Group utilizes cash flows from operating activities, such as funds provided by the development and sale of competitive products, to execute investments for business expansion, provide shareholder returns through the payment of dividends, secure loans and repay debt.

(2) Financial Risk Management

The Group's business activities can be affected by changes in the operating environment and financial markets. Therefore, financial instruments held or underwritten by the Group in the course of its business activities may be exposed to specific risks. These risks include 1) credit risk; 2) liquidity risk; and 3) market risk (foreign exchange risk, stock price risk and interest rate risk).

(i) Credit Risk

The Group is exposed to the risk of being unable to recover financial assets that are held by a partner if that partner defaults on debt (hereinafter "credit risk"). In line with its in-house rules on credit management, marketing departments at each business division monitor the status of their key business partners on a regular basis. To ensure the soundness of operating receivables, these departments assesses the ability of each counterpart to fulfill their payments on time. To mitigate risk, the Company has a system in place to promptly detect whether the financial position of a counterpart deteriorates.

Derivative financial instruments provided by financial institutions are utilized to mitigate operational risk. As the Group executes financial instrument transactions only through highly-rated financial institutions, the Group considers the credit risk associated with such transactions to be insignificant in the fiscal year under review.

Operating receivables are attributable to a large number of customers across vast regions. The Group identified no specific customer that accounted for significant credit risk exposure. Accordingly, the excessive concentration of credit risk has not been detected.

Regarding trade and other receivables, the Group conducts exhaustive analysis of the credit status of its customers that includes examining their historical default rates as well as credit reports issued by external institutions. The Group estimates expected credit loss related to financial counterparties for 12 months or the full duration, records impairment loss on trade and other receivables, and sets aside an allowance for doubtful accounts.

The maximum credit risk exposure attributable to financial assets held by the Group, excluding the valuation of guarantees and collateral acquired, is the carrying amount of such assets presented in the consolidated financial statements after impairment.

i. Credit Risk Exposure

Maturity analysis of trade and other receivables is as follows.

Date of transition to IFRS (as of January 1, 2015)

Millions of yen

		Financial assets whose allowance for doubtful accounts is measured at the same amount as lifetime expected credit losses		
	Financial assets whose allowance for doubtful accounts is measured at the same amount as 12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Before maturity	¥5,622	¥—	¥190,603	¥196,225
Due within 30 days	—	—	13,019	13,019
Due after 30 days but within 60 days	—	—	2,895	2,895
Due after 60 days but within 90 days	—	—	434	434
More than 90 days	—	—	1,822	1,822
Total	¥5,622	¥—	¥208,773	¥214,395

As of December 31, 2015

Millions of yen

		Financial assets whose allowance for doubtful accounts is measured at the same amount as lifetime expected credit losses		
	Financial assets whose allowance for doubtful accounts is measured at the same amount as 12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Before maturity	¥2,456	¥—	¥178,566	¥181,022
Due within 30 days	—	—	6,927	6,927
Due after 30 days but within 60 days	—	—	2,872	2,872
Due after 60 days but within 90 days	—	—	176	176
More than 90 days	—	—	1,023	1,023
Total	¥2,456	¥—	¥189,564	¥192,020

As of December 31, 2016

		Financial assets whose allowance for doubtful accounts is measured at the same amount as lifetime expected credit losses		Millions of yen
	Financial assets whose allowance for doubtful accounts is measured at the same amount as 12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Before maturity	**¥4,163**	**¥—**	**¥162,667**	**¥166,830**
Due within 30 days	**—**	**—**	**7,270**	**7,270**
Due after 30 days but within 60 days	**—**	**—**	**3,949**	**3,949**
Due after 60 days but within 90 days	**—**	**—**	**1,120**	**1,120**
More than 90 days	**—**	**—**	**6,071**	**6,071**
Total	**¥4,163**	**¥—**	**¥181,077**	**¥185,240**

ii. Analysis of Changes in Allowance for Doubtful Accounts

Changes in allowance for doubtful accounts in relation to trade and other receivables are as follows.

January 1 to December 31, 2015

		Lifetime expected credit losses		Millions of yen
	12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Beginning balance	¥—	¥—	¥(2,000)	¥(2,000)
Increase	—	—	(1,065)	(1,065)
Decrease resulting from settlement	—	—	185	185
Decrease due to reversal	—	—	686	686
Other	—	—	114	114
Ending balance	¥—	¥—	¥(2,080)	¥(2,080)

January 1 to December 31, 2016

		Lifetime expected credit losses		Millions of yen
	12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Beginning balance	**¥—**	**¥—**	**¥(2,080)**	**¥(2,080)**
Increase	**—**	**—**	**(1,042)**	**(1,042)**
Decrease resulting from settlement	**—**	**—**	**616**	**616**
Decrease due to reversal	**—**	**—**	**125**	**125**
Other	**—**	**—**	**(4)**	**(4)**
Ending balance	**¥—**	**¥—**	**¥(2,385)**	**¥(2,385)**

(ii) Liquidity Risk

The Group uses short-term borrowings mainly to raise operating funds while utilizing long-term debt and corporate bonds for such purposes as funding capital expenditure. Along with trade notes and accounts payables, these liabilities can be difficult to repay, thus exposing the Group to liquidity risk. To counter such risk, the Group maintains and updates appropriate fundraising plans based on the projections of the amounts necessary to settle these liabilities. The Group also manages such risk by, for example, maintaining liquidity on hand.

The maturity analysis of corporate bonds, borrowings, lease obligations and derivative liabilities is as follows.

Date of transition to IFRS (as of January 1, 2015)

Millions of yen

	Book balance	Contract value	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds and loans payable	¥291,656	¥303,323	¥116,925	¥48,535	¥28,102	¥26,087	¥24,842	¥58,832
Lease obligations	6,783	7,081	2,104	1,533	1,170	757	416	1,101
Forward exchange contracts	302	302	302	—	—	—	—	—
Interest rate swaps	719	1,015	186	119	109	109	104	388
Total	¥299,460	¥311,721	¥119,517	¥50,187	¥29,381	¥26,953	¥25,362	¥60,321

As of December 31, 2015

Millions of yen

	Book balance	Contract value	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds and loans payable	¥256,050	¥264,535	¥128,046	¥25,933	¥26,090	¥25,056	¥14,734	¥44,676
Lease obligations	6,853	7,105	2,055	1,700	1,199	740	310	1,101
Forward exchange contracts	325	325	325	—	—	—	—	—
Interest rate swaps	713	872	125	115	115	111	110	296
Total	¥263,941	¥272,837	¥130,551	¥27,748	¥27,404	¥25,907	¥15,154	¥46,073

As of December 31, 2016

Millions of yen

	Book balance	Contract value	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds and loans payable	**¥198,612**	**¥205,504**	**¥79,664**	**¥26,715**	**¥27,975**	**¥14,782**	**¥19,874**	**¥36,494**
Lease obligations	**5,699**	**5,914**	**1,932**	**1,440**	**970**	**486**	**281**	**805**
Forward exchange contracts	**728**	**728**	**728**	**—**	**—**	**—**	**—**	**—**
Interest rate swaps	**774**	**847**	**131**	**131**	**125**	**124**	**124**	**212**
Total	**¥205,813**	**¥212,993**	**¥82,455**	**¥28,286**	**¥29,070**	**¥15,392**	**¥20,279**	**¥37,511**

(iii) Market Risk

i. Foreign Exchange Risk

Engaging in global operations, the Company and its subsidiaries produce and sell a number of products to customers overseas. Accordingly, the Group is exposed to the risk of foreign currency exchange fluctuations (hereinafter "foreign exchange risk") associated with the exchange of foreign currency denominated operating receivables, acquired through transactions undertaken using currencies other than functional currencies, into functional currencies at exchange rates as of the closing date of reporting periods.

In addition, operating payables associated with the import of some raw materials and other liabilities denominated in foreign currencies are exposed to foreign exchange risk. However, the value of these liabilities is within the scope of the balance of operating receivables that have been permanently denominated in a single currency. Therefore, foreign exchange risk associated with these liabilities can be offset by foreign exchange risk resulting from foreign currency denominated operating receivables.

The primary foreign exchange risk the Group is now exposed to is attributable to fluctuations in the market prices of the U.S. dollar and euro. The Company and some of its subsidiaries assess the balance of foreign currency denominated non-operating receivables and payables by currency and month, thereby avoiding foreign exchange risk associated with the net amount of such items mainly through the execution of forward exchange contracts. Depending on conditions in foreign exchange markets, the Group may execute forward exchange contracts whose value matches the expected net amount of foreign currency denominated operating receivables and payables arising from future import- or export-related transactions. The Company and some of its subsidiaries use currency swap transactions to control fluctuation risks associated with foreign exchange in relation to foreign currency denominated assets and liabilities other than operating receivables and payables.

The Group utilizes derivative transactions for risk avoidance purpose only and, therefore, does not engage in derivative transactions for speculative purposes.

Sensitivity analysis of foreign exchange

The Group's prevailing exposure to foreign exchange risk—in connection mainly with the U.S. dollar and euro—is periodically subjected to a sensitivity analysis conducted as follows. Having estimated the impact of a 1% appreciation of the yen on receivables and payables denominated in foreign currencies and held at the end of the fiscal year, possible changes in profit before tax for the period are presented below. In addition, this analysis assumes that all the other variables remain unchanged.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Income before income taxes:		
U.S. dollar	¥235	**¥219**
Euro	101	**99**

ii. Stock Price Risk

The Group owns shares in companies that have business relations with the Group for the purpose of securing and strengthening financial transactions, business transactions and mutual business development. This exposes the Group to stock price fluctuation risk. With the aim of raising asset efficiency and optimizing these holdings, the Group periodically assesses their fair value as well as the financial position of issuers, constantly reviewing the pros and cons of holding the assets.

iii. Interest Rate Risk

Interest rate risk is defined as risk attributable to fluctuations in the fair value of financial instruments or cash flows derived from these instruments due to changes in market interest rates. The Group's exposure to interest rate risk is mainly associated with borrowings, corporate bonds and other liabilities as well as such receivables as interest-bearing deposits. Changes in market interest rates necessarily affect interest income, thus exposing future cash flows to interest rate risk.

To counter such risk, the Group strives to control an increase in future interest payments that may result from interest rate hikes and, to this end, raises funds through the issuance of corporate bonds with fixed interest rates. In principle, long-term debt with floating interest rates is coupled with interest rate swap contracts with financial institutions so that interest rates associated with fundraising can be virtually fixed through the receipt of interest in floating rates and the payment of interest at fixed rates. In this way, the Group maintains stable cash flows.

In regard to a portion of fixed-rate loans, the Group has signed interest rate swap contracts with financial institutions that ensure the receipt of interest in floating rates and the payment of interest at fixed rates. This was done to hedge the fair value fluctuation risk associated with loans arising from future interest rate fluctuations.

Sensitivity analysis of borrowings with floating interest rates

The Group's exposure to interest rate risk is periodically subjected to a sensitivity analysis conducted as follows. Assuming that all other variables remain unchanged, the impact of a 1% increase in the interest rate is estimated on profit before tax as presented in the consolidated statement of income. The sensitivity analysis accounts for the effect of interest rate swaps and interest rate currency swaps, but reveals only sensitivity to the balance of borrowings with floating interest rates. The analysis excludes borrowings with fixed interest rates.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Profit before tax	¥(676)	**¥(543)**

(3) Fair Value of Financial Instruments

(i) Methods for Measuring Fair Value

The Group determines the fair value of financial assets and liabilities using the methods described below. As for financial instruments, the Group estimates their fair value based on market prices when market prices are available. As for financial instruments whose market prices are not available, the Group estimates their value using appropriate valuation methods.

Corporate bonds and debt

To determine the fair value of corporate bonds and debt, the Group discounts the total principal and interest utilizing expected interest rates for similar bonds or debt. This is classified as "Level 2" within the Fair Value Hierarchy.

Derivatives

The Group calculates the fair value of derivatives based on prices provided by financial institutions with which the Group signed derivative contracts. This is classified as "Level 2" within the Fair Value Hierarchy.

Other financial assets, etc.

Liquid assets that can be settled in a short period are presented at their carrying amounts, which reasonably approximate fair value. In addition, the Group calculates the fair value of marketable securities based on market prices. This is classified as "Level 1" within the Fair Value Hierarchy.

To determine the fair value of financial instruments other than those mentioned above, the Group uses appropriate methods such as discounted cash flow analysis. This is classified as "Level 2" within the Fair Value Hierarchy.

For details on the Fair Value Hierarchy, please see (iii) Fair Value Hierarchy.

(ii) Carrying Amount and Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments are as follows.

Millions of yen

	Date of transition to IFRS (as of Jan. 1, 2015)		As of Dec. 31, 2015		**As of Dec. 31, 2016**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss						
Derivatives to which hedging is not applied	¥ 9,058	¥ 9,058	¥ 8,639	¥ 8,639	¥ 3,503	¥ 3,503
Loans	1,056	1,056	1,054	1,054	1,051	1,051
Financial assets measured at fair value through other comprehensive income						
Derivatives to which hedging is applied	1,117	1,117	333	333	1,492	1,492
Equity equivalents	33,899	33,899	33,467	33,467	22,403	22,403
Financial assets measured at amortized cost						
Cash and cash equivalents	53,653	53,653	53,556	53,556	66,492	66,492
Trade and other receivables	212,395	212,395	189,940	189,940	182,855	182,855
Other financial assets	12,935	12,935	18,720	18,720	16,611	16,611
Financial liabilities measured at fair value through profit or loss						
Derivatives to which hedging is applied	15	15	13	13	10	10
Derivatives to which hedging is not applied	210	210	202	202	466	466
Financial liabilities measured at fair value through other comprehensive income						
Derivatives to which hedging is applied	796	796	823	823	1,026	1,026
Financial liabilities measured at amortized cost						
Trade and other payables	128,798	128,798	119,763	119,763	120,236	120,236
Bonds and debts	291,656	293,999	256,050	258,207	198,612	200,438
Lease obligations	6,783	7,244	6,853	7,146	5,699	5,867

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Group designates its long-term stockholdings aimed at securing a greater earnings base through the maintenance and expansion of transactions with investees, as financial assets measured at fair value through other comprehensive income.

In addition, the breakdown of equity equivalents measured at fair value through other comprehensive income that have been disposed of during each fiscal year, is as follows.

Millions of yen

As of December 31, 2015			**As of December 31, 2016**		
Fair value at the time of sale	Accumulated gains (losses)	Dividend income	Fair value at the time of sale	Accumulated gains (losses)	Dividend income
¥78	¥74	¥52	**¥10,062**	**¥8,066**	**¥26**

In addition, accumulated gains transferred from other components of equity to retained earnings totaled 74 million yen and 8,066 million yen as of December 31, 2015 and 2016, respectively.

(iii) Fair Value Hierarchy

The following analysis of fair value measurements is applied periodically to financial assets and liabilities recognized in the consolidated statement of financial position.

The inputs used to measure fair value are categorized into three different levels of the fair value hierarchy, defined as follows.

Level 1: Fair value measured directly at quoted prices in active markets
Level 2: Fair value calculated, either directly or indirectly, by using observable prices other than Level 1
Level 3: Fair value calculated using valuation methods based on unobservable indicators

Date of transition to IFRS (as of January 1, 2015)

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives to which hedging is not applied	¥ —	¥ 9,058	¥ —	¥ 9,058
Loans				
Financial assets measured at fair value through other comprehensive income	—	1,056	—	1,056
Derivatives to which hedging is applied	—	1,117	—	1,117
Equity equivalents	31,980	—	1,919	33,899
Total assets	¥31,980	¥11,231	¥1,919	¥45,130
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives to which hedging is applied	—	15	—	15
Derivatives to which hedging is not applied	—	210	—	210
Financial liabilities measured at fair value through other comprehensive income				
Derivatives to which hedging is applied	—	796	—	796
Total liabilities	¥ —	¥ 1,021	¥ —	¥ 1,021

As of December 31, 2015

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives to which hedging is not applied	¥ —	¥ 8,639	¥ —	¥ 8,639
Loans	—	1,054	—	1,054
Financial assets measured at fair value through other comprehensive income				
Derivatives to which hedging is applied	—	333	—	333
Equity equivalents	31,596	—	1,871	33,467
Total assets	¥31,596	¥10,026	¥1,871	¥43,493
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives to which hedging is applied	—	13	—	13
Derivatives to which hedging is not applied	—	202	—	202
Financial liabilities measured at fair value through other comprehensive income				
Derivatives to which hedging is applied	—	823	—	823
Total liabilities	¥ —	¥ 1,038	¥ —	¥ 1,038

As of December 31, 2016

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives to which hedging is not applied	**¥ —**	**¥3,503**	**—**	**¥ 3,503**
Loans	**—**	**1,051**	**—**	**1,051**
Financial assets measured at fair value through other comprehensive income				
Derivatives to which hedging is applied	**—**	**1,492**	**—**	**1,492**
Equity equivalents	**20,574**	**—**	**1,829**	**22,403**
Total assets	**¥20,574**	**¥6,046**	**¥1,829**	**¥28,449**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives to which hedging is applied	**—**	**10**	**—**	**10**
Derivatives to which hedging is not applied	**—**	**466**	**—**	**466**
Financial liabilities measured at fair value through other comprehensive income				
Derivatives to which hedging is applied	**—**	**1,026**	**—**	**1,026**
Total liabilities	**¥ —**	**¥1,502**	**¥ —**	**¥ 1,502**

No financial instruments have been transferred between Levels as of January 1, 2015, December 31, 2015 and December 31, 2016.

(4) Derivatives

The Group designates such derivatives as forward exchange contracts and interest rate swaps as hedges against foreign exchange risk and interest rate risk.

When a derivative transaction is initiated, the Group documents the relationship between hedging instruments and hedged items as well as its risk management goals and strategies for various hedging transactions, with the aim of evaluating whether its hedge relationship meets hedge accounting requirements. Moreover, since the inception of hedging, the performance of derivatives used for hedge transactions to offset changes in the fair value of or cash flows from hedged items, are constantly evaluated and documented to determine whether they meet all the applicable hedging efficacy requirements. The evaluation of hedge effectiveness is undertaken at the earlier of the closing date of each fiscal year or whenever a significant change in circumstances may affect hedge effectiveness requirements.

(i) Derivatives to Which Hedging Is Applied

As of January 1, 2015, December 31, 2015 and December 31, 2016, derivatives designated as hedging instruments are as follows.

As of January 1, 2015 (date of transition to IFRS)

Millions of yen

	Notional amount of hedging instruments	Carrying amount of hedging instruments		Hedging instruments included in the consolidated statement of financial position as:
		Assets	Liabilities	
Cash flow hedges				
Foreign exchange risk				
Forward exchange contracts	¥20,802	¥762	¥ 92	Other financial assets/ Other financial liabilities
Foreign exchange and interest rate risks				
Interest rate and currency swaps	2,411	355	—	Other financial assets
Interest rate risk				
Interest rate swaps	29,770	0	704	Other financial assets/ Other financial liabilities
Fair value hedge				
Interest rate risk				
Interest rate swaps	1,041	—	15	Other financial liabilities

As of December 31, 2015

	Notional amount of hedging instruments	Carrying amount of hedging instruments: Assets	Carrying amount of hedging instruments: Liabilities	Hedging instruments included in the consolidated statement of financial position as:
				Millions of yen
Cash flow hedges				
Foreign exchange risk				
Forward exchange contracts	¥22,353	¥ 2	¥123	Other financial assets/ Other financial liabilities
Foreign exchange and interest rate risks				
Interest rate and currency swaps	2,412	331	—	Other financial assets
Interest rate risk				
Interest rate swaps	21,530	—	700	Other financial liabilities
Fair value hedge				
Interest rate risk				
Interest rate swaps	1,041	—	13	Other financial liabilities

As of December 31, 2016

	Notional amount of hedging instruments	Carrying amount of hedging instruments: Assets	Carrying amount of hedging instruments: Liabilities	Hedging instruments included in the consolidated statement of financial position as:
				Millions of yen
Cash flow hedges				
Foreign exchange risk				
Forward exchange contracts	**¥20,981**	**¥852**	**¥258**	Other financial assets/ Other financial liabilities
Foreign exchange and interest rate risks				
Interest rate and currency swaps	**11,011**	**640**	**—**	Other financial assets
Interest rate risk				
Interest rate swaps	**17,000**	**—**	**768**	Other financial liabilities
Fair value hedge				
Interest rate risk				
Interest rate swaps	**1,041**	**—**	**10**	Other financial liabilities

(ii) Derivatives to Which Hedging Is Not Applied

As of January 1, 2015, December 31, 2015 and December 31, 2016, derivatives that have not been designated as hedging instruments are as follows.

Millions of yen

	Date of transition to IFRS (as of Jan. 1, 2015)		As of Dec. 31, 2015		**As of Dec. 31, 2016**	
	Contract value (notional amount)	Fair value	Contract value (notional amount)	Fair value	Contract value (notional amount)	Fair value
Forward exchange contracts						
Sold						
USD	¥ 1,173	¥ (68)	¥ 2,161	¥ (2)	**¥10,626**	**¥ (74)**
GBP	277	(2)	141	4	**316**	**(15)**
AUD	1,239	(6)	1,180	(12)	**1,178**	**(33)**
Euro	3,632	(79)	3,162	44	**4,577**	**(209)**
RUB	726	105	949	79	**140**	**(18)**
TRY	1,346	(9)	453	(18)	**132**	**0**
ZAR	151	(0)	655	43	**810**	**(77)**
CHF	—	—	1,458	10	**1,713**	**3**
THB	215	(4)	—	—	**—**	**—**
CNY	—	—	297	6	**—**	**—**
JPY	186	(1)	159	(1)	**40**	**0**
Bought						
USD	6,848	192	3,546	(16)	**2,265**	**140**
Euro	4	0	—	—	**4**	**0**
THB	—	—	83	0	**52**	**6**
CNY	—	—	13,771	(127)	**12,570**	**20**
JPY	—	—	—	—	**50**	**1**
Currency swaps						
USD receipts/THB payments	8,487	350	4,609	673	**1,421**	**177**
USD receipts/JPY payments	27,037	7,609	27,050	7,515	**15,645**	**3,116**
AUD receipts/JPY payments	3,432	761	—	—	**—**	**—**
USD receipts/ZAR payments	—	—	984	239	**—**	**—**
Total	¥54,753	¥8,848	¥60,658	¥8,437	**¥51,539**	**¥3,037**

20. Capital Stock and Other Equity Items

(1) Capital Stock—Amortized and Issued

	Authorized (Shares)	Issued (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
Date of transition to IFRS as of Jan. 1, 2015	800,000,000	263,043,057	¥42,658	¥37,789
Changes during the year	—	—	—	127
As of Dec. 31, 2015	800,000,000	263,043,057	¥42,658	¥37,916
Changes during the year	—	—	—	21
As of Dec. 31, 2016	800,000,000	263,043,057	¥42,658	¥37,937

Note: All shares issued by the Company carry no par value and contain no restrictions on shareholder rights. Purchasers paid full price for such shares.

(2) Treasury Stock

	Treasury stock (Shares)	Value (Millions of yen)
Date of transition to IFRS as of Jan. 1, 2015	720,365	¥559
Changes during the year	4,148	8
As of Dec. 31, 2015	724,513	¥567
Changes during the year	1,655	3
As of Dec. 31, 2016	726,168	¥570

Note: Changes during the year are attributable to meeting requests for the purchase or transfer of shareholdings of less than one unit.

(3) Capital Stock and Capital Surplus

In accordance with Japan's Corporation Law, stock companies are obliged to set aside at least 50% of proceeds from or contributions associated with the issuance of shares as capital stock, with the residual amount being allocated to additional paid-in capital as part of capital surplus. Said law also allows companies to include additional paid-in capital in capital stock upon obtaining the approval of their general meeting of shareholders.

(4) Retained Earnings

In accordance with the Corporation Law, stock companies are obliged to set aside 10% of any appropriation to shareholders from retained earnings as additional paid-in capital or legal reserve, until the reserve reaches 25% of stated capital. The legal reserve can be appropriated to eliminate a deficit. The reversal of such reserve requires a resolution of the General Meeting of Shareholders.

In accordance with the Corporation Law, distributable surplus is calculated based on retained earnings as presented in the Company's statutory financial statements prepared in accordance with Japanese GAAP.

In addition, the Company distributes its retained earnings in compliance with restrictions imposed by said law on determining the amounts available for distribution.

(5) Other Components of Equity

(i) Remeasurements of Defined Benefit Plans

A reassessment of the defined benefit obligation that identifies the differences between actuarial assumptions at the beginning of the fiscal year and actual returns, in addition to an assessment of gain on plan assets at fair value (excluding interest income)

(ii) Net Gain or Loss on Financial Assets Measured at Fair Value through Other Comprehensive Income

Differences between the fair value and the acquisition prices of financial assets, whose value is measured at fair value through other comprehensive income, included in other components of equity until derecognition

(iii) Currency translation differences of foreign operations

Translation differences attributable to the consolidation of the results of foreign operations whose financial statements are prepared using foreign currencies

(iv) Cash Flow Hedges

Changes in gain or loss on the valuation of derivatives designated as eligible hedging instruments recorded in the statement of comprehensive income before the date on which hedge accounting was closed

21. Other Comprehensive Income

Breakdown of other comprehensive income that has been recognized in each fiscal year, adjustments associated with reclassification to profit or loss and tax effects for each component (including non-controlling interests) are as follows.

January 1 to December 31, 2015

Millions of yen

	Amount arising during the year	Reclassification adjustments	Before taxes	Tax effects	After taxes
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥ (373)	¥ —	¥ (373)	¥850	¥ 477
Remeasurements of defined benefit plans	1,496	—	1,496	(280)	1,216
Share of other comprehensive income of associates accounted for using equity method	(2,803)	—	(2,803)	—	(2,803)
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	(316)	173	(143)	30	(113)
Exchange differences on translation of foreign operations	(33,624)	—	(33,624)	67	(33,557)
Share of other comprehensive income of associates accounted for using equity method	(2,447)	2,446	(1)	—	(1)
Other comprehensive income	(38,067)	2,619	(35,448)	667	(34,781)

January 1 to December 31, 2016

Millions of yen

	Amount arising during the year	Reclassification adjustments	Before taxes	Tax effects	After taxes
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	**¥ (599)**	**¥ —**	**¥ (599)**	**¥ 515**	**¥ (84)**
Remeasurements of defined benefit plans	**(4,104)**	**—**	**(4,104)**	**2,633**	**(1,471)**
Share of other comprehensive income of associates accounted for using equity method	**—**	**—**	**—**	**—**	**—**
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	**430**	**47**	**477**	**(165)**	**312**
Exchange differences on translation of foreign operations	**(19,219)**	**70**	**(19,149)**	**(67)**	**(19,216)**
Share of other comprehensive income of associates accounted for using equity method	**—**	**—**	**—**	**—**	**—**
Other comprehensive income	**(23,492)**	**117**	**(23,375)**	**2,916**	**(20,459)**

22. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Advertising and sales expansion costs	¥ 33,489	**¥ 29,968**
Transportation, storage and packaging costs	37,683	**35,681**
Personnel costs	59,650	**58,366**
Others	60,415	**58,115**
Total	¥191,237	**¥182,130**

23. Other Income and Expenses

The breakdown of other income and expenses is as follows.

(1) Other Income

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Government Grants	¥ 1,720	**¥1,275**
Gain and losses on transfer of business in association with dissolution of joint ventures (Note)	9,636	**—**
Others	2,131	**2,655**
Total	¥13,487	**¥3,930**

Note: On October 1, 2015, the Company completed the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company. Reflecting this, proceeds from business transfer due to the dissolution of joint ventures have been recorded in the fiscal year ended December 31, 2015. The breakdown of such proceeds is as follows.

	(Millions of yen)
Gain on sales of shares of subsidiaries and associates	¥9,067
Gain on step acquisitions	676
Other	(107)
Total	¥9,636

(2) Other Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Loss on sales and retirement of non-current assets	¥ 875	**¥ 833**
Others	2,292	**4,729**
Total	¥3,167	**¥5,562**

24. Financial Income and Expenses

The breakdown of financial income and costs is as follows.

(1) Financial Income

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Interest income		
Financial assets measured at amortized cost	¥1,486	**¥1,754**
Dividend income		
Financial assets measured at fair value through other comprehensive income	874	**659**
Foreign exchange gains	—	**740**
Gains on valuation of derivatives	244	**—**
Others	—	**15**
Total	¥2,604	**¥3,168**

(2) Financial Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Interest expense		
Financial liabilities measured at amortized cost	¥3,834	**¥3,105**
Other	642	**607**
Foreign exchange losses	3,963	**—**
Losses on valuation of derivatives	—	**2,704**
Total	¥8,439	**¥6,416**

25. Earnings per Share

(1) Basic Profit per Share

Basic profit per share is as follows.

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Basic profit per share (yen)	¥274.38	¥157.69

(2) Calculating Basic Profit per Share

The basis for the calculation of basic profit per share is as follows.

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Profit for the period attributable to owners of parent (millions of yen)	¥71,976	**¥41,364**
Weighted average number of common shares outstanding during the period (thousands of shares)	262,320	**262,318**

Diluted profit per share is not presented because there were no potentially dilutive shares.

26. Dividends

Interim and year-end dividends paid to common shareholders are as follows.

January 1 to December 31, 2015

(1) Dividends Paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 26, 2015 (GMOS)*	Common stock	7,870	Retained earnings	30.00	Dec. 31, 2014	Mar. 27, 2015
Aug. 5, 2015 (BOD)**	Common stock	6,558	Retained earnings	25.00	Jun. 30, 2015	Sep. 4, 2015

(2) Dividends That Have Become Effective from the Fiscal Year Subsequent to Their Record Date

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 30, 2016 (GMOS)*	Common stock	7,870	Retained earnings	30.00	Dec. 31, 2015	Mar. 31, 2016

January 1 to December 31, 2016

(1) Dividends paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 30, 2016 (GMOS)*	Common stock	7,870	Retained earnings	30.00	Dec. 31, 2015	Mar. 31, 2016
Aug. 8, 2016 (BOD)**	Common stock	7,870	Retained earnings	30.00	Jun. 30, 2016	Sep. 7, 2016

(2) Dividends That Have Become Effective from the Fiscal Year Subsequent to Their Record Date

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 29, 2017 (GMOS)*	Common stock	6,558	Retained earnings	25.00	Dec. 31, 2016	Mar. 30, 2017

* General Meeting of Shareholders
** Board of Directors

27. Business Combinations

January 1 to December 31, 2015

Business Combination by means of Acquisition

Business combination of Lonstroff Holding AG and its wholly owned subsidiary

(1) Overview of Business Combination

(i) Name and business of acquired company

Name of acquired company: Lonstroff Holdings AG and its wholly owned subsidiary

Main business: Manufacture and sale of medical packaging material, medical rubber material, industrial rubber and others

(ii) Purpose of business combination

Securing the Company's own regional bases for the manufacture and sale of medical rubber material in Europe and enhancing the Group's global operations mainly in Europe.

(iii) Date of business combination

January 30, 2015

(iv) Legal form of business combination

Acquisition of shares in exchange for cash payment

(v) Name of acquired company after business combination

No change

(vi) Ratio of voting rights acquired

Voting right ratio before acquisition: 0%

Voting right ratio after acquisition: 100%

(vii) Consideration for acquisition

The Company acquired 100% of the voting rights of the parent company through the acquisition of shares in exchange for cash payment.

(2) Acquisition Price and Breakdown of the Fair Value of Assets Acquired and Liabilities Assumed on the Acquisition Date

	Millions of yen
Acquisition price (Note 1)	¥5,394
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	72
Trade and other receivables	779
Inventories	317
Property, plant and equipment	2,177
Intangible assets	1,487
Other assets	631
Liabilities	(4,696)
Goodwill (Note 2)	4,627
Total	¥5,394

Notes: 1. There was no contingent consideration.
2. Goodwill reflects the expected profitability from future business activities in excess of fair value.

The Company recorded 185 million yen acquisition cost associated with this business combination has been included in selling, general and administrative expenses.

(3) Impact of Business Combination on Cash Flows

	Millions of yen
Payment of acquisition cost	¥(5,394)
Cash and cash equivalents	72
Purchase of shares of subsidiaries	¥(5,322)

(4) Business Performance since the Business Combination
Omitted because the impact of the business combination on the consolidated statement of income and consolidated statement of comprehensive income for the fiscal year ended December 31, 2015 was insignificant.

Business combination of Goodyear Dunlop Tires North America, Ltd.
(1) Overview of Business Combination
(i) Name of acquiring company/ Name and business of acquired company
Name of acquiring company: SRI America, Inc. (a wholly owned consolidated subsidiary of the Company)
Name of acquired company: Goodyear Dunlop Tires North America, Ltd.
Main business: Manufacture and sale of tires in North America

(ii) Purpose of business combination
Enhancing competitiveness by promoting Dunlop-brand original equipment tires for vehicles and motorcycles manufactured by Japanese automakers in North America and by securing the Group's regional production, research and development and other bases.

(iii) Date of business combination
October 1, 2015

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

(v) Name of acquired company after business combination
Goodyear Dunlop Tires North America, Ltd.
(The name was subsequently changed to Sumitomo Rubber USA, LLC on April 1, 2016)

(vi) Ratio of voting rights acquired
Voting right ratio before acquisition: 30% (equity interest ratio: 25%)
Voting right ratio after acquisition: 100% (equity interest ratio: 100%)

(vii) Consideration for acquisition
The Group acquired 100% of the voting rights through the acquisition of shares in exchange for cash payment.

(viii) Other matters concerning the summary of transactions
SRI America, Inc. additionally acquired 75% of the shares of Goodyear Dunlop Tires North America, Ltd. The remaining 25% of the latter's shares are held by SRI USA, Inc., one of the Company's consolidated subsidiaries. Consequently, the Group's ratio of voting rights in Goodyear Dunlop Tires North America, Ltd. is 100%.

(2) Acquisition Price and Breakdown of the Fair Value of Assets Acquired and Liabilities Assumed on the Acquisition Date

	Millions of yen
Fair value of shares held before business combination	¥11,699
Fair value of shares additionally acquired at business combination	14,979
Acquisition price (Note 1)	26,678
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	2,838
Trade and other receivables	9,514
Inventories	5,488
Property, plant and equipment	22,810
Intangible assets	4,224
Other assets	6,786
Liabilities	(30,454)
Goodwill (Note 2)	5,472
Total	¥26,678

Notes: 1. There was no contingent consideration.
2. Goodwill reflects the expected profitability from future business activities in excess of fair value.

With the fair-value based remeasurement of equity held by the Company prior to business combination, gains attributable to successive share purchases in the acquired company totaling 676 million yen were recognized. This amount has been included in "Gain and losses on transfer of business in association with dissolution of joint ventures" as part of "Other income."

(3) Impact of Business Combination on Cash Flows

	Millions of yen
Payment of acquisition cost	¥(14,979)
Cash and cash equivalents	2,838
Spending due to business transfer	¥(12,141)

(4) Business Performance since the Business Combination
Omitted because the impact of the business combination on the consolidated statement of income and consolidated statement of comprehensive income for the fiscal year ended December 31, 2015 was insignificant.

Acquisition of Non-Controlling Interests
On October 1, 2015, the Company acquired an additional 25% of the shares of Dunlop Goodyear Tires Ltd. in conjunction with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company. As a result, the Company's voting rights ratio in Dunlop Goodyear Tires Ltd. increased to 100%.

The abovementioned purchases resulted in a ¥127 million difference between the ¥1,679 million cost of the additional share purchases and the ¥1,806 million reduction in the carrying amount of non-controlling interests due to such purchases. This amount was treated as capital surplus.

January 1 to December 31, 2016
Omitted due to the absence of significant events.

Pro Forma Information (Not Audited)
If the aforementioned business combination had been executed at the beginning of the fiscal year on January 1, 2015, the increase attributable to the combination on sales revenue and profit attributable to owners of parent would have totaled at ¥848.5 billion and ¥77 billion, respectively. This is based on the sales revenue and profit recognized at the acquired company during the period immediately preceding the date of acquisition. As the impact of said business combination on the consolidated financial statements for the fiscal year ended December 31, 2016 was insignificant, pro forma information is omitted.

This pro forma information is based on the sales revenue and profit recognized at the acquired company during the period immediately preceding the date of acquisition.

28. Main Subsidiaries

(1) Information on Main Subsidiaries

The Group's main subsidiaries are as follows.

Name	Location	Main businesses	Date of transition to IFRS As of Jan. 1, 2015		As of Dec. 31, 2015		As of Dec. 31, 2016	
			Voting right ratio (%)	Equity interest ratio (%)	Voting right ratio (%)	Equity interest ratio (%)	Voting right ratio (%)	Equity interest ratio (%)
DUNLOP TYRE HOKKAIDO Co. Ltd.	Japan	Tires	100.0	100.0	100.0	100.0	100.0	100.0
DUNLOP MOTORCYCLE CORPORATION	Japan	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Dunlop Goodyear Tires Ltd.	Japan	Tires	70.0	75.0	100.0	100.0	—	—
Goodyear Japan Ltd.	Japan	Tires	70.0	75.0	—	—	—	—
Dunlop Retread Service Co., Ltd.	Japan	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Dunlop Sports Co. Ltd.	Japan	Sports	60.4	60.4	60.4	60.4	60.4	60.4
Dunlop Sports Marketing Co. Ltd.	Japan	Sports	100.0 (100.0)	60.4	100.0 (100.0)	60.4	100.0 (100.0)	60.4
Dunlop Golf Club Corp.	Japan	Sports	100.0 (100.0)	60.4	100.0 (100.0)	60.4	100.0 (100.0)	60.4
Sumigomu Sangyou Ltd.	Japan	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Dunlop Home Products, Ltd	Japan	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Sumigomu Takasago Integrate, Ltd	Japan	Industrial products	66.7	66.7	66.7	66.7	66.7	66.7
P.T. Sumi Rubber Indonesia	Indonesia	Tires and sports	72.5	72.5	72.5	72.5	72.5	72.5
Sumitomo Rubber (Changshu) Co., Ltd.	China	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Sumitomo Rubber (Hunan) Co., Ltd.	China	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Sumitomo Rubber (China) Co., Ltd.	China	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber (Thailand) Co., Ltd.	Thailand	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber do Brasil Ltda.	Brazil	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber South Africa (Pty) Limited	South Africa	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.	Turkey	Tires	80.0	80.0	80.0	80.0	80.0	80.0
Sumitomo Rubber USA, LLC	U.S.A.	Tires	30.0 (30.0)	25.0	100.0 (100.0)	100.0 (100.0)	100.0 (100.0)	100.0 (100.0)
Sumitomo Rubber North America, Inc.	U.S.A.	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Falken Tyre Europe GmbH	Germany	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber Middle East FZE	U.A.E.	Tires	100.0	100.0	100.0	100.0	100.0	100.0
Sumitomo Rubber Australia Pty Ltd.	Australia	Tires	100.0	100.0	75.0	75.0	75.0	75.0
Srixon Sports Europe Ltd.	U.K.	Sports	100.0 (100.0)	60.4	100.0 (100.0)	60.4	100.0 (100.0)	60.4
Cleveland Golf Canada Corp.	Canada	Sports	100.0 (100.0)	60.4	100.0 (100.0)	60.4	100.0 (100.0)	60.4
Roger Cleveland Golf Company, Inc.	U.S.A.	Sports	100.0 (100.0)	60.4	100.0 (100.0)	60.4	100.0 (100.0)	60.4
Srixon Sports Manufacturing (Thailand) Co., Ltd.	Thailand	Sports	65.0 (65.0)	39.2	65.0 (65.0)	39.2	65.0 (65.0)	39.2
Dunlop Sports Korea Co., Ltd.	South Korea	Sports	50.0 (50.0)	30.2	50.0 (50.0)	30.2	50.0 (50.0)	30.2
Hong Kong Sumirubber, Ltd.	Hong Kong	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Sumirubber Malaysia Sdn. Bhd.	Malaysia	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Zhongshan Sumirubber Precision Rubber Ltd.	China	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Sumirubber Vietnam, Ltd.	Vietnam	Industrial products	100.0	100.0	100.0	100.0	100.0	100.0
Lonstroff AG	Switzerland	Industrial products	—	—	100.0 (100.0)	100.0	100.0 (100.0)	100.0

Notes: 1. Voting right ratio in parentheses signifies the percentage of indirect holdings.
2. Dunlop Goodyear Tires Ltd. was merged by the Company by an absorption-type merger on January 1, 2016.

(2) Changes in Equity in Main Consolidated Subsidiaries Due to the Loss of Control

In the fiscal year ended December 31, 2015, the Company sold all of its shares in Goodyear Japan Ltd., a former consolidated subsidiary, in conjunction with the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company. As a result, the Company recognized 356 million yen in proceeds attributable to changes in equity due to the loss of control in consolidated subsidiaries. This amount has been included in "Proceeds from business transfer due to the dissolution of joint ventures" as part of "Other income." In the fiscal year ended December 31, 2016, no significant profit or loss has been recognized in relation to changes in equity due to changes in control at consolidated subsidiaries.

29. Related Parties

(1) Related Party Transactions

January 1 to December 31, 2015
Omitted. No significant transaction was undertaken, excepting transactions that were offset in the consolidated financial statements.

January 1 to December 31, 2016
Omitted. No significant transaction was undertaken, excepting transactions that were offset in the consolidated financial statements.

(2) Remuneration of Key Managerial Personnel

Millions of yen

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2016**
Basic remuneration	¥471	**¥451**
Bonuses	123	**115**
Total	¥594	**¥566**

30. Subsequent Events

Business Combination through Acquisition
Based on a resolution passed at a Board of Directors meeting held on December 27, 2016, the Company decided to make Micheldever Group Ltd. a wholly owned subsidiary by purchasing all of its shares from private equity fund Graphite Capital Management LLP. Having signed a share transfer agreement dated January 5, 2017 with this fund, the Company acquired such shares on February 10, 2017.

(1) Overview of Business Combination

(i) Name of principal company acquired and business

Name of principal company acquired: Micheldever Group Ltd. and its subsidiaries
Main business: Distribution and retail of tires for automobiles, motorcycles and agricultural machinery as well as other automotive equipment

(ii) Purpose of business combination

As part of initiatives aimed at actively expanding the Group's production capacity and sales network in Europe, this acquisition is intended to enhance the Falken brand in the UK market.

(iii) Date of business combination

February 10, 2017

(iv) Legal form of business combination

Acquisition of shares in exchange for cash payment

(v) Name of principal company acquired upon business combination

No change

(vi) Ratio of voting rights acquired

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

(vii) Consideration for acquisition

The Company acquired 100% of the voting rights through the acquisition of shares in exchange for cash payment.

(2) Acquisition Price as of the Date of the Business Combination

Faire value of acquisition price: 22,424 million yen
There was no contingent consideration.
The fair value of acquisition price includes the price paid to sellers of such shares as well as the cost of repaying the debt of the acquired company to its former parent company. In addition, the fair value of goodwill, acquired assets and transferred liabilities has not yet been determined.

Significant Business Acquisition

At the Board of Directors' meeting held on December 27, 2016, the Company resolved to establish Dunlop International Co. Ltd. jointly with the Company's sports business subsidiary Dunlop Sports Co. Ltd., and enter into an agreement with Sports Direct International plc, under which the Company will acquire the trademark rights of the DUNLOP brand overseas and the sporting goods and licensing businesses of the DUNLOP brand. The agreement was concluded as of the same date. Necessary approval procedures were subsequently undertaken, and the acquisition of the businesses was completed on April 3, 2017.

(1) Overview of the business acquisition

(i) Purpose of business acquisition

After the completion of this transaction, the Group, in its tire business, will become the owner and licensor of DUNLOP trademark rights globally (except in Europe, North America, India and Australia, etc.). As for the sports and industrial products businesses, the acquisition will enable the Group to produce and sell DUNLOP branded products globally. In this transaction, the Group will also acquire Sports Direct International plc's sporting goods manufacturing and sales business of DUNLOP brand products as well as its licensing business with respect to the trademark rights of the DUNLOP brand.

Dunlop International Co. Ltd. will operate and manage the acquired sporting goods and licensing businesses while the Sumitomo Rubber Group as a whole continues working to create, implement and promote strategies to enhance the global value of the DUNLOP brand and improve the overall profitability of our entire group, including existing businesses.

(ii) Name of the counterparty

Sports Direct International plc

(iii) Details of the acquired business

Trademark rights of the DUNLOP brand and sporting goods and licensing businesses of the DUNLOP brand

(iv) Date of acquisition

April 3, 2017

For the above purpose, a subsidiary was newly established. Its outline is as follows:

Name:	Dunlop International Co. Ltd.
Address:	3-6-9 Wakinohama-cho, Chuo-ku, Kobe, Hyogo
Capital:	¥3,000 million
Establishment:	February 1, 2017
Capital contribution ratio:	The Company 66.7%; Dunlop Sports Co. Ltd. 33.3%

(2) Consideration for acquisition as of the acquisition date

Fair value of acquisition price ¥16,388 million

Acquisition price is calculated provisionally and to be determined after adjusting changes in working capital, etc., based on the agreement.

The fair value of acquisition price includes the price paid to sellers as well as the repayment amount of liabilities the acquired company had incurred from those companies.

As the initial accounting process for said acquisition has not been completed, detailed information on the accounting treatment for business combinations has not been herein disclosed.

31. First-Time Adoption of IFRS

(1) Transition to reporting in accordance with IFRS

Commencing with the fiscal year under review, the Group discloses consolidated financial statements that have been prepared in conformity with IFRS.

The significant accounting policies stated in Note 3. "Significant Accounting Policies" have been applied in the creation of the consolidated financial statements for the fiscal year under review (from January 1 to December 31, 2016) and the previous fiscal year (from January 1 to December 31, 2015) and the consolidated statement of financial position released on the date of the transition to IFRS (January 1, 2015).

In principle, IFRS 1 calls for the retroactive application of IFRS. However, exemptions can be voluntarily selected for some matters. The Group exercised the following exemptions in its transition from Japanese GAAP (JGAAP) to IFRS.

(i) Business Combinations

IFRS 3 can be applied both retroactively and to future combinations. The Group has chosen not to retroactively apply IFRS 3 to business combinations carried out prior to the transition date. Business combinations carried out prior to the transition date have therefore not been restated.

(ii) Exchange Differences on Translation of Foreign Operations

Under IFRS 1, the balance of all exchange differences due to the translation of the results of foreign operations can be treated as zero on the date of the transition, or the exchange differences can be retroactively recalculated to the date of a subsidiary or affiliate being founded or acquired. The Group has opted to treat all exchange differences on translating foreign operations as zero.

(iii) Recognition of Financial Instruments Specified Prior to the Transition Date

Under IFRS 1, financial instruments can be specified according to IFRS 9 *Financial Instruments* based on the facts and circumstances existing on the transition date. The Group specified its financial instruments held based on the circumstances on the transition date.

The Group made necessary adjustments to the consolidated financial statements prepared in conformity with JGAAP when preparing consolidated financial statements for the previous fiscal year and consolidated financial statements on the transition date to IFRS in conformity with IFRS.

The impact of the transition from JGAAP to IFRS is as stated below in "(2) Adjustments to Equity on the Transition Date (January 1, 2015)" and on the following pages.

In the adjustments table, "Reclassification" includes items that do not affect retained earnings or comprehensive income and "Differences in Recognition and Measurement" includes items that affect retained earnings and comprehensive income.

(2) Adjustments to Equity on the Transition Date (January 1, 2015)

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
Assets						Assets
Current assets:						Current assets:
Cash and time deposits	¥ 54,476	¥ (893)	¥ 70	¥ 53,653		Cash and cash equivalents
Notes and accounts receivable	210,027	3,642	(1,274)	212,395	A, G	Trade and other receivables
Allowance for doubtful accounts	(2,020)	2,020	—	—		
	—	3,954	(35)	3,919	B	Other financial assets
Inventories	142,043	—	(1,742)	140,301	H	Inventories
Deferred tax assets	11,950	(11,950)	—	—	C	
Other	23,820	(8,722)	1,808	16,906	A, B	Other current assets
Total current assets	440,296	(11,949)	(1,173)	427,174		Total current assets
Non-current assets:						Non-current assets:
Property, plant and equipment	359,955	—	2,479	362,434		Property, plant and equipment
Intangible non-current assets (goodwill)	10,465	—	(4,570)	5,895	I	Goodwill
Intangible non-current assets (other)	20,185	—	(4,853)	15,332		Other intangible assets
	—	48,106	(364)	47,742	D	Investments accounted for using equity method
	—	53,525	621	54,146	B	Other financial assets
Investments in securities	81,430	(81,430)	—	—	B, D	
Long-term loans	1,280	(1,280)	—	—	B	
Retirement benefit plan assets	30,133	—	(7,777)	22,356	K	Retirement benefit plan assets
Deferred tax assets	6,686	11,950	(4,950)	13,686	C, J	Deferred tax assets
Other	24,082	(19,847)	1,430	5,665	B, H	Other non-current assets
Allowance for doubtful accounts	(925)	925	—	—		
Total non-current assets	533,291	11,949	(17,984)	527,256		Total non-current assets
Total assets	¥973,587	¥ —	¥(19,157)	¥954,430		Total assets

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
Liabilities						Liabilities and equity
						Liabilities:
Current liabilities:						Current liabilities
Short-term borrowings	¥ 82,008	¥ 29,812	¥ 1,479	¥113,299	E, G	Bonds and loans payable
Current portion of long-term debt	28,812	(28,812)	—	—	E	
Commercial paper	1,000	(1,000)	—	—	E	
Notes and accounts payable	74,990	55,268	(1,460)	128,798	A	Trade and other payables
	—	1,936	479	2,415	B	Other financial liabilities
Lease obligations	1,644	(1,644)	—	—	B	
Accrued accounts payable	57,132	(57,132)	—	—	A	
Accrued income taxes	12,714	—	—	12,714		Income tax payable
	—	4,204	1,980	6,184	F	Provisions
Accrued bonuses	4,564	(4,564)	—	—	F	
Accrued bonuses for directors and corporate auditors	162	(162)	—	—	F	
Provision for sales returns	2,106	(2,106)	—	—	F	
Provision for sales rebate	555	(555)	—	—	F	
Provision for loss on voluntary recall of products	181	(181)	—	—	F	
Other	26,437	4,920	(1,050)	30,307	B, C, F, L	Other current liabilities
Total current liabilities	292,305	(16)	1,428	293,717		Total current liabilities
						Current liabilities directly r elated to assets held for sale
Long-term liabilities:						Non-current liabilities:
Corporate bonds	65,000	113,184	173	178,357	E	Bonds and loans payable
Long-term debt	113,184	(113,184)	—	—	E	
	—	4,099	1,290	5,389	B	Other financial liabilities
Accrued pension and retirement benefits	17,018	—	1,122	18,140	K	Net defined benefit liability
	—	927	112	1,039	F	Provisions
Provision for retirement benefits for directors and corporate auditors	115	(115)	—	—	F	
Deferred tax liabilities	21,981	15	(11,740)	10,256	C, J	Deferred tax liabilities
Lease obligations (long-term)	4,099	(4,099)	—	—	B	
Other	12,925	(811)	5,326	17,440	F, K, L	Other non-current liabilities
Total long-term liabilities	234,322	16	(3,717)	230,621		Total non-current liabilities
Total liabilities	526,627	—	(2,289)	524,338		Total liabilities
Net assets						Equity
Common stock	42,658	—	—	42,658		Capital stock
Capital surplus	38,661	—	(872)	37,789		Capital surplus
Retained earnings	265,997	—	38,153	304,150	N	Retained earnings
Treasury stock	(559)	—	—	(559)		Treasury stock
Total accumulated other comprehensive income	66,617	—	(51,996)	14,621	K, M	Other components of equity
	413,374	—	(14,715)	398,659		Total equity attributable to owners of parent
Minority interests	33,586	—	(2,153)	31,433		Non-controlling interests
Total net assets	446,960	—	(16,868)	430,092		Total equity
Total liabilities and net assets	¥973,587	¥ —	¥(19,157)	¥954,430		Total liabilities and equity

(3) Adjustments to Equity as of December 31, 2015

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
Assets						Assets
Current assets:						Current assets:
Cash and time deposits	¥ 53,569	¥ (48)	¥ 35	¥ 53,556		Cash and cash equivalents
Notes and accounts receivable	189,888	909	(857)	189,940	A, G	Trade and other receivables
Allowance for doubtful accounts	(2,070)	2,070	—	—		
	—	5,455	15	5,470	B	Other financial assets
Inventories	147,180	—	(2,673)	144,507	H	Inventories
Deferred tax assets	10,122	(10,122)	—	—	C	
Other	34,719	(8,386)	1,555	27,888	A, B	Other current assets
Total current assets	433,408	(10,122)	(1,925)	421,361		Total current assets
Non-current assets:						Non-current assets:
Property, plant and equipment	367,930	—	3,200	371,130		Property, plant and equipment
Intangible non-current assets (goodwill)	18,251	—	(2,628)	15,623	I	Goodwill
Intangible non-current assets (other)	21,366	—	(573)	20,793		Other intangible assets
	—	4,049	(4)	4,045	D	Investments accounted for using equity method
	—	56,168	575	56,743	B	Other financial assets
Investments in securities	36,976	(36,976)	—	—	B, D	
Long-term loans	8,063	(8,063)	—	—	B	
Net defined benefit assets	24,167	—	—	24,167	K	Net defined benefit assets
Deferred tax assets	6,516	10,122	(3,538)	13,100	C, J	Deferred tax assets
Other	20,337	(16,038)	1,171	5,470	B, H	Other non-current assets
Allowance for doubtful accounts	(860)	860	—	—		
Total non-current assets	502,746	10,122	(1,797)	511,071		Total non-current assets
Total assets	936,154	¥ —	¥(3,722)	¥932,432		Total assets

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
						Liabilities and equity
Liabilities						Liabilities
Current liabilities:						Current liabilities:
Short-term borrowings	¥ 64,586	¥ 59,163	¥ 1,424	¥125,173	E, G	Bonds and loans payable
Current portion of long-term debt	37,163	(37,163)	—	—	E	
Current portion of corporate bonds	10,000	(10,000)	—	—	E	
Commercial paper	12,000	(12,000)	—	—	E	
Notes and accounts payable	73,684	47,958	(1,879)	119,763	A	Trade and other payables
	—	2,078	274	2,352	B	Other financial liabilities
Lease obligations (short-term)	1,768	(1,768)	—	—	B	
Accrued accounts payable	49,437	(49,437)	—	—	A	
Accrued income taxes	3,517	—	—	3,517		Income tax payable
	—	3,746	1,414	5,160	F	Provisions
Accrued bonuses	3,974	(3,974)	—	—	F	
Accrued bonuses for directors and corporate auditors	123	(123)	—	—	F	
Provision for sales returns	2,062	(2,062)	—	—	F	
Provision for sales rebate	549	(549)	—	—	F	
Provision for loss on voluntary recall of products	131	(131)	—	—	F	
Other	25,176	4,243	(230)	29,189	B, C, F, L	Other current liabilities
Total current liabilities	284,170	(19)	1,003	285,154		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Corporate bonds	55,000	75,657	220	130,877	E	Bonds and loans payable
Long-term debt	75,657	(75,657)	—	—	E	
	—	4,458	1,081	5,539	B	Other financial liabilities
Accrued pension and retirement benefits	22,817	—	4	22,821	K	Net defined benefit liability
	—	1,096	118	1,214	F	Provisions
Provision for retirement benefits for directors and corporate auditors	109	(109)	—	—	F	
Deferred tax liabilities	19,636	19	(9,545)	10,110	C, J	Deferred tax liabilities
Lease obligations (long-term)	4,458	(4,458)	—	—	B	
Other	20,539	(987)	5,328	24,880	F, K, L	Other non-current liabilities
Total long-term liabilities	198,216	19	(2,794)	195,441		Total non-current liabilities
Total liabilities	482,386	—	(1,791)	480,595		Total liabilities
Net Assets						Equity
Common stock	42,658	—	—	42,658		Capital stock
Capital surplus	38,661	—	(745)	37,916		Capital surplus
Retained earnings	301,712	—	58,431	360,143	N	Retained earnings
Treasury stock	(567)	—	—	(567)		Treasury stock
Total accumulated other comprehensive income	41,393	—	(59,256)	(17,863)	K. M	Other components of equity
	423,857	—	(1,570)	422,287		Total equity attributable to owners of parent
Minority interests	29,911	—	(361)	29,550		Non-controlling interests
Total net assets	453,768	—	(1,931)	451,837		Total equity
Total liabilities and net assets	¥936,154	¥ —	¥ (3,722)	¥932,432		Total liabilities and equity

(4) Notes Related to Equity Adjustments
A summary of the primary adjustments follows.

(i) Reclassification of Line Items
A. Reclassification of Accrued Accounts Receivable and Payable
"Accrued accounts receivable," which were included in "Other" of current assets under JGAAP, are now stated as "Trade and other receivables" under IFRS. "Accrued accounts payable," which were listed separately under JGAAP, are now partially reclassified to "Trade and other payables" under IFRS.

B. Reclassification of Other Financial Assets and Liabilities
"Short-term loans" and "Derivatives," which were included in "Other" of current assets under JGAAP, are now stated as "Other financial assets" (current) under IFRS. In addition, derivative assets included in "Other" of total investments and other assets under JGAAP, as well as "Long-term loans," which were listed separately thereunder, are now stated as "Other financial assets" (non-current) under IFRS. "Investments in securities," which were listed separately under JGAAP, is now partially included in the same item under IFRS.

"Lease obligations," which were listed separately as current liabilities and long-term liabilities under JGAAP, are now stated as "Other financial liabilities" (current) and "Other financial liabilities" (non-current) respectively under IFRS. In addition, derivative liabilities, which were included in "Other" of current liabilities under JGAAP, are now stated as "Other financial liabilities" (current) under IFRS.

C. Reclassification of Deferred Tax Assets and Liabilities
"Deferred tax assets," which were listed separately under JGAAP, are now stated as a non-current line item under IFRS. In addition, deferred tax liabilities, which were included under "Other" of current liabilities under JGAAP, are now stated as a non-current line item under IFRS.

D. Reclassification of Investments Accounted For Using Equity Method
"Investments accounted for using equity method," which were included in "Investments in securities" under JGAAP, are now listed separately.

E. Reclassification of Corporate Bonds, Commercial Paper, and Borrowings
"Short-term borrowings," "Current portion of long-term debt," "Current portion of corporate bonds," and "Commercial paper," which were all stated separately as current liabilities under JGAAP, are now stated as "Bonds and loans payable" (current) under IFRS. In addition, "Corporate bonds" and "Long-term debt," which were listed separately as long-term liabilities under JGAAP, are now stated as "Bonds and loans payable" (non-current) under IFRS.

F. Reclassification of Provisions
"Accrued bonuses" and "Accrued bonuses for directors and corporate auditors," which were listed separately as current liabilities under JGAAP, are now stated as "Other current liabilities" under IFRS. "Provision for sales returns," "Provision for sales rebate" and "Provision for loss on voluntary recall of products," which were all listed separately as current liabilities under JGAAP, and asset retirement obligation that was included in "Other" of current liabilities under JGAAP, are now stated as "Provisions" (current) under IFRS. "Provision for retirement benefits for directors and corporate auditors," which was listed separately as long-term liabilities under JGAAP, is now stated as "Other non-current liabilities" under IFRS. In addition, asset retirement obligation which was included in "Other" of long-term liabilities under JGAAP is now stated as "Provisions" (non-current) under IFRS.

(ii) Notes Related to Differences in Recognition and Measurement
G. Derecognition of Trade Notes Discounted
Under JGAAP, trade notes cease to be recognized as financial assets at the time they are discounted. However, IFRS discontinues recognition at the time the recourse obligation is eliminated. Therefore, net discounted trade notes are now stated under "Trade and other receivables" and "Bonds and loans payable" (current).

H. Reclassification of Supplies and Long-Term Prepaid Expenses
Assets for advertisements and sales promotion, which were included in inventories and "Other" under investments and other assets under JGAAP, have been reclassified as retained earnings because they do not meet the definition of assets under IFRS.

I. Adjustments to the Carrying Amounts of Goodwill
Under JGAAP, goodwill is amortized on a straight-line basis over a period of 20 years or less. For each asset unit that includes goodwill, comparisons of the carrying amount and non-discounted cash flows are undertaken whenever signs of impairment are detected. Impairment loss is thus recognized for only those assets whose non-discounted cash flows fall short of their carrying amounts and to the extent recoverable based on discounted cash flows.

Under IFRS, however, goodwill is not amortized and is subject to annual impairment testing regardless of whether or not signs of impairment are detected. For each cash-generating unit that carries goodwill, comparisons are undertaken of the carrying amount and recoverable amounts based on discounted cash flows. Subsequently, impairment loss is recognized based on the extent recoverable utilizing discounted cash flows.

Also, under JGAAP, the Group determines whether or not impairment loss should be recognized by using a larger asset grouping to encompass goodwill, and using one or more asset groups related to operations where such goodwill exists. On the other hand, under IFRS the Group allocates goodwill to individual cash-generating units or cash-generating unit groups, which were defined to monitor goodwill for the purpose of internal management and represent the minimum organizational unit that is expected to bring benefits by creating synergies attributable to business combination. Such allocation is undertaken from the date of acquisition.

In line with its business plan as of the date of transition to IFRS, the Group tested each cash-generating unit/group for impairment. As a result, recoverable amounts based on discounted cash flows fell short of the carrying amounts of such cash-generating units/groups that carry goodwill. Based on this, the Group has recognized a 4,511 million yen impairment loss on goodwill associated with Roger Cleveland Golf Company, Inc., as of the date of transition to IFRS. This impairment loss is recognized in the Sports segment.

In addition, the recoverable amount is calculated based on value in use. Value in use is the present value of future cash flows calculated under the business plan for a period of up to 5 years, a management-approved formula that incorporates average market growth rates, past experience and external input, with the discount rate set at the pre-tax weighted average cost of capital (WACC) for each cash-generating unit. The average market growth rate is determined by referring to the inflation rate of the market where a cash generating unit operates and by taking future uncertainties into account. At the time of impairment loss recognition, value in use was determined using the aforementioned grouping of cash generating units. Value in use amounted to 1,511 million yen, based on a discount rate of 14.6% and growth rate of 0%.

In reference to Paragraph 32 of "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No.7, published by The Japanese Institute of Certified Public Accountants (JICPA); final revision: November 28, 2014), a 3,948 million yen temporary amortization of goodwill associated with Roger Cleveland Golf Company, Inc. , was posted as extraordinary loss in the JGAAP-based consolidated financial statements for the fiscal year ended December 31, 2015.

J. Adjustments to Deferred Tax Assets

Under JGAAP, deferred tax assets were recognized based on company classification, as defined by the JICPA Audit Committee Report No. 66 entitled, "Audit Treatment of Judgments Regarding the Recoverability of Deferred Tax Assets." Under IFRS, however, deferred tax assets resulting from unused tax losses and deductible temporary differences are recognized when a manager determines that they are likely be used to offset expected taxable income.

In addition, under JGAAP tax effects associated with the elimination of unrealized gains were calculated using the statutory effective tax rate applied to the company being acquired. Under IFRS, such calculation is performed using the statutory effective tax rate applied to the acquiring company.

K. Adjustments to Employee Benefits

Unused paid vacation and special vacation and incentives that are given after a certain number of years of employment, which were not required to be accounted for under JGAAP, are now recorded as liabilities under IFRS.

Furthermore, under JGAAP, prior service costs and actuarial gains and losses are recognized as other comprehensive income in the fiscal year they are incurred and are amortized on a straight-line basis over a fixed number of years that falls within the average remaining service period of employees, commencing with the fiscal year they are incurred. Under IFRS, however, remeasurements of defined benefit plan, which include actuarial differences, are recognized as other comprehensive income in the fiscal year they are incurred and then immediately reclassified as retained earnings. All past service costs are treated as profit or loss as they are incurred.

Under JGAAP, the Group had changed methods for the determination of the retirement benefit obligation and current service costs and the discount rate from the fiscal year ended March 31, 2015. More specifically, the Group changed the method of attributing expected benefit to periods to a benefit formula basis. Moreover, the Group had decided to apply a single weighted-average rate that reflects the projected payment period of retirement benefits and the projected payment amount for the period to determine the discount rate. Under IFRS, the Group will continue to use the same methods to determine the remaining retirement benefit obligation and current service costs as of and after the date of transition to IFRS.

L. Adjustments to Government Subsidies

Under JGAAP, all government subsidies were recognized as profit at the time of receipt. Under IFRS, however, these subsidies are subject to deferred accounting treatment. More specifically, the Group recognizes these subsidies on a straight-line basis over the useful lives of assets to which such subsidies are applied, with liabilities being recognized in "Other current liabilities" and "Other non-current liabilities."

M. Reclassification of Cumulative Exchange Differences on Translating Foreign Operations

On this first-time adoption of IFRS, the Group opted for exemptions defined by IFRS 1 and reclassified all cumulative exchange differences as retained earnings on the transition date.

N. Adjustments for Retained Earnings

Millions of yen

	Date of transition to IFRS As of Jan. 1, 2015	FY 2015 As of Dec. 31, 2015
Reclassification of supplies and long-term prepaid expenses	¥ (3,326)	¥ (3,085)
Adjustments to government subsidies	(3,157)	(3,097)
Adjustments to carrying amounts of goodwill	(2,811)	955
Adjustments to deferred tax assets	308	3,098
Adjustments to employee benefits	(16,978)	(13,628)
Reclassification of cumulative currency translation differences of foreign operations	62,618	62,618
Proceeds from business transfer due to the dissolution of joint ventures (Note)	—	9,477
Other	1,499	2,093
Total adjustments for retained earnings	¥38,153	¥58,431

Note: The increase in "Proceeds from business transfer due to the dissolution of joint ventures," which had been listed as extraordinary income under JGAAP, is attributable to the reclassification to retained earnings of cumulative currency translation differences of foreign operations and remeasurements of defined benefit plan. Under IFRS, this item is included in "Other income."

(5) Adjustments to Profits (Losses) and Comprehensive Income in the Year Ended December 31, 2015

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
Sales revenue	¥848,663	¥ —	¥(50,180)	¥798,483	C	Sales revenue
Cost of sales	(523,217)	—	(5,176)	(528,393)	C, D, F	Cost of sales
Gross profits	325,446	—	(55,356)	270,090		Gross profit
Selling, general and administrative expenses	(248,379)	8	57,134	(191,237)	C, D, E, F	Selling, general and administrative expenses
	—	3,929	9,558	13,487	A, G	Other income
	—	(7,211)	4,044	(3,167)	A	Other expenses
Operating income	77,067	(3,274)	15,380	89,173		Operating profit
Other income	12,120	(12,120)	—	—	A	
Other expenses	(10,293)	10,293	—	—	A	
Extraordinary income	232	(232)	—	—	A	
Extraordinary loss	(5,197)	5,197	—	—	A	
	—	2,861	(257)	2,604	A	Financial income
	—	(8,287)	(152)	(8,439)	A	Financial expenses
	—	5,562	51	5,613	A	Equity in earnings of affiliates
Income before income taxes and minority interests	73,929	—	15,022	88,951		Profit before tax
Corporate taxes, resident taxes, and business taxes	(15,617)	(2,184)	2,714	(15,087)	B, H	Income tax expenses
Corporate tax adjustments	(2,184)	2,184	—	—	B	
Income before minority interests	56,128	—	17,736	73,864		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Net unrealized gains and losses on available-for-sale securities	423	—	54	477		Financial assets measured at fair value through other comprehensive income
Cumulative remeasurements of defined benefit plan	626	—	590	1,216	F	Remeasurements of defined benefit plan

Millions of yen

JGAAP Line Item	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Note	IFRS Line Item
	—	—	(2,803)	(2,803)		Share of other comprehensive income of associates accounted for using the equity method
						Items that may be reclassified subsequently to profit or loss
Deferred gains and losses on hedges	(588)	—	475	(113)		Cash flow hedges
Currency translation adjustments	(33,674)	—	117	(33,557)		Currency translation differences of foreign operations
Share of other comprehensive income of affiliates under the equity method	6,756	—	(6,757)	(1)		Share of other comprehensive income of associates accounted for using the equity method
Total other comprehensive income	(26,457)	—	(8,324)	(34,781)		Other comprehensive income, net of tax
Total other comprehensive income	¥ 29,671	¥ —	¥ 9,412	¥ 39,083		Comprehensive income

(6) Notes Related to Adjustments to Profits (Losses) and Comprehensive Income

The main adjustments to profit (loss) and comprehensive income follow.

(i) Reclassification of Line Items

A. Adjustments to Line Items

Items that were stated as “Other income,” “Other expenses,” “Extraordinary income,” and “Extraordinary loss” under JGAAP are now stated under IFRS as “Financial income” and “Financial expenses” for profit or loss related to finance and as “Other income,” “Other expenses,” and “Equity in earnings of affiliates” for all other items.

B. Income Tax Expenses

“Corporate taxes, resident taxes and business taxes” as well as “Income tax adjustments,” which were listed separately under JGAAP, are now stated as “Income tax expenses” under IFRS.

(ii) Notes Related to Differences in Recognition and Measurement

C. Adjustments to Sales Revenue

A portion of rebates and other items that was stated as selling, general and administrative expenses under JGAAP is now deducted from sales revenue under IFRS. In addition, under JGAAP losses attributable to sales returns have been directly deducted from gross sales revenue based on estimated losses on product returns by referring to the past record of such returns. Under IFRS, however, the estimated losses on returns and sales costs of corresponding products are presented as deductions from “Sales revenue” and “Sales costs,” respectively.

D. Scope of Inventory Costs

Under JGAAP, transportation and distribution costs, including those for product delivery to customers, were amortized as incurred. Under IFRS, all transportation and distribution expenses incurred in bringing such inventories to their present location and state, are included in inventory costs.

E. Adjustments Related to the Amortization of Goodwill

Under JGAAP, the period of amortization for goodwill is based on an estimate of the appropriate number of years. Under IFRS, Under IFRS, goodwill is not amortized.

Furthermore, the amortization of goodwill that was recognized as extraordinary loss in the previous fiscal year under JGAAP has already been recognized as of the date of the transition to IFRS.

F. Accounting Method for Retirement Benefits

Under JGAAP, actuarial differences and past service costs were recognized as other comprehensive income when they were incurred. These items were amortized on a straight-line basis over a fixed number of years that was within the average remaining service period of employees. Under IFRS, remeasurements of defined benefit plan, including actuarial differences, are recognized as other comprehensive income when they are incurred and immediately reclassified as retained earnings. All past service costs are immediately treated as profit or loss when they are incurred.

G. Adjustments to Proceeds from Business Transfer Due to the Dissolution of Joint Ventures

“Proceeds from business transfer due to the dissolution of joint ventures,” which have been listed as extraordinary income under JGAAP, increased due to the reclassification to retained earnings of cumulative currency translation differences of foreign operations and remeasurements of defined benefit plan (stated as part of other comprehensive income). Under IFRS, this item is included in “Other income.”

H. Income Tax Expenses

Under JGAAP, tax effects associated with the elimination of unrealized gains were calculated using the statutory effective tax rate applied to the company being acquired. Under IFRS, such calculation is performed using the statutory effective tax rate applied to the acquiring company.

(7) Material Adjustments to the Consolidated Statement of Cash Flows for the Year Ended December 31, 2015

There are no material differences in the consolidated statement of cash flows disclosed in conformity with JGAAP and the consolidated statement of cash flows disclosed in conformity with IFRS for the year ended December 31, 2015.

(2) Other

Quarterly Information for the Fiscal Year under Review

Cumulative Period	Q1	Q2	Q3	Current fiscal year
Sales revenue (millions of yen)	¥182,656	¥373,566	¥560,453	¥804,964
Quarterly income before tax adjustment (millions of yen)	20,149	36,728	48,734	79,356
Quarterly income attributable to owners of parent (millions of yen)	16,751	28,107	37,656	49,937
Quarterly income per share (yen)	¥63. 86	¥107.15	¥143.55	¥190.37

Accounting Period	Q1	Q2	Q3	Current fiscal year
Quarterly income per share (yen)	¥63.86	¥43.29	¥36.40	¥46.82

Notes: 1. Quarterly information for the current fiscal year is prepared in conformity with JGAAP.
2. No audits or reviews were conducted by an auditing firm for the current fiscal year or for the fourth quarter.

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 financial statement of financial position as at December 31, 2016, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2016, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
1. We draw attention to Note 30 to the consolidated financial statements, Sumitomo Rubber Industries, Ltd. acquired Micheldever Group Ltd.'s shares on February 10, 2017.

2. We draw attention to Note 30 to the consolidated financial statements, Dunlop International Co. Ltd., which is a subsidiary of Sumitomo Rubber Industries, Ltd. completed the acquisition of businesses from Sports Direct International plc on April 3, 2017.

Our opinion is not qualified in respect of these matters.

KPMG AZSA LLC

May 10, 2017
Kobe, Japan