

Consolidated Financial Results for the Six Months Ended June 30, 2016 [Japanese GAAP]



August 8, 2016

Company name : Sumitomo Rubber Industries, Ltd.
 Stock exchange listing : Tokyo Stock Exchange
 Code number : 5110
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 Scheduled date of filing quarterly securities report : August 9, 2016
 Scheduled date of commencing dividend payments : September 7, 2016
 Supplementary documents for quarterly financial results : Yes
 Quarterly financial results briefing session : Yes (for institutional investors)

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2016 (January 1, 2016 to June 30, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
June 30, 2016	373,566	(3.9)	30,782	5.2	27,658	(10.9)	28,107	40.5
June 30, 2015	388,883	2.7	29,253	(16.6)	31,043	(11.4)	20,006	(8.4)

(Note) Comprehensive income: Six months ended June 30, 2016 : ¥ (31,636) million (-%)

Six months ended June 30, 2015 : ¥ 14,956 million (increase of 10.1%)

	Profit per share	Diluted net income per share
Six months ended	Yen	Yen
June 30, 2016	107.15	-
June 30, 2015	76.27	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
June 30, 2016	817,542	415,071	47.3	1,474.22
December 31, 2015	936,154	453,768	45.3	1,615.81

(Reference) Equity: As of June 30, 2016 : ¥ 386,714 million

As of December 31, 2015 : ¥ 423,857 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended	Yen	Yen	Yen	Yen	Yen
December 31, 2015	-	25.00	-	30.00	55.00
December 31, 2016	-	30.00			
Fiscal year ending December 31, 2016 (Forecast)			-	25.00	55.00

(Note) Revision to the forecast for dividends announced most recently: None

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	810,000	(4.6)	70,000	(9.2)	66,000	(16.3)	53,500	(4.2)	203.95

(Note) Revision to the financial results forecast announced most recently: Yes

Notes:

- (1) Changes in Significant Subsidiaries during the Six Months Ended June 30, 2016
(changes in specified subsidiaries resulting in changes in scope of consolidation) : None
- (2) Adoption of Accounting Methods Specific to Preparation of Quarterly Consolidated Financial Statements : None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards : Yes
 - 2) Changes in accounting policies other than 1) : None
 - 3) Changes in accounting estimates : None
 - 4) Retrospective restatement : None
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the period (including treasury stock):

June 30, 2016	: 263,043,057 shares
December 31, 2015	: 263,043,057 shares
 - 2) Total number of treasury stock at the end of the period:

June 30, 2016	: 724,858 shares
December 31, 2015	: 724,513 shares
 - 3) Average number of shares during the period:

Six months ended June 30, 2016	: 262,318,395 shares
Six months ended June 30, 2015	: 262,321,308 shares

* Presentation regarding the implementation status of the quarterly review procedures

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

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

The earnings projections and other forward-looking statements herein are based on certain assumptions made in light of the information currently available to Sumitomo Rubber Industries, Ltd. (the “Company”) and its group companies (collectively, the “Group”) and include potential risks and uncertainty. Actual results could differ significantly from these forecasts due to changes in various factors surrounding the businesses of the Company and the Group.

With regard to the matters related to the underlying assumptions for the above forecasts, please refer to page 5 of the attached documents to the Consolidated Financial Results for the Period under Review, “1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Consolidated Financial Results Forecast and Other Future Forecast.”

The Group decided to adopt International Financial Reporting Standards (IFRS) from the fiscal year 2016 ended December 31, 2016 and the disclosure information of financial results will be based on IFRS. The future projections including major influences (estimate base) due to this adoption are presented on slide of the presentation material for financial results briefing session on August 8, 2016.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Operating Results

	For the six months ended June 30, 2016	For the six months ended June 30, 2015	Increase (Decrease)
	Millions of yen	Millions of yen	%
Net sales	373,566	388,883	(3.9)
Tires	320,463	332,163	(3.5)
Sports	36,439	37,845	(3.7)
Industrial and Other Products	16,664	18,875	(11.7)
Operating income	30,782	29,253	5.2
Tires	27,445	27,523	(0.3)
Sports	2,599	897	189.8
Industrial and Other Products	731	824	(11.3)
Adjustments	7	9	-
Ordinary income	27,658	31,043	(10.9)
Profit attributable to owners of parent	28,107	20,006	40.5

Foreign exchange rates applied

	For the six months ended June 30, 2016	For the six months ended June 30, 2015	Increase (Decrease)
	Yen	Yen	Yen
Yen / U.S. Dollar	112	120	(8)
Yen / Euro	125	134	(9)

During the six months ended June 30, 2016, the U.S. economy saw continued expansion on a gradual pace, and a gradual recovery trend was seen in the European economy as well. Meanwhile, Chinese economic growth further slowed down, and economic stagnation continued in many emerging markets.

Further, Britain's decision to leave EU and terrorist attacks around the world further increased economic uncertainty and geopolitical risks. The overall global economy was weak as a whole amid rising uncertainty about the future.

The Japanese economy remained weak due to factors such as uncertainty about corporate earnings mainly caused by further yen appreciation and weak personal consumption, despite increased capital investment and improved employment and income conditions.

Looking at the business environment surrounding the Sumitomo Rubber Group, despite prices in the natural rubber market and crude oil prices remaining stable at low levels, business conditions remained severe due to intensified competition with our competitors in the market resulting from the sluggish demand caused by a worldwide sentiment of economic stagnation, as well as further yen appreciation.

Under these circumstances, the Group pursued various group-wide initiatives to achieve its long-term "VISION 2020" targets for fiscal 2020 aimed at driving business growth and improving profitability.

As a result, for the six months ended June 30, 2016, consolidated net sales of the Group decreased 3.9% from the same period of the previous fiscal year to ¥373,566 million, consolidated operating income increased 5.2% to ¥30,782 million, consolidated ordinary income decreased 10.9% to ¥27,658 million and profit attributable to owners of parent increased 40.5% to ¥28,107 million, and resulted in a decrease in income from the same period of the previous fiscal year due mainly to further yen appreciation. Meanwhile, operating income increased mainly due to company-wide total cost reduction activities. Although ordinary income decreased due to no longer recording equity in earnings of joint venture companies in North America and Europe, resulting from dissolution of the alliance with The Goodyear Tire & Rubber Company of the U.S. in October 2015, and foreign exchange losses due to yen appreciation, profit attributable to owners of parent increased, reaching a record high, due to the recording

of extraordinary income from the sale of the shares of The Goodyear Tire & Rubber Company in the three months ended March 31, 2016 and decreased tax burden through the recording of deferred tax assets.

Business performance by business segment was as follows.

Tire Business

Net sales in the tire business decreased 3.5% from the same period of the previous fiscal year to ¥320,463 million, and operating income decreased 0.3% to ¥27,445 million.

In the domestic replacement market, we made efforts to expand sales of mainly the “ENASAVE” series under the Dunlop brand and “LE MANS 4,” which are long-lasting and fuel-efficient tires that are comfortable and equipped with “SILENT CORE,” a special noise-absorbing sponge, and were renewed and launched in February this year. As a result, sales volume and sales in the domestic replacement market exceeded the level of the same period of the previous fiscal year.

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

In the overseas replacement market, sales increased in North America and Europe, where we have a greater degree of flexibility as a result of the dissolution of the alliance with The Goodyear Tire & Rubber Company, and other regions such as the Middle East, Africa, and Central and South America; however, sales fell below the level of the same period of the previous fiscal year due to the effect of yen appreciation.

In the overseas original equipment market, sales decreased due to production cutback of automobile models to be delivered in China and Indonesia, while sales increased in Brazil, where we started to deliver our products last year, in addition to Thailand and South Africa. Furthermore, in North America and Europe, delivery continued to expand, and therefore sales volume exceeded the level of the same period of the previous fiscal year. However, sales fell below the level of the same period of the previous fiscal year due to the effect of yen appreciation.

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

Sports Business

Net sales in the sports business decreased 3.7% from the same period of the previous fiscal year to ¥36,439 million, and operating income increased 189.8% to ¥2,599 million.

In the golf equipment market in Japan, “XXIO 9” launched in December 2015 steadily increased its sales, while golf apparel business saw decreased income due mainly to switching to a licensing business with DESCENTE LTD. in the current period, resulting in sales below the level of the same period of the previous fiscal year.

In overseas golf equipment markets, we made aggressive efforts to globally expand sales of our brands “SRIXON” and “XXIO.” However, due to decreased sales of golf clubs under “Cleveland Golf” mainly in the U.S., as well as the effect of yen appreciation, sales fell below the level of the same period of the previous fiscal year.

As a result, net sales in the sports business fell below the level of the same period of the previous fiscal year, while operating income increased mainly due to improved sales structure backed by increased sales of “XXIO 9” and a decrease in purchasing costs due to yen appreciation.

Industrial and Other Products Business

Net sales in the industrial and other products business decreased 11.7% from the same period of the previous fiscal year to ¥16,664 million, and operating income decreased 11.3% to ¥731 million.

While business of medical rubber parts and vibration control dampers remained strong, precision rubber parts for printers and photocopiers saw decreased income due to the effect of yen appreciation in addition to production cutback by printers and photocopiers manufacturers, and further, sales decreased in infrastructure-based products and materials such as sports facilities and civil works and marine facilities. As a result, net sales in the industrial and other products business fell below the level of the same period of the previous fiscal year, resulting in decrease in income and profit.

(2) Financial Position

	As of June 30, 2016	As of December 31, 2015	Increase (Decrease)
	Millions of yen	Millions of yen	Millions of yen
Total assets	817,542	936,154	(118,612)
Net assets	415,071	453,768	(38,697)
[excluding minority interests]	[386,715]	[423,857]	[(37,142)]
Equity ratio (%)	47.3	45.3	2.0
Net assets per share	1,474.22 yen	1,615.81 yen	(141.59) yen

The financial position of the Group at the end of the second quarter of the consolidated fiscal year under review was as follows.

Total assets decreased ¥118,612 million from the end of the previous fiscal year to ¥817,542 million mainly as a result of a decrease in investment securities due to the sale of the shares of The Goodyear Tire & Rubber Company associated with the dissolution of alliance, in addition to a decrease in notes and accounts receivable - trade due to seasonal factors.

Total liabilities decreased ¥79,915 million from the end of the previous fiscal year to ¥402,471 million mainly due to decreases in notes and accounts payable – trade and interest-bearing debt.

Net assets decreased ¥38,697 million from the end of the previous fiscal year to ¥415,071 million as a result of factors including cash dividends paid and a decrease in foreign currency translation adjustment, despite recording of ¥28,107 million in profit attributable to owners of parent. Equity ratio was 47.3%, an increase of 2.0% from the end of the previous fiscal year, as total liabilities decreased while net assets also decreased.

(3) Consolidated Financial Results Forecast and Other Future Forecast

As the results for the six months ended June 30, 2016 fell below the initial plan due to changes in the environment such as further yen appreciation, revisions have been made as below to the full year financial results forecast in the Consolidated Financial Results for the Three Months Ended March 31, 2016, which we announced on May 10, 2016.

	Revised forecast	Previous forecast	Increase (Decrease)	Change in ratio	(Reference) Results for the same period of the previous fiscal year
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
Net sales	810,000	860,000	(50,000)	(5.8)	848,663
Tires	695,000	740,000	(45,000)	(6.1)	732,168
Sports	76,000	78,000	(2,000)	(2.6)	77,631
Industrial and Other Products	39,000	42,000	(3,000)	(7.1)	38,864
Operating income	70,000	80,000	(10,000)	(12.5)	77,067
Tires	64,000	75,500	(11,500)	(15.2)	73,114
Sports	3,500	2,000	1,500	75.0	2,011
Industrial and Other Products	2,500	2,500	-	-	1,930
Adjustments	-	-	-	-	12
Ordinary income	66,000	77,000	(11,000)	(14.3)	78,894
Profit attributable to owners of parent	53,500	57,000	(3,500)	(6.1)	55,834

Foreign exchange rates applied

	Revised forecast	Previous forecast	Increase (Decrease)	(Reference) Rate applied for the same period of the previous fiscal year
	Yen	Yen	Yen	Yen
Yen / U.S. Dollar	106	115	(9)	121
Yen / Euro	117	126	(9)	134

The results forecast and other forward-looking statements herein are based on certain assumptions made in light of the information currently available to the Company and the Group as of the date of the release of this document and include potential risks and uncertainty. Please note that actual results may differ significantly from these forecasts due to changes in various factors surrounding the businesses of the Company and the Group.

2. Matters Concerning Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Six Months Ended June 30, 2016

None

(2) Adoption of Accounting Methods Specific to Preparation of Quarterly Consolidated Financial Statements

None

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

Changes in Accounting Policies

(Application of the Accounting Standards for Business Combinations)

Effective from the first quarter of the consolidated fiscal year under review, the Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013, hereinafter the “Accounting Standard for Business Combinations”), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter the “Accounting Standard for Consolidation”) and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013, hereinafter the “Accounting Standard for Business Divestitures”), etc. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the consolidated fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter of the consolidated fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the quarterly consolidated financial statements for the fiscal period to which the date of business combination belongs. In addition, the presentation method for net income and other related items has been changed, and the presentation of minority interests has been changed to non-controlling interests. To reflect these changes, the Company has reclassified its quarterly consolidated financial statements for the six months ended June 30, 2015 and consolidated financial statements for the fiscal year ended December 31, 2015.

Application of the Accounting Standard for Business Combinations, etc. is in accordance with the transitional treatment stipulated by Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidation and Article 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standard, etc. prospectively from the beginning of the first quarter of the consolidated fiscal year under review.

These changes have no impact on profit and loss.

3. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	53,569	57,815
Notes and accounts receivable-trade	189,888	140,166
Merchandise and finished goods	91,689	91,854
Work in process	6,938	6,941
Raw materials and supplies	48,553	45,269
Other	44,841	32,838
Allowance for doubtful accounts	(2,070)	(2,280)
Total current assets	433,408	372,603
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	109,999	105,025
Machinery, equipment and vehicles, net	151,527	134,121
Other, net	106,404	96,427
Total property, plant and equipment	367,930	335,573
Intangible assets		
Goodwill	18,251	15,075
Other	21,366	20,372
Total intangible assets	39,617	35,447
Investments and other assets		
Investment securities	36,976	21,831
Other	59,083	52,938
Allowance for doubtful accounts	(860)	(850)
Total investments and other assets	95,199	73,919
Total noncurrent assets	502,746	444,939
Total assets	936,154	817,542

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	73,684	57,277
Current portion of bonds	10,000	5,000
Commercial papers	12,000	8,000
Short-term loans payable	64,586	53,277
Current portion of long-term loans payable	37,163	24,123
Income taxes payable	3,517	5,069
Provision	6,839	5,782
Other	76,381	58,349
Total current liabilities	284,170	216,877
Noncurrent liabilities		
Bonds payable	55,000	50,000
Long-term loans payable	75,657	77,591
Net defined benefit liability	22,817	21,262
Provision	109	113
Other	44,633	36,628
Total noncurrent liabilities	198,216	185,594
Total liabilities	482,386	402,471
Net assets		
Shareholders' equity		
Capital stock	42,658	42,658
Capital surplus	38,661	38,661
Retained earnings	301,712	321,949
Treasury stock	(567)	(568)
Total shareholders' equity	382,464	402,700
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,664	5,985
Deferred gains or losses on hedges	(81)	(818)
Foreign currency translation adjustment	22,422	(25,827)
Remeasurements of defined benefit plans	4,388	4,674
Total accumulated other comprehensive income	41,393	(15,986)
Non-controlling interests	29,911	28,357
Total net assets	453,768	415,071
Total liabilities and net assets	936,154	817,542

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended June 30

(Millions of yen)

	For the six months ended June 30, 2015	For the six months ended June 30, 2016
Net sales	388,883	373,566
Cost of sales	240,597	235,111
Gross profit	148,286	138,455
Selling, general and administrative expenses	119,033	107,673
Operating income	29,253	30,782
Non-operating income		
Interest income	916	755
Dividends income	443	401
Foreign exchange gains	-	2,662
Equity in earnings of affiliates	2,021	18
Other	1,783	1,269
Total non-operating income	5,163	5,105
Non-operating expenses		
Interest expenses	1,940	1,816
Foreign exchange losses	277	-
Loss on valuation of derivatives	-	4,481
Other	1,156	1,932
Total non-operating expenses	3,373	8,229
Ordinary income	31,043	27,658
Extraordinary income		
Gain on sales of investment securities	-	8,030
Gain on liquidation of subsidiaries and associates	-	1,680
Gain on sales of non-current assets	-	276
Total extraordinary income	-	9,986
Extraordinary loss		
Loss on voluntary recall of products	-	584
Loss on sales and retirement of noncurrent assets	288	278
Impairment loss	118	54
Total extraordinary losses	406	916
Income before income taxes	30,637	36,728
Income taxes	9,938	8,340
Profit	20,699	28,388
Profit attributable to non-controlling interests	693	281
Profit attributable to owners of parent	20,006	28,107

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Millions of yen)

	For the six months ended June 30, 2015	For the six months ended June 30, 2016
Profit	20,699	28,388
Other comprehensive income		
Valuation difference on available-for-sale securities	1,501	(8,717)
Deferred gains or losses on hedges	(395)	(736)
Foreign currency translation adjustment	(4,759)	(50,875)
Remeasurements of defined benefit plans	214	304
Share of other comprehensive income of entities accounted for using equity method	(2,304)	-
Total other comprehensive income	(5,743)	(60,024)
Comprehensive income	14,956	(31,636)
Comprehensive income attributable to		
Owners of parent	14,454	(29,272)
Non-controlling interests	502	(2,364)

(3) Notes on Quarterly Consolidated Financial Statements
 (Notes on Going Concern Assumption)
 None

(Notes in the Case of Significant Changes in Shareholders' Equity)
 None

(Segment Information, etc.)

Segment Information

I. For the six months ended June 30, 2015 (January 1, 2015 to June 30, 2015)

1. Information on net sales and the amounts of income by reportable segment

(Millions of yen)

	Reportable segment				Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Tires	Sports	Industrial and Other Products	Total		
Net sales						
Net sales to outside customers	332,163	37,845	18,875	388,883	-	388,883
Inter-segment net sales or transfers	5	153	16	174	(174)	-
Total	332,168	37,998	18,891	389,057	(174)	388,883
Segment income	27,523	897	824	29,244	9	29,253

(Notes)

- The adjustment for segment income of ¥9 million includes the amounts that offset inter-segment transactions.
- For the calculation of segment income, necessary adjustments were made to the operating income that is posted in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss of noncurrent assets or goodwill, etc. by reportable segment

(Significant impairment loss of noncurrent assets)

Information is omitted since it is immaterial.

(Significant changes in amount of goodwill)

In the "Industrial and Other Products" segment, following the acquisition of Lonstroff Holding AG, this company and Lonstroff AG, its wholly owned subsidiary, has been included in the scope of consolidation. The increased amount of goodwill resulting from the relevant event was ¥4,812 million for the six months ended June 30, 2015.

II. For the six months ended June 30, 2016 (January 1, 2016 to June 30, 2016)

1. Information on net sales and the amounts of income by reportable segment

(Millions of yen)

	Reportable segment				Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Tires	Sports	Industrial and Other Products	Total		
Net sales						
Net sales to outside customers	320,463	36,439	16,664	373,566	-	373,566
Inter-segment net sales or transfers	14	156	7	177	(177)	-
Total	320,477	36,595	16,671	373,743	(177)	373,566
Segment income	27,445	2,599	731	30,775	7	30,782

(Notes)

- The adjustment for segment income of ¥7 million includes the amounts that offset inter-segment transactions.
- For the calculation of segment income, necessary adjustments were made to the operating income that is posted

in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss of noncurrent assets or goodwill, etc. by reportable segment
Information is omitted since it is immaterial.