Consolidated Financial Results
for the Fiscal Year Ended December 31, 2016
[IFRS]

February 14, 2017

Company name : Sumitomo Rubber Industries, Ltd.
Stock exchange listing : Tokyo Stock Exchange
Code number : 5110
URL : http://www.srigroup.co.jp/
Representative : Ikuji Ikeda, President and CEO, Representative Director
Contact : Takashi Kono, Executive Officer and General Manager, Financial Department
Phone : +81-78-265-3000
Scheduled date of ordinary shareholders' meeting : March 29, 2017
Scheduled date of commencing dividend payments : March 30, 2017
Scheduled date of filing annual securities report : March 30, 2017
Supplementary documents for financial results : Yes
Financial results briefing session : Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

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

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Comprehensive income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2016	756,696	(5.2)	73,284	(17.8)	70,093	(21.2)	42,271	(42.8)	41,364	(42.5)	21,812	(44.2)
December 31, 2015	798,483	-	89,173	-	88,951	-	73,864	-	71,976	-	39,083	-

	Basic profit per share	Diluted profit per share	Profit to equity attributable to owners of parent ratio	Profit before tax to total assets ratio	Operating profit to sales revenue ratio
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2016	157.69	-	9.7	7.7	9.7
December 31, 2015	274.38	-	17.5	9.4	11.2

(Reference) Equity in earnings of affiliates: Fiscal year ended December 31, 2016 : ¥ 57 million
Fiscal year ended December 31, 2015 : ¥ 5,613 million

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of parent	Ratio of equity attributable to owners of parent	Equity attributable to owners of parent per share
Fiscal year ended	Million yen	Million yen	Million yen	%	Yen
December 31, 2016	897,634	459,541	429,316	47.8	1,636.63
December 31, 2015	932,432	451,837	422,287	45.3	1,609.83

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of fiscal year
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2016	128,190	(42,144)	(71,055)	66,492
December 31, 2015	86,864	(30,672)	(52,707)	53,556

2. Dividends

	Annual dividends					Total dividends (Annual)	Payout ratio (Consolidated)	Dividends on equity attributable to owners of parent (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31, 2015	-	25.00	-	30.00	55.00	14,428	20.0	3.5
December 31, 2016	-	30.00	-	25.00	55.00	14,427	34.9	3.4
Fiscal year ending December 31, 2017 (Forecast)	-	25.00	-	30.00	55.00		43.7	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	385,000	-	15,000	-	14,300	-	10,300	-	10,000	-	38.12
Full year	850,000	12.3	50,000	(31.8)	48,600	(30.7)	34,000	(19.6)	33,000	(20.2)	125.80

Notes:

(1) Changes in Significant Subsidiaries during the Fiscal Year Ended December 31, 2016
(changes in specified subsidiaries resulting in changes in scope of consolidation) : None

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting policies required by IFRS : None
2) Changes in accounting policies other than 1) : None
3) Changes in accounting estimates : None

(3) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury stock)
December 31, 2016 : 263,043,057 shares
December 31, 2015 : 263,043,057 shares
2) Total number of treasury stock at the end of the period
December 31, 2016 : 726,168 shares
December 31, 2015 : 724,513 shares
3) Average number of shares during the period
Fiscal year ended December 31, 2016 : 262,317,957 shares
Fiscal year ended December 31, 2015 : 262,320,318 shares

(Reference) Summary of Non-Consolidated Financial results

Non-Consolidated Financial Results for Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2016	431,200	(4.8)	35,783	53.1	53,193	80.9	53,178	19.0
December 31, 2015	452,906	(2.3)	23,375	(31.0)	29,397	(31.4)	44,689	39.6

	Net income per share	Diluted net income per share
Fiscal year ended	Yen	Yen
December 31, 2016	202.72	-
December 31, 2015	170.36	-

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2016	665,136	309,008	46.5	1,178.00
December 31, 2015	683,685	277,168	40.5	1,056.61

(Reference) Equity: As of December 31, 2016 : ¥ 309,008 million
As of December 31, 2015 : ¥ 277,168 million

* Presentation regarding the implementation status of auditing procedures

These financial results are outside the scope of the auditing procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, auditing procedures for the 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 do not constitute any promises by the Company that they will be realized. 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 2 of the attached documents of the Consolidated Financial Results for the Period under Review, “1. Analysis of Business Performance and Financial Position, (1) Analysis of Business Performance.”

The Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016. Financial figures for the previous fiscal year have been presented in compliance with IFRS. For differences between IFRS and Japanese GAAP concerning financial figures, please refer to the attached documents (5) Notes to Consolidated Financial Statements (First-time Adoption) under 5. Consolidated Financial Statements on page 35.

With regard to financial figures in the summary of non-consolidated financial results, Japanese GAAP has been applied.

Table of Contents

1. Analysis of Operating Results and Financial Position

The "Group" (the company and its subsidiaries) 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 for comparisons are disclosed based on IFRS.

(1) Operating Results

1) Operating Results for the Fiscal Year under review

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016	Increase (Decrease)
	Millions of yen	Millions of yen	%
Sales revenue	798,483	756,696	(5.2)
Tires	682,220	648,445	(5.0)
Sports	77,778	72,772	(6.4)
Industrial and Other Products	38,485	35,479	(7.8)
Business profit	78,853	74,916	(5.0)
Tires	74,021	67,924	(8.2)
Sports	2,634	4,303	63.3
Industrial and Other Products	2,110	2,673	26.7
Adjustments	88	16	-
Operating profit	89,173	73,284	(17.8)
Profit	88,951	70,093	(21.2)
Profit attributable to owners of parent	71,976	41,364	(42.5)

(Note) "Business profit" is "Sales revenue" subtracted by "Cost of sales" and "Selling, general and administrative expenses."

Foreign exchange rates applied

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016	Increase (Decrease)
	Yen	Yen	Yen
Yen / U.S. Dollar	121	109	(12)
Yen / Euro	134	120	(14)

During the fiscal year ended December 31, 2016, the U.S. economy saw continued expansion, and a gradual economic growth was seen in the European economy as well, albeit at different paces among countries and regions. In China, its economic growth was slowing down, but maintained a high growth rate. The Indian economy also showed continued solid growth. Meanwhile, in countries such as Russia and Brazil, their economies continued to be stagnant. In addition to further increase in geopolitical risks around the world, growing uncertainty about the European economy due to Britain's decision to leave the EU and rising concern about the future policies in light of the U.S. presidential election results led to the weakening of the overall global economy.

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

Looking at the business environment surrounding the Sumitomo Rubber Group, natural rubber prices and the 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.

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. Specifically, we endeavored to achieve greater sales of high-value-added products, including fuel-efficient tires, while proactively entering new markets and business fields.

As a result, the Group's consolidated financial results for fiscal 2016 showed that sales revenue decreased 5.2% from the previous fiscal year to ¥756,696 million, business profit decreased 5.0% to ¥74,916 million, operating profit decreased 17.8% to ¥73,284 million, and profit before tax decreased 21.2% to ¥70,093 million. In addition, profit attributable to owners of parent decreased 42.5% from the previous fiscal year to ¥41,364 million, and thereby, revenue and profit in the financial results for the current fiscal year decreased from the previous fiscal year (comparison based on IFRS), due mainly to the effect of yen appreciation. Figures of operating profit and profit in the financial results for the previous fiscal year under IFRS increased from those under Japanese GAAP, due to the recording of extraordinary income resulting from the accounting treatment of dissolution of the alliance with The Goodyear Tire & Rubber Company.

Associated with the voluntary adoption of IFRS from the current fiscal year, the Group discloses business profit as well as reporting figures in the consolidated financial statements. This new management indicator is intended to evaluate performance of each business segment on an ongoing basis, aiming at the Group’s sustainable growth in the medium and long term. The Group also believes that the indicator is a useful information for users of the consolidated financial statements to assess the Group’s operating results.

Under Japanese GAAP, the current fiscal year’s net sales decreased 5.1% from the previous fiscal year to ¥804,964 million, operating income decreased 3.6% to ¥74,325 million, ordinary income decreased 10.0% to ¥70,994 million, income before income taxes increased 7.3% to ¥79,356 million, and profit attributable to owners of parent decreased 10.6% to ¥49,937 million. Significant differences between the consolidated financial statements for the current fiscal year under Japanese GAAP and IFRS are as follows.

	IFRS	Japanese GAAP	Increase (Decrease)
	Millions of Yen	Millions of Yen	Millions of Yen
Sales revenue	756,696	804,964	(48,268)
Business profit	74,916	74,325	591
Profit before tax	70,093	79,356	(9,263)
Profit attributable to owners of parent	41,364	49,937	(8,573)

(Notes) 1. Significant differences in sales revenue are due to the direct deduction of items such as sales rebate from sales revenue.

2. Business profit under Japanese GAAP presents the figures of operating profit. Significant differences in business profit are due to the cessation of amortization of goodwill and the reconciliation of retirement benefit expenses.

3. Significant differences in profit before tax are due to the recognition of gain on sales of investment securities related to equity instruments through other comprehensive income and changes of amount in gain on liquidation of subsidiaries and associates since the cumulative currency translation differences of foreign operations were deemed to be zero at the date of transition to IFRS following the first-time adoption of IFRS.

Differences between IFRS and Japanese GAAP as of the date of transition to IFRS and for the previous fiscal year are stated in "5. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (First-time Adoption).”

2) Overview of Results by Segment

Tire Business

Sales revenue in the tire business decreased 5.0% from the previous fiscal year to ¥648,445 million, and business profit decreased 8.2% to ¥67,924 million.

In the domestic replacement market, sales revenue exceeded the level of the previous fiscal year. With respect to summer tires, we expanded sales mainly of the "ENASAVE" series, long-lasting and fuel-efficient tires 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. We also expand sales of high-performance tires including our premium product "AZENIS FK453" while making efforts to enhance brand awareness, such as through co-sponsoring "Red Bull Air Race Chiba 2016" under the Falken brand. With respect to winter tires, shipments showed solid growth due to the nationwide early launch of "WINTER MAXX 02" studless tires, which provide the best on-ice performance in Dunlop history and maintain a high degree of both "long-lasting effectiveness" and "long life performance" and snow falls in November in East Japan including the Tokyo metropolitan area.

In the domestic original equipment market, sales revenue fell below the level of the previous fiscal year, as automobile production volume fell below the level 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 volume increased in North America and Europe, as well as other regions such as the Middle East, Africa, and Central and South America; however, sales revenue fell below the level of the previous fiscal year due to the effect of yen appreciation.

In the overseas original equipment market, 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 mainly for overseas automakers, and therefore sales volume exceeded the level of the previous fiscal year. However, sales revenue fell below the level of the previous fiscal year due to the effect of yen appreciation.

As a result, sales revenue in the tire business decreased from the same period of the previous fiscal year.

Sports Business

Sales revenue in the sports business decreased 6.4% from the previous fiscal year to ¥72,772 million, and business profit increased 63.3% to ¥4,303 million.

In the golf goods market in Japan, our flagship "XXIO 9" golf clubs steadily increased its sales, even though the number of golf course visitors declined from the level of the previous fiscal year, and we won the top share (*) again in the current period in terms of sales of golf clubs and golf balls. However, sales revenue fell below the level of the previous fiscal year in the golf goods market in Japan as a whole, partly because golf apparel business saw decreased revenue due to switching to a licensing business with DESCENTE LTD. in the current fiscal year.

In the tennis goods market in Japan, we earned the top share (*) in terms of sales of tennis rackets. However, sales revenue fell below the level of the previous fiscal year due to a sluggish growth of the tennis goods market.

In overseas golf goods markets, we made aggressive efforts to globally expand sales of our brands "SRIXON," "XXIO," and "Cleveland Golf." However, due to the effect of yen appreciation, sales revenue fell below the level of the previous fiscal year.

As a result, sales revenue in the sports business fell below the level of the previous fiscal year, while business profit increased mainly due to a decrease in purchasing costs resulting from yen appreciation.

(*) Market share in amount according to a survey by Yano Research Institute Ltd.

Industrial and Other Products Business

Sales revenue in the industrial and other products business decreased 7.8% from the same period of the previous fiscal year to ¥35,479 million, and business profit increased 26.7% to ¥2,673 million.

In the vibration control business, under the "MIRAIE" brand, a series of vibration control unit for housing, sales have grown steadily with sales volume reaching our annual target of 6,000 units. None of the houses equipped with the "MIRAIE" unit collapsed during the Kumamoto earthquake, which lead to receiving high reputation from our customers.

As for medical rubber parts, we expanded global development mainly in Europe with Swiss-based Lonstroff AG as the core production base.

Meanwhile, precision rubber parts for printers and photocopiers saw decreased revenue due to the effect of foreign exchange in addition to production cutback due to deteriorating market conditions of printers and photocopiers.

Infrastructure-based products and materials such as sports facilities and civil works and marine facilities were weak mainly due to delay in completion of facilities.

As a result, sales revenue in the industrial and other products business fell below the level of the previous fiscal year. However, profit increased mainly due to reduction of expenses.

3) Business Forecast for Fiscal 2017

In fiscal 2017, the Group will engage in the efforts to be described below in "(3) Issues to Be Addressed" under Section 3. Business Policies, while paying attention to the risk factors stated in "(4) Business Risks" under Section 1. Analysis of Operating Results and Financial Position.

The current estimates of the Group's consolidated business performance for the fiscal year ending December 31, 2017, are as follows.

	Full year	Increase (Decrease)	First half	Increase (Decrease)
	Millions of yen	%	Millions of yen	%
Sales revenue	850,000	12.3	385,000	-
Tires	732,000	12.9	330,000	-
Sports	80,000	9.9	38,000	-
Industrial and Other Products	38,000	7.1	17,000	-
Business profit	50,000	(33.3)	15,000	-
Tires	44,000	(35.2)	12,500	-
Sports	3,000	(30.3)	1,500	-
Industrial and Other Products	3,000	12.3	1,000	-
Adjustments	-	-	-	-
Operating profit	50,000	(31.8)	15,000	-
Profit before tax	48,600	(30.7)	14,300	-
Profit attributable to owners of parent	33,000	(20.2)	10,000	-

(Note) "Business profit" is "Sales revenue" subtracted by "Cost of sales" and "Selling, general and administrative expenses."

Foreign exchange rates applied

	Full year	Increase (Decrease)
	Yen	Yen
Yen / U.S. Dollar	110	1
Yen / Euro	120	-

(2) Financial Position

	As of December 31, 2015	As of December 31, 2016	Increase (Decrease)
	Millions of yen	Millions of yen	Millions of yen
Total assets	932,432	897,634	(34,798)
Total equity	451,837	459,541	7,704
Total equity attributable to owners of parent	422,287	429,316	7,029
Total equity attributable to owners of parent ratio (%)	45.3	47.8	2.5
ROE (%)	17.5	9.7	(7.8)
ROA (%)	8.4	8.2	(0.2)
Interest-bearing debt	261,867	204,218	(57,649)
D/E ratio	0.6	0.5	(0.1)
Equity attributable to owners of parent per share	1,609.83 yen	1,636.63 yen	26.8 yen

(Notes) The ROA figures are calculated using consolidated operating profit.

(i) Assets, Liabilities and Equities

Total assets as of December 31, 2016 decreased ¥34,798 million from the end of the previous fiscal year to ¥897,634 million. Total current assets decreased ¥8,802 million, mainly due to a decrease in trade and other receivables and inventories. Total non-current assets decreased ¥25,996 million, mainly as a result of the effect of yen appreciation, in addition to a decrease in investment securities due to the sale of the shares of The Goodyear Tire & Rubber Company associated with the dissolution of alliance.

Total liabilities as of December 31, 2016 decreased ¥42,502 million from the end of the previous fiscal year to ¥438,093 million. Interest-bearing debt decreased ¥57,649 million to ¥204,218 million.

Total equity as of December 31, 2016 amounted to ¥459,541 million, of which equity attributable to owners of parent was ¥429,316 million. Equity attributable to owners of parent ratio was 47.8%, and equity attributable to owners of parent per share was ¥1,636.63.

(ii) Cash Flows

Net cash provided by operating activities amounted to ¥128,190 million, the increase being primarily due to the recording of profit before tax of ¥70,093 million, recording of depreciation and amortization of ¥51,248 million, a decrease in inventories of ¥3,802 million and a decrease in trade and other receivables of ¥4,518 million, although there were cash outflows, including a decrease in trade and other payables of ¥1,190 million.

Net cash used in investing activities amounted to ¥42,144, million, chiefly due to the purchase of property, plant and equipment of ¥48,222 million to increase production capacity, despite the proceeds from the dissolution of the alliance agreement and joint ventures with The Goodyear Tire & Rubber Company of ¥10,353 million and other factors.

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

Cash flows from financing activities included outflows of ¥54,447 million due to repayments of short-term loans payable and long-term debt as well as redemption of bonds and ¥15,739 million for the payment of cash dividends. As a result, cash and cash equivalents at the end of the fiscal year under review were ¥66,492 million after reflecting the effect of exchange rate change on cash and cash equivalents.

Cash Flow Indicators

	As of December 31, 2015	As of December 31, 2016
Equity attributable to owners of parent ratio (%)	45.3	47.8
Market value-based equity attributable to owners of parent ratio (%)	44.5	54.2
Interest-bearing debt to cash flow ratio (year)	3.0	1.6
Interest coverage ratio (times)	20.2	37.2

(Method of calculation)

・Equity attributable to owners of parent ratio: Equity attributable to owners of parent / Total assets

・Market value-based equity attributable to owners of parent ratio: Market capitalization / Total assets

・Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flow

・Interest coverage ratio: Operating cash flow / Interest expense

(Notes)

1. All of the above cash flow indicators are calculated on a consolidated basis.
2. Market capitalization is calculated by multiplying the total number of shares issued at year-end (excluding treasury stock) by the closing stock price at year-end.
3. Interest-bearing debt refers to all the liabilities stated on the consolidated statement of financial position for which interest is paid.
4. Operating cash flow refers to the net cash provided by operating activities as stated in the consolidated statements of cash flows.
5. Interest expense is equal to the interest payments stated in the consolidated statements of cash flows.
6. As the Group has the date of transition to IFRS of January 1, 2015 and has adopted IFRS from the fiscal year ended December 31, 2016, figures for the fiscal year ended on or before December 31, 2014 are not presented.

(3) Basic Policy on Profit Distribution and Dividends for Fiscal 2016 and 2017

Sumitomo Rubber Industries, Ltd. 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 internal reserves, the Company maintains a basic policy of steadily rewarding shareholders over the long term.

Regarding retained earnings, the Company intends to utilize them for capital investment and research and development to expand profit-earning bases for future growth.

For fiscal 2016, we intend to pay a year-end dividend of ¥25 per share. Combined with an interim dividend of ¥30 per share, which has already been paid, the annual cash dividends per share for fiscal 2016 will be ¥55.

For fiscal 2017, we plan to pay an annual dividend of ¥55 per share, consisting of interim dividends per share of ¥25 and year-end dividends per share of ¥30.

(4) Business Risks

The Group has identified the following key risk factors that may affect its business performance and financial position.

Risk factors relating to future business results were determined based on information available to management as of the end of the fiscal year under review.

The Group recognizes that such risks may occur, and it strives to address them accordingly.

1) 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 revenue ratio from 25.2% in fiscal 2001 (amount in Japanese GAAP) to 59.4% in fiscal 2016 (amount in IFRS), the possibility exists that its results may be further affected by exchange rate fluctuations. The 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.

2) Change in raw material prices

The 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.

3) Changes in interest rates

Promoting the reduction of interest-bearing debt to improve its financial standing, the Group also implements countermeasures to minimize the risk of changes in interest rates by using diversified financing methods and interest rate swaps. Despite these efforts, the Group's operating results and financial position may be affected in the event of rising fund procurement costs due to an increase in interest rates in the medium and long term.

4) Product quality

In accordance with prescribed quality standards, the 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.

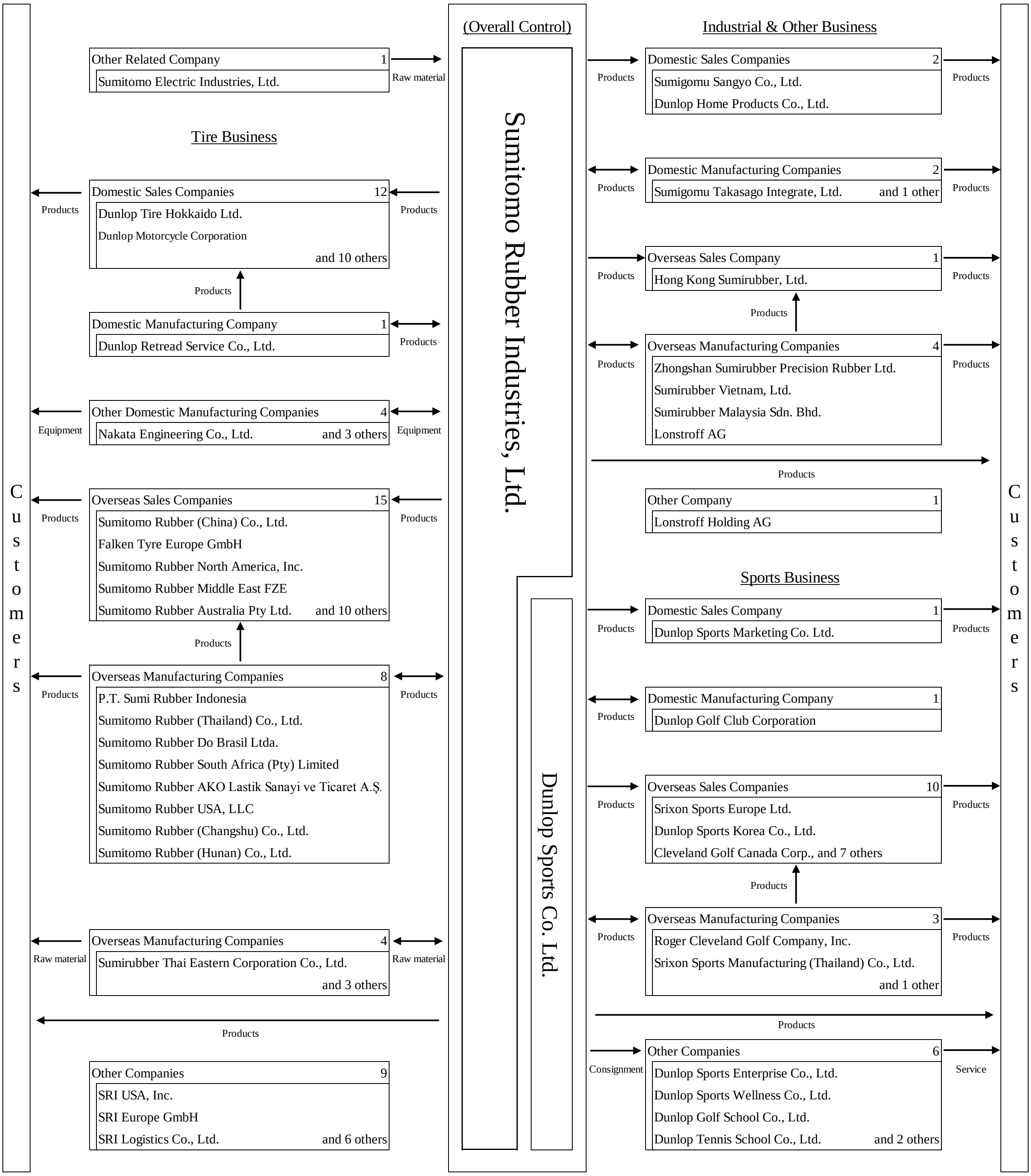
To offset the possibility of any claims for damages resulting from defective products, the Group retains appropriate indemnity insurance. Despite this initiative, there is the possibility that a claim may occur that cannot be compensated by insurance. Furthermore, costs associated with the resolution 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.

5) Disasters

Concentrating on Japan and other Asian countries, the 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.

2. Status of the Business Group

The Group consists of Sumitomo Rubber Industries, Ltd., and its 79 subsidiaries and 6 affiliates and one other associate (Sumitomo Electric Industries, Ltd.), and operates the Tire business, the Sports business and the Industrial and Other Products business, as well as their ancillary and related services in domestic and overseas markets.



3. Business Policies

(1) Basic Business Policy

The Group makes it a basic company policy to continue to enhance its corporate value as a promising and reliable global company for the benefit of all stakeholders, including shareholders, contributing widely to local communities and society and continuously creating new value to ensure living that is comfortable and attractive.

The Group's corporate philosophy underlying its corporate management is as follows.

- To respond to our customers' demands, striving to provide better products with a strong sense of responsibility and a solid grounding in the principle of "genchi-genbutsu" (seeing with one's own eyes).
- To pioneer a new era by adapting to the times flexibly while maintaining a solid management foundation.
- To actively cultivate new market needs by enhancing our R&D capabilities and advanced proprietary technology.
- To actively pursue environmentally responsible business operations and the development of environmentally friendly technologies.

(2) Medium- to Long-Term Business Strategy and Target Indicators

The Group already formulated and publicly declared the long-term "VISION 2020" of which sets the target for fiscal 2020. To achieve the vision's targets, we will not only continue efforts to realize "the world's best onsite operational skills, research-and-development capabilities and technical skills" and "industry-leading earnings power" but also carry out initiatives aimed at driving growth in line with three key themes: NEXT Market Expansion, NEXT Technology Evolution and NEXT Category Innovation, thereby aiming to continually offer "the world's best value" in various business fields.

Specifically, our numerical targets for fiscal 2020 include consolidated net sales of ¥1,200 billion and a consolidated operating profit ratio of 12% or greater. Along with the vision's action image, "Go for NEXT", we will pursue intensive efforts to achieve these targets.

Specific management strategies toward the long-term vision include expansion of sales in growth markets, centering on emerging nations; further advancement and utilization of simulation technologies; enlargement of applications of the new, next-generation tire manufacturing system; expansion of environment-friendly products; acquisition of new customers; penetration of vibration control technologies; and further development of the healthcare business. By investing managerial resources in these strategies, we aim to realize the Group's sustainable growth and maximize its corporate value.

The Company has adopted IFRS in place of Japanese GAAP from the current fiscal year, but our numerical targets under IFRS are currently being determined, taking into account the changes in business environments from when the vision was made in 2012.

(3) Issues to Be Addressed

With regard to the outlook of the global economy, there was a growing sense of uncertainty about the future due to factors including the effects of Britain's decision to leave the EU on Britain and the EU as well as the global effects of the protectionist policies by the new U.S administration. The economic uncertainty is expected to further increase amid concerns about rising prices of crude oil and natural rubber, foreign exchange movement, 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.

To address these business environments, the Group will carry out the incentives as detailed below, while taking into account the risk factors described in "(4) Business Risks" under Section 1. Analysis of Operating Results and Financial Position.

Tire Business

In the domestic market, we will continuously introduce new products to further increase our presence in the fuel-efficient tire field. Under the Dunlop brand, in February 2017, we launched the "LE MANS V" in 61 size equipped with our new technology, "SHINOBI TECHNOLOGY" and "SILENT CORE," which brings the feel of comfort with the dramatically improved ride and quietness quality. In March 2017, we will also launch the "ENASAVE SP LT50," fuel-efficient tires for small trucks and buses whose life performance has been improved by 1.4 times compared to the existing products.

In overseas markets, we will continue to seek sales expansion in emerging nations, as well as make efforts to increase the presence of the Falken brand in the U.K. market by leveraging Micheldever Group Ltd., a British tire sales company, the acquisition of all the shares which we announced on January 5, 2017, and completed on February 10, 2017. Meanwhile, we will proactively promote sales expansion in Europe and the U.S., where we have a greater degree of management flexibility. In addition, we will promote the offering of products that meet tighter environmental regulations according to regional requirements in the global markets.

In terms of development, we launched the "ENASAVE NEXT II," our flagship fuel-efficient tire of the ENASAVE series, in November 2016. This new product has achieved the best grade "AAA-a" in the labeling system and significantly improved wear resistance by employing our ADVANCED 4D NANO DESIGN New Materials Development Technology for the first time. Further, we will promote the practical application of "GYROBLADE" airless tire technology that prevents flat tires from occurring and "CORESEAL" tire sealant technology that prevents air leakage. Through these efforts, we will continue to launch attractive products using our original advanced technologies.

In terms of production, we will increase our production capacity to meet growing sales in the global market. Furthermore, we will make investments to increase capacity of the plant in the U.S., which we acquired in October 2015, the South African factory, and the Brazilian factory, in addition to the Turkish factory as an important location for supplying tires to the European, Russian, Middle East and African markets, and will continue to ensure optimum supply-demand conditions for sustainable growth.

Sports Business

For golf goods, we will continue to win the top share in the domestic market by promoting sales of our flagship golf club "XXIO 9," as well as the "SRIXON" and "Cleveland Golf" brands. For golf balls, we will progressively introduce new products including the premium "XXIO" brand and the "SRIXON" brand. In overseas markets as well, we will continue to engage in sales expansion of the "XXIO," "SRIXON," and "Cleveland Golf" golf clubs and increase the share of "SRIXON" golf balls.

For tennis goods, we will launch new tennis rackets of the "SRIXON" brand, with which we signed a tennis goods contract with Agnieszka Radwanska, the world number three women's tennis player (*). We will also make efforts to expand sales, such as organizing sales campaigns of tennis balls.

For the wellness business, we will continue to expand the opening of new compact gyms.

* World ranking as of December 26, 2016

Industrial and Other Products Business

In the business fields of precision rubber parts for printers and photocopiers, we will cultivate new markets and new customers.

In the vibration control business, we will make efforts to further develop a line of products focusing on the "MIRAIE" brand and provide safe and high-quality products.

For the medical rubber parts, we will pursue further global business development centered on the European market.

For the infrastructure-based business, we will deal with port improvement facilities of which we have already received orders in association with demand stemming from the Tokyo Olympics as well as facilities which will materialize from now on in order to expand sales.

We will continue to develop and supply high-value-added products in terms of quality and function of all products to seek further business growth.

4. Basic Approach to the Selection of Accounting Standards

The Group has adopted IFRS from the current fiscal year ended December 31, 2016, with a view to enhancing the international comparability of financial statements in capital markets and improving the quality of business management of the Group companies.

5. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of yen)

	Date of transition to IFRS As of January 1, 2015	As of December 31, 2015	As of December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	53,653	53,556	66,492
Trade and other receivables	212,395	189,940	182,855
Other financial assets	3,919	5,470	3,821
Inventories	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	362,434	371,130	363,293
Goodwill	5,895	15,623	15,351
Intangible assets	15,332	20,793	21,445
Investments accounted for using equity method	47,742	4,045	4,071
Other financial assets	54,146	56,743	41,239
Net defined benefit asset	22,356	24,167	20,635
Deferred tax assets	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)

	Date of transition to IFRS As of January 1, 2015	As of December 31, 2015	As of December 31, 2016
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and loans payable	113,299	125,173	77,056
Trade and other payables	128,798	119,763	120,236
Other financial liabilities	2,415	2,352	2,624
Income tax payable	12,714	3,517	9,960
Provisions	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	178,357	130,877	121,556
Other financial liabilities	5,389	5,539	4,577
Net defined benefit liability	18,140	22,821	22,188
Provisions	1,039	1,214	1,197
Deferred tax liabilities	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	42,658	42,658	42,658
Capital surplus	37,789	37,916	37,937
Retained earnings	304,150	360,143	389,970
Treasury stock	(559)	(567)	(570)
Other components of equity	14,621	(17,863)	(40,679)
Total equity attributable to owners of parent	398,659	422,287	429,316
Non-controlling interest	31,433	29,550	30,225
Total equity	430,092	451,837	459,541
Total liabilities and equity	954,430	932,432	897,634

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Sales revenue	798,483	756,696
Cost of sales	(528,393)	(499,650)
Gross profit	270,090	257,046
Selling, general and administrative expenses	(191,237)	(182,130)
Other income	13,487	3,930
Other expenses	(3,167)	(5,562)
Operating profit	89,173	73,284
Financial income	2,604	3,168
Financial expenses	(8,439)	(6,416)
Equity in earnings of affiliates	5,613	57
Profit before tax	88,951	70,093
Income tax expenses	(15,087)	(27,822)
Profit	73,864	42,271
Profit attributable to:		
Owners of parent	71,976	41,364
Non-controlling interests	1,888	907
Profit	73,864	42,271
Profit per share		
Basic profit per share (Yen)	274.38	157.69

Consolidated Statement of Comprehensive Income

(Millions of yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Profit	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	477	(84)
Remeasurements of defined benefit plan	1,216	(1,471)
Share of other comprehensive income of associates accounted for using the equity method	(2,803)	-
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	(113)	312
Currency translation differences of foreign operations	(33,557)	(19,216)
Share of other comprehensive income of associates accounted for using the equity method	(1)	-
Other comprehensive income, net of tax	(34,781)	(20,459)
Comprehensive income	39,083	21,812
Comprehensive income attributable to:		
Owners of parent	38,444	22,669
Non-controlling interests	639	(857)
Comprehensive income	39,083	21,812

(3) Consolidated Statement of Changes in Equity
For the fiscal year ended December 31, 2015

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital Stock	Capital surplus	Retained earnings	Treasury stock	Currency translation differences of foreign operations	Cash flow hedges
Balance as of January 1, 2015	42,658	37,789	304,150	(559)	-	42
Profit			71,976			
Other comprehensive income					(32,266)	(113)
Total comprehensive income	-	-	71,976	-	(32,266)	(113)
Purchase of treasury stock				(8)		
Disposal of treasury stock		0		0		
Dividends			(14,428)			
Changes in ownership interests in subsidiaries that do not result in loss of control		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)

	Equity attributable to owners of parent				Non-controlling interests	Total Equity
	Other components of equity			Total		
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total			
Balance as of January 1, 2015	14,579	-	14,621	398,659	31,433	430,092
Profit			-	71,976	1,888	73,864
Other comprehensive income	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			-	(8)		(8)
Disposal of treasury stock			-	0		0
Dividends			-	(14,428)	(3,385)	(17,813)
Changes in ownership interests in subsidiaries that do not result in loss of control			-	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

For the fiscal year ended December 31, 2016

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital Stock	Capital surplus	Retained earnings	Treasury stock	Currency translation differences of foreign operations	Cash flow hedges
Balance as of January 1, 2016	42,658	37,916	360,143	(567)	(32,266)	(578)
Profit			41,364			
Other comprehensive income					(17,391)	312
Total comprehensive income	-	-	41,364	-	(17,391)	312
Purchase of treasury stock				(3)		
Disposal of treasury stock		0		0		
Dividends			(15,739)			
Changes in ownership interests in subsidiaries that do not result in 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)

	Equity attributable to owners of parent				Non-controlling interests	Total Equity
	Other components of equity					
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total	Total		
Balance as of January 1, 2016	14,981	-	(17,863)	422,287	29,550	451,837
Profit			-	41,364	907	42,271
Other comprehensive income	(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			-	(3)		(3)
Disposal of treasury stock			-	0		0
Dividends			-	(15,739)	(1,314)	(17,053)
Changes in ownership interests in subsidiaries that do not result in 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

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 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 expenses 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, plants 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	(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)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
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	(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 change 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	53,653	53,556
Cash and cash equivalents at the end of current period	53,556	66,492

(5) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Basis of Presentation of Consolidated Financial Statements)

1. Reporting Entity

Sumitomo Rubber Industries, Ltd. is an entity located in Japan. The consolidated financial statements of the Company have a fiscal year-end date of December 31, 2016 and consist of the financial statements of the Group as well as its associates. The details of the principal businesses of the Group are described in "Segment Information."

2. Basis of Preparation

(1) Compliance with IFRS

As the Group's consolidated financial statements satisfy all of the requirements concerning the "Designated International Accounting Standards Specified Company" prescribed in Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976), they are prepared in accordance with IFRS under the provisions of Article 93 of the Ordinance.

The Group has adopted IFRS from the current fiscal year (from January 1, 2016 to December 31, 2016). Therefore, the consolidated financial statements for the current fiscal year are the first to be prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2015. In the transition to IFRS, the Group has applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). How the transition to IFRS affected the financial position, operating results, and cash flows of the Group for the date of transition and the year ended December 31, 2015 is stated in "First-time Adoption."

(2) Basis of measurement

Except for specified financial instruments measured at fair value, the consolidated financial statements are prepared on the historical cost basis, as stated in "3. Significant Accounting Policies."

(3) Presentation currency and units

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. Figures less than one million yen are rounded to the nearest million yen.

(4) Early adoption of new accounting standards

The Group complies with IFRS effective December 31, 2016 and has early adopted IFRS 9, "Financial Instruments" (revised in July 2014).

3. Significant Accounting Policies

Unless otherwise indicated, accounting policies stated below have been consistently applied to all the terms stated in the consolidated financial statements, including the consolidated statements of financial position at the date of transition to IFRS.

(1) Basis of consolidation

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group determines that it controls an entity, if the Group has exposures or rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over such entity. The financial statements of a subsidiary are consolidated from the date the Group obtains control over the subsidiary to the date the control is lost.

All inter-Group balances of receivables and payables, inter-Group transactions, and unrealized gains and losses arising from inter-Group transactions are eliminated when preparing consolidated financial statements.

Comprehensive income of subsidiaries is allocated to the equity attributable to the owners of parent and non-controlling interests even if the non-controlling interests result in a deficit balance.

For subsidiaries that have a fiscal closing date that differs from that of the parent, a trial financial statement is created on the consolidated fiscal closing date to improve the accuracy of consolidated financial information disclosed.

If there is any change in the Group's interest in a subsidiary, but the parent retains control over the subsidiary, such transaction is accounted for as an equity transaction. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration received is recognized directly in equity as the equity attributable to the owners of parent.

B. Affiliates

Affiliates are those entities for which the Group has significant influence on their financial and operating policies but does not have control or joint control over them. Affiliates are accounted for using the equity method from the date the Group gains significant influence until the date it loses that influence.

(2) Business combinations

The Group applies the acquisition method for the accounting treatment of business combinations. Identifiable assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are measured at their acquisition-date fair value. Expenses incurred in relation to the acquisition are recognized as expenses when they are incurred. Non-controlling interests are recognized separately from the Group's equity. On an acquisition-by-acquisition basis, a measurement basis of non-controlling interests is selected from either fair value or proportionate share of non-controlling interests in the net amount of the acquiree's identifiable assets and liabilities.

If the sum of the consideration transferred, the amount of non-controlling interests in the acquire, and the fair value of equity interests in the acquiree held previously by the Group exceeds the net amount of identifiable assets and liabilities at the acquisition date, goodwill is measured at the excess amount.

If such amount is less than the net amount of identifiable assets and liabilities acquired in the case of 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" ("IFRS 3"), retrospectively to business combinations recognized before the transition date.

(3) Foreign currency translation

A. Foreign currency transactions

The financial statements of each company of the Group are prepared using the functional currency, which is the currency of the primary economic environment in which the company operates.

A foreign currency transaction is translated into the functional currency of each company of the Group using the exchange rate prevailing at the date of the transaction or an approximation of the rate.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into the functional currency at the exchange rate prevailing at the end of the reporting period, and differences arising from the translation or settlement are recognized as profit or loss; provided, however, that translation differences arising from financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

B. Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the end of the reporting period. Revenue and expenses are translated into Japanese yen at the average exchange rate for the fiscal year unless exchange rates during the fiscal year significantly fluctuate. Exchange differences arising from the translation of financial statements of foreign operations are recognized in other comprehensive income, and the differences are included in other components of equity as "foreign currency translation adjustments of foreign operations."

The Group applies the exemptions under IFRS 1, and the cumulative translation differences from foreign operations as of the transition date are transferred to retained earnings.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, readily available deposits, and any short-term liquid investments with a maturity not exceeding three months at the time of purchase for which the value is not subject to significant fluctuation risks.

(5) Financial instruments

A. Non-derivative financial assets

(i) Classification

The Group classifies non-derivative financial assets into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss.

(Financial assets measured at amortized cost)

Financial assets are classified into financial assets measured at amortized cost if the following conditions are met.

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of financial assets give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding.

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

(a) Debt instruments measured at fair value through other comprehensive income

Financial assets are classified into debt instruments measured at fair value through other comprehensive income if the following conditions are met.

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

(b) Equity instruments measured at fair value through other comprehensive income

Of the financial assets other than financial assets measured at amortized cost or debt instruments measured at fair value through other comprehensive income, the Group made an irrevocable election at initial recognition to present in other comprehensive income any subsequent changes in the fair value of investments in equity instruments which are not held for sale.

The Group applies the exemption under IFRS 1 and, based on the facts and circumstances that exist as of the date of transition to IFRS, designates investments in equity instruments as equity instruments measured at fair value through other comprehensive income.

(Financial assets measured at fair value through profit or loss)

Financial assets other than financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. The Group does not designate investments in any debt instruments as measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch.

(ii) Initial recognition and measurement

The Group initially recognizes trade and other receivables when they are incurred. Other financial assets are initially recognized on the transaction date when the Group becomes a party to the contractual provisions of the financial assets. All financial assets are initially measured at fair value plus transaction costs, except when they are classified into financial assets measured at fair value through profit or loss.

(iii) Subsequent measurement

After initial recognition, financial assets are measured according to the classifications described below.

(Financial assets measured at amortized cost)

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

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

(a) Debt instruments measured at fair value through other comprehensive income

Except for impairment gains and losses and foreign exchange gains and losses, changes in fair value on debt instruments measured at fair value through other comprehensive income are recognized in other comprehensive income until they are derecognized. If such debt instruments are derecognized, other comprehensive income recognized in the past is transferred to profit or loss.

(b) Equity instruments measured at fair value through other comprehensive income

Changes in fair value on equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income. If such equity instruments are derecognized or the fair value decreases significantly, other comprehensive income recognized in the past is directly transferred to retained earnings. Dividends from such equity instruments are recognized in profit or loss.

(Financial assets measured at fair value through profit or loss)

Financial assets measured at fair value through profit or loss are measured at fair value after initial recognition, and the changes are recognized in profit or loss.

(iv) Impairment of financial assets

The Group recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

(Determining significant increases in credit risk)

At the end of each reporting period, the Group compares the risk of a default occurring on a financial asset as of the end of the reporting period with the risk of a default occurring at the date of initial recognition and assesses whether the credit risk on the financial asset has increased significantly after the initial recognition.

The Group determines whether the credit risk on the financial asset has increased significantly based on the changes in the risk of a default after the initial recognition. In assessing whether there is any change in the risk of default, the Group takes into account the following matters.

- Significant change in a credit risk rating of the financial asset by external rating agencies
- Downgrading of an internal credit risk rating
- Deterioration of the borrower’s operating results
- Past due information

(Measurement of expected credit loss)

Expected credit losses are the present value of the difference between contractual cash flows the Group has a right to receive pursuant to a contract and the cash flows expected to be received by the Group. If the credit risk on a financial asset has increased significantly after initial recognition, the Group measures the allowance for doubtful accounts for the financial asset at an amount equal to the lifetime expected credit loss. If the credit loss has not increased significantly, the Group measures the allowance for doubtful accounts for that financial asset at an amount equal to a 12-month expected credit loss.

Notwithstanding the above, the Group measures the allowance for doubtful accounts at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant finance component.

The provision for the allowance for doubtful accounts for financial assets is recognized in profit or loss. In the case of an occurrence of any event that reduces the allowance for doubtful accounts, the reversal of the allowance for doubtful accounts is recognized in profit or loss.

(v) Derecognition of financial assets

Financial assets are derecognized if the contractual rights to cash flows expire or are transferred, and substantially all the risks and rewards of the ownership are transferred.

If the Group has no reasonable expectations of recovering all or part of the value of a financial asset, the Group directly reduces the gross carrying amount of the financial asset.

B. Non-derivative financial liabilities

(i) Classification

The Group classifies non-derivative financial liabilities into financial liabilities measured at amortized cost.

(ii) Initial recognition and measurement

Debt securities issued by the Group are initially recognized on the issue date. Other financial liabilities are initially recognized on the transaction date when the Group becomes a party to the contractual provisions of the financial liability. All financial liabilities are initially measured at fair value plus transaction costs.

(iii) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method.

(iv) Derecognition of financial liabilities

A financial liability is derecognized when it is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

C. Offsetting financial assets and financial liabilities

A financial asset and a financial liability are offset and presented as a net amount in the statement of financial position only when the Group has a legally enforceable right to set off recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

D. Derivatives and hedge accounting

The Group uses derivatives such as foreign exchange contracts and interest rate swaps to hedge foreign exchange risk and interest rate risk. The derivatives are initially measured at fair value at the date when the derivative contract is entered into and are subsequently measured at fair value.

Accounting treatment for changes in the fair value of derivatives are determined according to hedging purposes and designation when the derivatives are designated as qualified hedging instruments. Changes in the fair value of derivatives are recognized in profit or loss when the derivatives are not designated as qualified hedging instruments.

(i) Qualifying criteria for hedge accounting

The Group evaluates whether the hedging relationships fulfill the qualifying criteria of hedge accounting by documenting the relation of hedging instruments and hedged items, as well as risk management purpose and strategy of the hedging activity from the commencement of the hedge. Whether the effectiveness of the hedge is fulfilled is evaluated and documented from the commencement of the hedge as well, as for the occasion of offsetting the derivatives used in hedge activities with the fair value of hedged items or the changes in cash flow. Hedge effectiveness is repeatedly judged at the earlier of each fiscal year end, or at the occurrence of a significant change that impacts the effectiveness.

(ii) Classification

Hedging relationships that meet qualifying criteria for hedge accounting are accounted for as follows.

(Fair value hedges)

Changes in the fair value of hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items are recognized in profit or loss, while adjusting the carrying amounts of the hedged items.

(Cash flow hedges)

For changes in the fair value of hedging instruments, the effective portion of the cash flow hedge reserve is recognized in other comprehensive income, and any reserve other than the effective portion of the hedge is recognized in profit or loss.

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

Cash flow hedge reserve on cash flow hedges other than those stated above is reclassified to profit or loss in the same period during which hedged expected future cash flows affect profit or loss.

However, if that amount is loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss.

When the Group discontinues hedge accounting, if the hedged future cash flows are still expected to occur, cash flow hedge reserve remains in the reserve until the future cash flows occur. If the hedged future cash flows are no longer expected to occur, the cash flow hedge reserve is immediately reclassified into profit or loss.

E. Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets at each reporting date is determined by quoted prices. If there is no active market, the fair value of financial instruments is determined using appropriate valuation models.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined principally by the weighted average method and comprises all costs of purchase, costs of conversion, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and related variable selling costs.

(7) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The cost comprises any costs directly related to the acquisition of the asset, costs of dismantling and removing the asset and restoration of land, and any borrowing costs that are directly attributable to the acquisition, construction, or production of the qualifying asset.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset where 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 a replaced part is derecognized. All other costs relating to repairs and maintenance are recognized in profit or loss when they are incurred.

Assets other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of each component of the assets.

The estimated useful lives of major assets by class are as follows:

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

The depreciation methods, residual values, and estimated useful lives of the assets are reviewed at the end of each reporting period. If there has been a change, it will be accounted for as a change in accounting estimates and applied prospectively.

(8) Intangible assets

A. Goodwill

Goodwill generated in acquiring a subsidiary is recorded as an intangible asset.

Initial measurement of goodwill is described in “(2) Business Combination.” Goodwill is measured at cost less accumulated impairment loss.

Goodwill is not amortized but tested for impairment. Impairment of goodwill is described in “(10) Impairment of Non-financial Assets.”

Intangibles assets that are acquired in a business combination and recognized separately from goodwill are initially recognized at their acquisition-date fair value, and are amortized over their estimated useful lives using the straight-line method.

B. Other intangible assets

Other intangible assets that are acquired separately with definite useful lives are recorded at cost less accumulated amortization and accumulated impairment loss. They are amortized using the straight-line method over their estimated useful lives. Intangible assets with indefinite useful lives are recorded at cost less accumulated impairment loss.

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

- Software: 3 to 5 years

The amortization methods, residual values and estimated useful lives of intangible assets are reviewed at the end of each reporting period. If there has been a change, it will be accounted for as a change in accounting estimates and applied prospectively.

(9) Leases

The Group classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the Group as a finance lease and a lease other than a finance lease as an operating lease.

In finance lease transactions, leased assets and lease obligations are initially recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. After the initial recognition, leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives and lease terms based on the accounting policies applied to the assets.

Lease payments under operating leases are recognized as expenses in the consolidated statement of income using the straight-line method over the lease term.

(10) Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when there is an indication that the carrying amount of the asset may not be recovered due to an event or a change in circumstances. If the carrying amount of the asset exceeds the recoverable amount, an impairment loss is recognized. Recoverable amount of an asset is the higher of value in use and fair value less costs to sell. In determining value in use, estimated future cash flows are discounted to the present value, using rates that reflect the time value of money and the risks specific to the asset. To test assets for impairment, assets are grouped into the smallest identifiable group of assets (cash-generating unit) that generates cash inflows that are independently identifiable.

An intangible asset that has an indefinite useful life or is not yet available for use is not amortized. Its recoverable amount is estimated and compared to its carrying amount on a yearly basis for impairment testing.

Goodwill is also tested for impairment on a yearly basis. The carrying amount of goodwill is cost less accumulated impairment loss. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the business combination.

For property, plant and equipment and intangible assets other than goodwill for which an impairment loss has been recognized, the possibility of whether the impairment loss may be reversed is assessed at the end of each reporting period.

(11) Non-current assets held for sale (or disposal groups)

Of the non-current assets or asset groups whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use, assets are classified as held for sale if they are available for immediate sale in its present condition, the Group's management is committed to a plan to sell the asset, and the sale is expected to be completed within one year. An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

(12) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are recognized on an undiscounted basis and are expensed when the related service is rendered. For bonuses and paid absences, if the Group owes legal and constructive payment obligations and the amount of payment obligations can be reliably estimated, the estimated amount to be paid in accordance with relevant regulations is recognized as a liability.

B. Post-employment benefits

(i) Defined benefit plan

The Company and some subsidiaries have adopted defined benefit plans.

An asset or liability recognized related to a defined benefit plan is classified by plan and recognized at the amount of the present value of defined benefit obligations at the end of the reporting period less the fair value of plan assets. Defined benefit obligations are calculated by independent pension actuaries on a yearly basis using the projected unit credit method. As to a discount rate, a discount period is determined based on the period until the expected date of future benefit payment in each fiscal year, and the discount rate is determined by reference to market yields on high quality corporate bonds at the fiscal year-end corresponding to the discount period.

Actuarial gains and losses that result from changes in experience adjustments and actuarial assumptions are recognized in other comprehensive income and immediately transferred to retained earnings in the period in which they arise.

Past service costs are recognized in profit or loss in the period in which they arise.

(ii) Defined contribution plan

The Company and some subsidiaries have adopted defined contribution plans. As the plans do not create any additional obligation as long as contributions are made, payments to defined contribution plans are recognized as employee benefits expense at the payment due date.

C. Other long-term employee benefits

Obligations with respect to long-term employee benefits other than post-retirement benefits are calculated by estimating the future amount of benefits that employees will have earned as consideration for their services in the current and prior fiscal years and discounting such amount to the present value.

(13) Provisions

Provisions are recognized when the Group has present legal and constructive obligations as a result of past events, it is probable that outflows of economic resources will be required to settle such obligations, and reliable estimates can be made of the amounts.

Where the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the liability. The increase in the provisions due to the passage of time is recognized in financial expenses.

A. Provision for loss on voluntary recall of products

Provisions are recorded for direct and other related expenses that arise from voluntary recall of products at a reasonable estimate amount of loss expected to accrue in the following fiscal years after the current fiscal year.

B. Provision for sales returns

Provisions are recorded for losses that arise from sales returns of tires at an expected amount that is determined using the past actual rates of returns.

C. Asset retirement obligations

Asset retirement obligations are recorded for estimated restoration expenses of leased offices and buildings. Payments for these expenses are expected to be made after one year or more of the incurrence of the expense, although the timing of payments may be affected by changes in the Group's future business plans and other factors.

(14) Capital

A. Common stock

Common stocks are recorded into capital stock and capital surplus at the issue price.

B. Treasury stock

Treasury stocks are measured at cost and deducted from equity. No gain or loss is recognized at the initial purchase, sale or retirement thereof. Any difference between the carrying amount and the consideration received from the sale is recognized as capital surplus.

(15) Revenue recognition

Revenue comprises the consideration received or the fair value of the receivable from the sale of goods or rendering of services in the ordinary activities of the Group. Revenue is recognized as follows.

A. Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred to the customer the significant risks and rewards of ownership of the goods; retains neither continuing managerial involvement associated with the goods sold nor effective control over the goods sold; it is probable that economic benefits associated with the transaction will flow into the Group; and the amounts of costs incurred and revenue in respect of the transaction can be measured reliably. In the concrete, revenue is recognized at the shipping date, delivery date, or at the completion of inspection conducted by the customer when the significant risks and rewards of ownership of the goods are transferred.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable that is determined by agreement between the Group and the buyer or user of the asset. Sales discounts and sales rebates are reasonably estimated based on past results and deducted from revenue.

B. Rendering of services

Revenue from rendering of services is recognized when it is probable that the economic benefits associated with the transaction will flow into the Group; the amounts of costs incurred for the transaction or costs to complete the transaction and revenue can be measured reliably; and the stage of completion of the transaction can be measured reliably at the end of the reporting period.

C. Royalty income

The Group has concluded license agreements that allow third parties to manufacture products and use of technologies. Royalties associated with these agreements are recognized on an accrual basis in accordance with the substance of the relevant license agreement.

D. Interest income

Interest income is recognized using the effective interest rate method. If loans and other receivables are impaired, the carrying amounts are reduced to recoverable amounts. Recoverable amounts are calculated by discounting estimated future cash flows using the initial effective interest rate for the financial asset. Interest income on impaired loans and other receivables are recognized using the initial effective interest rate.

E. Dividend income

Dividend income is recognized when the right to receive the dividend payment is established.

(16) Government grants

Government grants are recognized when there is reasonable assurance that any conditions of compliance will be complied with and that the grants will be received. The grant for acquisition of an asset is recognized in revenue on a systematic basis over the useful life of the asset, and unearned grants are recognized in liabilities as deferred revenue. The grant for expenses incurred is recorded into revenue at the same fiscal year when the expense incurs.

(17) Income taxes

Income tax expenses are comprised of current and deferred taxes. These are recognized in profit or loss, except those that relate to items that are recognized in other comprehensive income or recognized directly in equity.

Current taxes are calculated based on the statutory tax rates and tax laws that are enacted or substantially enacted at the end of the fiscal year in the countries where the Company and its subsidiaries conduct business and generate taxable profit.

Deferred tax assets and liabilities are recognized using the asset-liability method on temporary differences arising between tax bases and carrying amounts of assets and liabilities in the consolidated financial statements.

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary differences arising from the initial recognition of goodwill
- Temporary differences arising from the initial recognition of assets and liabilities in transactions that are not business combinations and affect neither accounting profit nor taxable profit (tax losses)
- Taxable temporary differences arising from investments in subsidiaries and associates to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of a deferred tax asset is reviewed on a yearly basis and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. An unrecognized deferred tax asset is reassessed on a yearly basis and 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 based on statutory tax rates and tax laws that have been enacted or substantially enacted by the end of the fiscal year and are expected to apply to the period in which the asset is realized or the liability is 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 they relate to income taxes levied by the same taxation authority on different taxable entities that intend to settle current tax assets and liabilities on a net basis.

(18) Dividends paid

Dividends payable to owners of parent are recognized as a liability in the period when shareholders of the Company approve for year-end dividends, and when the Board of Directors approves for interim dividends.

(19) Profit per share

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

(20) Segment information

An operating segment is a component of business activities that earn revenues and incur expenses including those from transactions with other operating segments.

Operating segments are reported in a manner that is consistent with the internal reports provided to the chief operating decision-making body. The chief operating decision-making body is responsible for the allocation of resources and performance assessment. In the Group, the chief operating decision-making body is the Board of Directors, which conducts strategic decision making.

4. Significant Accounting Estimates and Judgments

In preparing consolidated financial statements, the management is required to make judgments, estimates, and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues, and expenses. Actual results may differ from such estimates.

The estimates and its underlying assumptions are reviewed on an ongoing basis. The effect of a change in accounting estimates is recognized in the accounting period when the change is made and future accounting periods.

The management’s judgments and estimates that have a significant influence on the amounts recognized in the consolidated financial statements are as follows:

・Impairment of non-financial assets
・Accounting treatment and assessment of provisions
・Measurement of defined benefit obligations
・Recoverability of deferred tax assets
・Fair value measurement of financial instruments

(Segment Information, etc.)

1. Information by reportable segment

Reportable segments of the Group are the units for which separate financial information is available and periodically reviewed by the Board of Directors as the highest decision-making body 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 Group identifies “Tires”, “Sports”, and “Industrial and Other Products” as reportable segments.

Major products and services or details of business that belong to each reportable segment are as follows:

Reportable segment	Major products and services or detail of business
Tires	Tires and tubes (for automobiles, construction vehicles, industrial vehicles, automotive races and rallies, motorcycles, etc.) Automotive system business (instant mobility system, deflation warning system, etc.)
Sports	Sporting goods (golf clubs, golf balls and other golf goods, tennis goods, etc.) Operation of golf tournaments Operation of golf and tennis schools Fitness business, and others
Industrial and Other Products	High-performance rubber products (vibration control dampers, precision rubber parts for office machines, precision rubber parts for medical use, etc.) Daily life supplies (rubber gloves for cooking and other operations, ramps for wheelchair use, etc.) Products for infrastructure (marine dock fenders, flooring materials for factories and sports facilities, etc.)

2. Reportable segment sales revenues and profit or loss

The accounting policies of each reportable segment are the same as those described in “3. Significant Accounting Policies.”

Inter-segment sales revenue are stated at wholesale prices based on current market values.

Figures for reportable segment are based on business profit.

Information for the reportable segments for the previous fiscal year and the current fiscal year is as follows:

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

(Millions of yen)

	Reportable segment			Total	Adjustments (Note 2)	Amounts recorded in Consolidated Statements of Income
	Tires	Sports	Industrial and Other Products			
Sales revenue from external customers	682,220	77,778	38,485	798,483	-	798,483
Inter-segment sales revenue	10	314	35	359	(359)	-
Total	682,230	78,092	38,520	798,842	(359)	798,483
Segment profit (Business profit) (Note 1)	74,021	2,634	2,110	78,765	88	78,853
Other income and expenses						10,320
Operating profit						89,173
Other major 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 profit (Business profit)” is “Sales revenue” subtracted by “Cost of sales” and “Selling, general and administrative expenses.”
2. Segment profit included in “Adjustment” comprised elimination of intersegment transactions.

(2) For the fiscal year ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable segment			Total	Adjustments (Note 2)	Amounts recorded in Consolidated Statements of Income
	Tires	Sports	Industrial and Other Products			
Sales revenue from external customers	648,445	72,772	35,479	756,696	-	756,696
Inter-segment sales revenue	56	293	639	988	(988)	-
Total	648,501	73,065	36,118	757,684	(988)	756,696
Segment profit (Business profit) (Note 1)	67,924	4,303	2,673	74,900	16	74,916
Other income and expenses						(1,632)
Operating profit						73,284
Other major 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 profit (Business profit)” is “Sales revenue” subtracted by “Cost of sales” and “Selling, general and administrative expenses.”
2. Segment profit included in “Adjustment” comprised elimination of intersegment transactions.

3. Information about products and services

Disclosure of this information is omitted because the segmentation of products and services is equal to that of reportable segments.

4. Information by geographic area

Sales revenue and non-current assets from external customers by country and geographic area are as follows:

(1) Sales revenue from external customers

(Millions of yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Japan	328,017	307,290
North America	126,798	132,848
Europe	56,954	55,088
Asia	174,123	157,261
Other areas	112,591	104,209
Total	798,483	756,696

(Note) Sales revenues are classified based on the location of sales destination.

(2) Non-current assets

(Millions of yen)

	Date of transition to IFRS As of January 1, 2015	As of December 31, 2015	As of December 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 areas	51,657	50,694	61,284
Total	389,326	413,016	405,242

(Note) Non-current assets are classified based on the physical location where the assets are located. Investments accounted for using equity method, other financial assets, net defined benefit assets and deferred tax assets are not included.

5. Information about major customers

Disclosure of this information is omitted because sales revenue from transactions with a single external customer does not exceed 10% of the Group's consolidated sales revenue.

(Per Share amounts)

1. Basic profit per share

Basic profit per share is as follows:

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Basic profit per share	274.38	157.69

2. Basis for calculation of basic profit per share

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

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Profit attributable to owners of parent (Millions of yen)	71,976	41,364
Single-weighted average number of issued share (Thousands of share)	262,320	262,318

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

(Significant Subsequent Events)

Business Combination by means of Acquisition

The Board of Directors' meeting of the Company held on December 27, 2016 resolved to acquire all shares of Micheldever Group Ltd. from a private equity fund Graphite Capital Management LLP and other companies to make the company a consolidated subsidiary. The Company concluded the share transfer agreements on January 5, 2017 and acquired all the shares on February 10, 2017.

1. Overview of the business combination

(1) Name of acquired company and its main business

Name of acquired company: Micheldever Group Ltd. and its subsidiaries

Main business: Wholesale and retail sales of automobiles, motorcycles, tires for agricultural machinery and auto supplies

(2) Main purpose of business combination

To enhance the presence of Falken brand in the U.K. market as a step to actively increase production and implement measures to expand sales in the European market.

(3) Date of business combination

February 10, 2017

(4) Legal form of business combination

Acquisition of shares in exchange for cash payment

(5) Name of acquired company after business combination

Name of acquired company after business combination was not changed.

(6) Ratio of voting rights acquired

Voting right ratio before acquisition: 0%

Voting right ratio after acquisition: 100%

(7) Main basis behind the determination of the acquiring company

The Company acquired 100% of the voting rights of Micheldever Group Ltd. by means of acquisition of shares in exchange for cash.

2. Consideration for acquisition as of the acquisition date

Fair value of acquisition price ¥22,424 million

There is no contingent consideration.

Fair value of acquisition price includes the amount to acquire the shares of Micheldever Group Ltd. which is paid to the companies holding the shares, as well as the repayment amount of liabilities Micheldever Group Ltd. had incurred from those companies.

At this point, goodwill and fair values of assets acquired and liabilities assumed have not been determined.

(First-time Adoption)

1. Transition to reporting in accordance with IFRS

The Group has started to disclose IFRS-based consolidated financial statements from the current fiscal year.

Significant accounting policies described in “3. Significant Accounting Policies” were applied in preparing the consolidated financial statements for the current fiscal year (from January 1, 2016 to December 31, 2016) and the previous fiscal year (from January 1, 2015 to December 31, 2015) and the consolidated statements of financial position as of the date of transition to IFRS (January 1, 2015).

IFRS 1 stipulates that, in principle, the retrospective application of IFRS is required. However, IFRS 1 allows an entity to voluntarily elect to use exemptions on the retrospective application of the standards to some accounting areas, and the Group elected such exemptions in the transition to IFRS from Japanese GAAP with respect to the following items.

(1) Business combinations

IFRS 3 can be applied prospectively or retrospectively. The Group elected not to retrospectively apply IFRS 3 to the business combinations that occurred before the date of transition to IFRS. As a result, such business combinations are not restated retrospectively.

(2) Currency translation differences of foreign operations

IFRS 1 allows cumulative currency translation differences of foreign operations to be deemed zero as of the date of transition to IFRS, or to recalculate the currency translation difference retrospectively from when the foreign operation was established or acquired. The Group elected to assume such cumulative translation differences to be zero as of the date of transition to IFRS.

(3) Recognition of financial instruments designated before the date of transition to IFRS

IFRS 1 allows the designation of financial assets based on the facts and circumstances that existed as of the date of transition to IFRS in accordance with IFRS 9, “Financial Instruments.” The Group designates its financial instruments based on the circumstances as of the date of transition.

In preparing the consolidated financial statements in accordance with IFRS as of the date of transition to IFRS and for the previous fiscal year, the Group made necessary adjustments to the consolidated financial statements under Japanese GAAP.

The effect of transition to IFRS from Japanese GAAP is as shown in this note under “(2) Reconciliation of equity as of the date of transition to IFRS (January 1, 2015).”

The “reclassification of line items” in the reconciliation table shows changes of presentation in Consolidated statement of financial position, Consolidated statement of income and Consolidated statement of comprehensive income, and the items do not affect retained earnings and comprehensive income. “Reconciliation of recognition and measurement” in the reconciliation table shows the affected amount due to the transition to IFRS.

2. Reconciliation of equity as of the date of transition to IFRS (January 1, 2015)

(Millions of yen)

Line item in Japanese GAAP	Japanese GAAP	Reclassification	Reconciliation of recognition and measurement	IFRS	Notes	Line items in IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	54,476	(893)	70	53,653		Cash and cash equivalents
Notes and accounts receivable-trade	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
Merchandise and finished goods	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 assets (goodwill)	10,465	-	(4,570)	5,895	I	Goodwill
Intangible assets (other)	20,185	-	(4,853)	15,332		Intangible assets
	-	48,106	(364)	47,742	D	Investments accounted for using equity method
	-	53,525	621	54,146	B	Other financial assets
Investment securities	81,430	(81,430)	-	-	B,D	
Long-term loans receivable	1,280	(1,280)	-	-	B	
Net defined benefit asset	30,133	-	(7,777)	22,356	K	Net defined benefit asset
Deferred tax asset	6,686	11,950	(4,950)	13,686	C,J	Deferred tax asset
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)

Line item in Japanese GAAP	Japanese GAAP	Reclassification	Reconciliation of recognition and measurement	IFRS	Notes	Line items in IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Short-term loans payable	82,008	29,812	1,479	113,299	E,G	Bonds and loans payable
Current portion of long-term loans payable	28,812	(28,812)	-	-	E	
Commercial papers	1,000	(1,000)	-	-	E	
Notes and accounts payable-trade	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	
Accounts payable-other	57,132	(57,132)	-	-	A	
Income taxes payable	12,714	-	-	12,714		Income tax payable
	-	4,204	1,980	6,184	F	Provisions
Provisions for bonuses	4,564	(4,564)	-	-	F	
Provisions for directors' bonuses	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
Non-current liabilities						Non-current liabilities
Bonds payable	65,000	113,184	173	178,357	E	Bonds and loans payable
Long-term loans payable	113,184	(113,184)	-	-	E	
	-	4,099	1,290	5,389	B	Other financial liabilities
Net defined benefit liability	17,018	-	1,122	18,140	K	Net defined benefit liability
	-	927	112	1,039	F	Provisions
Provision for directors' retirement benefits	115	(115)	-	-	F	
Deferred tax liabilities	21,981	15	(11,740)	10,256	C,J	Deferred tax liabilities
Lease obligations	4,099	(4,099)	-	-	B	
Other	12,925	(811)	5,326	17,440	F,K, L	Other non-current liabilities
Total non-current 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
Capital 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. Reconciliation of equity as of the fiscal year ended December 31, 2015

(Millions of yen)

Line item in Japanese GAAP	Japanese GAAP	Reclassification	Reconciliation of recognition and measurement	IFRS	Notes	Line items in IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	53,569	(48)	35	53,556		Cash and cash equivalents
Notes and accounts receivable-trade	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
Merchandise and finished goods	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 assets (goodwill)	18,251	-	(2,628)	15,623	I	Goodwill
Intangible assets (other)	21,366	-	(573)	20,793		Intangible assets
	-	4,049	(4)	4,045	D	Investments accounted for using equity method
	-	56,168	575	56,743	B	Other financial assets
Investment securities	36,976	(36,976)	-	-	B,D	
Long-term loans receivable	8,063	(8,063)	-	-	B	
Net defined benefit asset	24,167	-	-	24,167	K	Net defined benefit asset
Deferred tax asset	6,516	10,122	(3,538)	13,100	C,J	Deferred tax asset
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)

Line item in Japanese GAAP	Japanese GAAP	Reclassification	Reconciliation of recognition and measurement	IFRS	Notes	Line items in IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Short-term loans payable	64,586	59,163	1,424	125,173	E,G	Bonds and loans payable
Current portion of long-term loans payable	37,163	(37,163)	-	-	E	
Current portion of bonds	10,000	(10,000)	-	-	E	
Commercial papers	12,000	(12,000)	-	-	E	
Notes and accounts payable-trade	73,684	47,958	(1,879)	119,763	A	Trade and other payables
	-	2,078	274	2,352	B	Other financial liabilities
Lease obligations	1,768	(1,768)	-	-	B	
Accounts payable-other	49,437	(49,437)	-	-	A	
Income taxes payable	3,517	-	-	3,517		Income tax payable
	-	3,746	1,414	5,160	F	Provisions
Provisions for bonuses	3,974	(3,974)	-	-	F	
Provisions for directors' bonuses	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
Non-current liabilities						Non-current liabilities
Bonds payable	55,000	75,657	220	130,877	E	Bonds and loans payable
Long-term loans payable	75,657	(75,657)	-	-	E	
	-	4,458	1,081	5,539	B	Other financial liabilities
Net defined benefit liability	22,817	-	4	22,821	K	Net defined benefit liability
	-	1,096	118	1,214	F	Provisions
Provision for directors' retirement benefits	109	(109)	-	-	F	
Deferred tax liabilities	19,636	19	(9,545)	10,110	C,J	Deferred tax liabilities
Lease obligations	4,458	(4,458)	-	-	B	
Other	20,539	(987)	5,328	24,880	F,K, L	Other non-current liabilities
Total non-current 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
Capital stock	42,658	-	-	42,658		Capital stock
Capital surplus	38,661	-	(745)	37,916	N	Capital surplus
Retained earnings	301,712	-	58,431	360,143		Retained earnings
Treasury stock	(567)	-	-	(567)	K,M	Treasury stock
Total accumulated other comprehensive income	41,393	-	(59,256)	(17,863)		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 on the reconciliation of equity

Major details of the reconciliations of equity are as follows:

(1) Reclassification of line items

A. Reclassification of accounts receivable - other and accounts payable - other

Accounts receivable - other which was included in “Other” of current assets under Japanese GAAP is presented as “Trade and other receivables” under IFRS. Part of “Accounts payable – other” which was separately presented under Japanese GAAP is presented as “Trade and other payables” under IFRS.

B. Reclassification of other financial assets and other financial liabilities

Short-term loans receivable and derivative assets which were included in “Other” of current assets under Japanese GAAP are presented as “Other financial assets (current)” under IFRS. Part of “Investment securities” and “Long-term loans receivable” which were separately presented under Japanese GAAP, as well as derivative assets which were included in “Other” of investments and other assets under Japanese GAAP, are presented as “Other financial assets (non-current)” under IFRS.

“Lease obligations” which were separately presented as current liabilities and non-current liabilities under Japanese GAAP is presented as “Other financial liabilities (current)” and “Other financial liabilities (non-current),” respectively, under IFRS. Derivative liabilities which were included in “Other” of non-current liabilities under Japanese GAAP are presented as “Other financial liabilities (current)” under IFRS.

C. Reclassification of deferred tax assets and deferred tax liabilities

“Deferred tax assets” which was separately presented under Japanese GAAP is presented as a non-current item under IFRS. “Deferred tax liabilities” which were included in “Other” of current liabilities under Japanese GAAP is presented as a non-current item under IFRS.

D. Reclassification of investments accounted for using equity method

“Investments accounted for using equity method” which was included in “Investment securities” under Japanese GAAP is separately presented under IFRS.

E. Reclassification of bonds payable, commercial papers, and loans payable

“Short-term loans payable,” “current portion of long-term loans payable,” “current portion of bonds,” and “commercial papers,” all of which were separately presented as current liabilities under Japanese GAAP are presented as “Bonds and loans payable (current)” under IFRS. “Bonds payable” and “Long-term loans payable” which were separately presented as non-current liabilities under Japanese GAAP are presented as “Bonds and loans payable (non-current)” under IFRS.

F. Reclassification of provisions

“Provision for bonuses” and “Provision for directors’ bonuses” which were separately presented as current liabilities under Japanese GAAP are presented as “Other current liabilities” under IFRS. “Provision for sales returns,” “Provision for sales rebate,” and “Provision for loss on voluntary recall of products,” all of which were separately presented as current liabilities, as well as asset retirement obligations which were included in “Other (current liability)” under Japanese GAAP, are presented as “Provision (current)” under IFRS.

“Provision for directors’ retirement benefits” which was separately presented as non-current liabilities under Japanese GAAP is presented as “Other non-current liability” under IFRS. Asset retirement obligations which were included in “Other (non-current liability)” under Japanese GAAP are presented as “Provision (non-current)” under IFRS.

(2) Notes on the reconciliation of recognition and measurement

G. Derecognition of trade notes discounted

Under Japanese GAAP, trade notes were derecognized as financial assets when they were discounted. Under IFRS, as trade notes are derecognized when the recourse obligation extinguishes, the balance of discounted trade notes is presented as “Trade and other receivables” and “Bonds and loans payable (current).”

H. Reclassification of supplies and long-term prepaid expenses

Assets for advertising and promotion which were included in “Inventories” and “Other” of investments and other assets under Japanese GAAP have been reclassified as retained earnings under IFRS as they do not satisfy the definition of assets.

I. Reconciliation of reported amount of goodwill

Under Japanese GAAP, goodwill is amortized equally over 20 years or less. Only when there is an indication of impairment, the Group compares the carrying amount of each asset group that includes goodwill with the undiscounted cash flow. If, and only if, the undiscounted cash flow is less than the carrying amount, the Group recognizes impairment loss by writing-down the carrying amount to the recoverable amount, i.e., discounted cash flow.

Under IFRS, goodwill is not amortized. Regardless of whether there is an indication of impairment, the Group conducts impairment testing every fiscal year by comparing the carrying amount of each group of cash-generating units that includes goodwill with the recoverable amount, i.e., discounted cash flow, and recognizes impairment loss by writing-down the carrying amount to the recoverable amount, i.e., discounted cash flow.

Under Japanese GAAP, whether impairment loss is recognized is determined based on a larger unit which comprises more than one group of assets that are related to businesses to which goodwill belongs, and goodwill.

On the other hand, under IFRS, goodwill is allocated to cash-generating units or groups of cash-generating units that represent the lowest level within the acquirer that expects to benefit from the synergies of the business combination from the acquisition date and at which the goodwill is monitored for internal management purposes.

Pursuant to the business plan as of the date of transition to IFRS, the Company conducted an impairment test with respect to each group of cash-generating units. As a result of the test, due to the fact that the recoverable amount, i.e., the discounted cash flow, was lower than the carrying amount including that of goodwill, impairment loss of ¥4,511 million was recognized as of the date of transition to IFRS at Roger Cleveland Golf Company, Inc. The impairment loss was recognized in the sports business.

The recoverable amount is measured at value in use. In calculating value in use, the estimated cash flows are discounted to present value. The Group calculates the estimated cash flows based on the five-year business plan, which was prepared reflecting past experience and external information and approved by management, and on growth rate. A discount rate is calculated based on the pre-tax weighted average cost of capital of a cash-generating unit. A growth rate is determined with reference to an inflation rate, etc., in the market to which the cash-generating unit belongs and in consideration for future uncertainties. The value in use for each group of cash-generating units at the time of recognition of impairment loss was ¥1,511 million (discount rate: 14.6%, growth rate: 0%).

With respect to the goodwill generated from Roger Cleveland Golf Company, Inc., one-time amortization of ¥3,948 million was recognized in extraordinary loss in the previous fiscal year under Japanese GAAP in accordance with Paragraph 32 of the “Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements” (the Japanese Institute of Certified Public Accountants (JICPA) Accounting Practice Committee Statement No.7, final revision on November 28, 2014).

J. Reconciliation of deferred tax assets

Under Japanese GAAP, deferred tax assets were recognized based on the corporate classifications stipulated by the “Auditing Treatment on Determining the Recoverability of Deferred Tax Assets” (JICPA Audit Committee Report No. 66). Under IFRS, deferred tax assets are recognized for the tax benefit to the extent that the management determines that it is probable to utilize the unused tax losses and deductible temporary differences against future taxable profit.

Under Japanese GAAP, tax effect on the elimination of unrealized gains and losses were determined using the effective tax rate of the selling company. Under IFRS, it is determined using the effective tax rate of the purchasing company.

K. Reconciliation of employee benefits

Unused paid leave, special leave and rewards granted conditionally after a certain number of years of service for which accounting treatment was not required under Japanese GAAP are recognized as liabilities under IFRS.

Under Japanese GAAP, actuarial gains and losses and past service costs were recognized in other comprehensive income when incurred and expensed using the straight-line method over a certain number of years within the average remaining service periods of the employees. Under IFRS, remeasurements of defined benefit plans including actuarial gains and losses are recognized in other comprehensive income when incurred and immediately transferred to retained earnings, and past service costs are immediately recognized in profit or loss in their entirety.

Under Japanese GAAP, effective from the consolidated fiscal year ending December 31, 2015, the Company reviewed the method of calculating retirement benefit obligations and service cost, and the method of attributing expected retirement benefit to periods has been changed from the straight-line basis to benefit formula basis, while the method of determining discount rates has been changed to the method using a single-weighted average discount rate reflecting the period up to the expected timing of retirement benefits payment, as well as the amount of retirement benefits payment for each period. Retirement benefit obligations and service cost are calculated by this method on the balances as of the date of transition to IFRS.

L. Reconciliation of government grants

Under Japanese GAAP, government grants were recognized as revenue in their entirety when received. Under IFRS, government grants are deferred, and liabilities which arise from the recognition of government grants as revenue over the useful life of the asset are recorded as “Other current liabilities” and “Other non-current liabilities.”

M. Reclassification of currency translation differences of foreign operations

The Group has applied the exemptions under IFRS 1 for the first-time adoption of IFRS and entirely transferred cumulative currency translation differences of foreign operations as of the date of transition to retained earnings.

N. Reconciliation of retained earnings

(Millions of yen)

	Date of transition to IFRS as of January 1, 2015	For the fiscal year ended December 31, 2015
Supplies and long-term prepaid expenses	(3,326)	(3,085)
Government grants	(3,157)	(3,097)
Goodwill	(2,811)	955
Deferred tax assets	308	3,098
Employee benefits	(16,978)	(13,628)
Currency translation differences of foreign operations	62,618	62,618
Gains on transfer of business, etc. in association with the dissolution of joint ventures (see Note below)	-	9,477
Other	1,499	2,093
Total	38,153	58,431

(Note) “Gains on transfer of business, etc. in association with the dissolution of joint ventures” increased in extraordinary income for the previous fiscal year under Japanese GAAP, as cumulative foreign currency translation adjustments and remeasurements of defined benefit plans which had been recorded in other comprehensive income were transferred to retained earnings on the date of transition to IFRS. It is recorded as other income under IFRS.

5. Reconciliation of gains and losses and comprehensive income for the previous fiscal year (from January 1, 2015 to December 31, 2015)

(Millions of yen)

Line item in Japanese GAAP	Japanese GAAP	Reclassification	Reconciliation of recognition and measurement	IFRS	Notes	Line items in IFRS
Net sales	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 profit	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
Non-operating income	12,120	(12,120)	-	-	A	
Non-operating expenses	(10,293)	10,293	-	-	A	
Extraordinary income	232	(232)	-	-	A	
Extraordinary loss	(5,197)	5,197	-	-	A	
	-	2,861	(257)	2,604	A	Finance income
	-	(8,287)	(152)	(8,439)	A	Finance expenses
	-	5,562	51	5,613	A	Share of profit of associates accounted for using equity method
Income before income taxes and minority interests	73,929	-	15,022	88,951		Profit before tax
Income taxes-current	(15,617)	(2,184)	2,714	(15,087)	B,H	Income tax expenses
Income taxes-deferred	(2,184)	2,184	-	-	B	
Minority interests in income	56,128	-	17,736	73,864		Profit
Other comprehensive income						Other comprehensive income
						Components that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	423	-	54	477		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	626	-	590	1,216	F	Remeasurements of defined benefit plans
	-	-	(2,803)	(2,803)		Share of other comprehensive income of associates accounted for using the equity method
						Components that will be reclassified to profit or loss
Deferred gains or losses on hedges	(588)	-	475	(113)		Cash flow hedges
Foreign currency translation adjustment	(33,674)	-	117	(33,557)		Currency translation differences of foreign operations
Share of other comprehensive income of entities accounted for using 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
Comprehensive income	29,671	-	9,412	39,083		Comprehensive income

6. Notes on the reconciliation of gains and losses and comprehensive income
Major details of the reconciliations of gains and losses and comprehensive income are as follows:

(1) Reclassification of line items

A. Reconciliation of line items
Items which were presented as "Non-operating income," "Non-operating expenses," "Extraordinary income," and "Extraordinary loss" under Japanese GAAP are presented as "Financial income" and "Financial expenses" when they are finance-related profit or loss, with other items presented as "Other income," "Other expenses," and "Equity in earnings of affiliates" under IFRS.

B. Income tax expenses
"Income taxes – current" and "Income taxes – deferred" which were separately presented under Japanese GAAP are presented as "Income tax expenses" under IFRS.

(2) Notes on the reconciliation of recognition and measurement

C. Reconciliation of sales revenue
Under Japanese GAAP, part of sales rebate, etc., was presented as "Selling, general and administrative expenses." Under IFRS, they are deducted from "Sales revenue." Under Japanese GAAP, loss on sales returns, which was estimated based on the historical rates of return, was directly deducted from gross profit. Under IFRS, estimated sales returns and corresponding cost of sales are deducted from "Sales revenue" and "Cost of sales," respectively.

D. Scope of cost of inventories
Under Japanese GAAP, costs to transport products to the customer and distribution costs were expensed when incurred. Under IFRS, costs of inventories include transportation costs incurred in bringing inventories to their present location and condition as well as distribution costs.

E. Reconciliation of goodwill amortization
Although goodwill was amortized over the estimated number of years of amortization that reflect the substance of goodwill under Japanese GAAP, it is no longer amortized under IFRS.
"Amortization of goodwill" which was recognized in extraordinary loss in the previous fiscal year under Japanese GAAP has been already recognized on the date of transition to IFRS.

F. Reconciliation of retirement benefits
Under Japanese GAAP, actuarial gains and losses and past service costs were recognized in other comprehensive income when incurred and expensed using the straight-line method over a certain number of years within the average remaining service periods of the employees. Under IFRS, remeasurements of defined benefit plans including actuarial gains and losses are recognized in other comprehensive income when incurred and immediately transferred to retained earnings, and past service costs are immediately recognized in profit or loss in their entirety.

G. Reconciliation of gains on transfer of business, etc. in association with the dissolution of joint ventures
"Gains on transfer of business, etc. in association with the dissolution of joint ventures" increased in extraordinary income for the previous fiscal year under Japanese GAAP, as cumulative currency translation differences of foreign operations and remeasurements of defined benefit plans which had been recorded in other comprehensive income were transferred to retained earnings on the date of transition to IFRS. It is recorded as other income under IFRS.

H. Income tax expenses
Under Japanese GAAP, tax effect on the elimination of unrealized gains and losses were determined using the effective tax rate of the selling company. Under IFRS, it is determined using the effective tax rate of the purchasing company.

7. Significant reconciliation of the consolidated statements of cash flows for the previous fiscal year (from January 1, 2015 to December 31, 2015)
There is no material reconciliation between the consolidated statements of cash flows disclosed under Japanese GAAP and those disclosed under IFRS.