

Consolidated Financial Results for the Fiscal Year Ended December 31, 2014 [Japanese GAAP]



February 12, 2015

Company name : Sumitomo Rubber Industries, Ltd.
 Stock exchange listing : Tokyo Stock Exchange
 Code number : 5110
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 Scheduled date of ordinary shareholders' meeting : March 26, 2015
 Scheduled date of commencing dividend payments : March 27, 2015
 Scheduled date of filing annual securities report : March 27, 2015
 Supplementary documents for quarterly financial results : Yes
 Quarterly financial results briefing session : Yes (for institutional investors)

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

1. Consolidated Financial Results for Fiscal Year Ended December 31, 2014 (January 1, 2014 to December 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2014	837,647	7.3	86,251	11.9	87,968	17.9	53,206	18.8
December 31, 2013	780,609	9.9	77,055	10.5	74,582	10.7	44,794	26.4

(Note) Comprehensive income: Fiscal year ended December 31, 2014 : ¥ 96,356 million (decrease of 2.9%)

Fiscal year ended December 31, 2013 : ¥ 99,199 million (increase of 69.3%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets ratio	Operating income to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2014	202.82	-	14.3	9.6	10.3
December 31, 2013	170.76	-	15.6	9.3	9.9

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended December 31, 2014 : ¥ 4,674 million

Fiscal year ended December 31, 2013 : ¥ (356) million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2014	973,587	446,960	42.5	1,575.82
December 31, 2013	867,464	358,844	38.0	1,257.26

(Reference) Equity: As of December 31, 2014 : ¥ 413,374 million

As of December 31, 2013 : ¥ 329,813 million

(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, 2014	108,941	(71,584)	(32,507)	53,584
December 31, 2013	77,012	(68,275)	(5,824)	42,004

2. Dividends

	Annual dividends					Total dividends (Annual)	Payout ratio (Consolidated)	Ratio of dividend to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen			
December 31, 2013	-	15.00	-	25.00	40.00	10,493	23.4	3.7
December 31, 2014	-	20.00	-	30.00	50.00	13,116	24.7	3.5
Fiscal year ending December 31, 2015 (Forecast)	-	25.00	-	25.00	50.00		23.8	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2015 (January 1, 2015 to December 31, 2015)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	400,000	5.6	30,000	(14.5)	29,000	(17.3)	18,000	(17.6)	68.62
Full year	900,000	7.4	90,000	4.3	88,000	0.0	55,000	3.4	209.67

Notes:

(1) Changes in Significant Subsidiaries during the Fiscal Year Ended December 31, 2014

(changes in specified subsidiaries resulting in changes in scope of consolidation) : Yes

Newly consolidated: 1 company

(Company name: Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.)

Excluded from the scope of consolidation: - companies (Company names: -)

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards : Yes

2) Changes in accounting policies other than 1) : None

3) Changes in accounting estimates : None

4) Retrospective restatement : None

(Note) For details, please refer to page 23 of the attached documents, "4. Consolidated Financial Statements, (5) Notes on Consolidated Financial Statements, Changes in Accounting Policies."

(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, 2014 : 263,043,057 shares

December 31, 2013 : 263,043,057 shares

2) Total number of treasury stock at the end of the period

December 31, 2014 : 720,365 shares

December 31, 2013 : 715,318 shares

3) Average number of shares during the period

Fiscal year ended December 31, 2014 : 262,325,228 shares

Fiscal year ended December 31, 2013 : 262,330,353 shares

(Reference) Summary of Non-Consolidated Financial results**Non-Consolidated Financial Results for Fiscal Year Ended December 31, 2014 (January 1, 2014 to December 31, 2014)****(1) Non-Consolidated Operating Results** (% indicates changes from the previous corresponding period.)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2014	463,375	3.2	33,874	(0.4)	42,870	0.6	32,019	(18.9)
December 31, 2013	448,939	10.5	34,000	62.0	42,607	117.6	39,460	954.9

Fiscal year ended	Net income per share	Diluted net income per share
	Yen	Yen
December 31, 2014	122.06	-
December 31, 2013	150.42	-

(2) Non-Consolidated Financial Position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2014	677,750	250,978	37.0	956.75
December 31, 2013	644,288	227,808	35.4	868.41

(Reference) Equity: As of December 31, 2014 : ¥ 250,978 million

As of December 31, 2013 : ¥ 227,808 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."

With regard to the amounts posted in the accounting items in the Company's consolidated financial statements and other sections, amounts less than the indicated unit used to be rounded down. However, from the consolidated fiscal year under review, amounts less than a unit have been rounded to the nearest unit. For easier comparison, all the amounts for the previous consolidated fiscal year have also been presented likewise.

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1. Analysis of Operating Results and Financial Position

(1) Operating Results

1) Operating Results for the Fiscal Year under review

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2013	Increase (Decrease)
	Millions of yen	Millions of yen	%
Net sales	837,647	780,609	7.3
Tires	731,245	681,100	7.4
Sports	70,462	66,260	6.3
Industrial and Other Products	35,940	33,249	8.1
Operating income	86,251	77,055	11.9
Tires	78,416	69,850	12.3
Sports	3,170	3,992	(20.6)
Industrial and Other Products	4,648	3,205	45.0
Adjustments	17	8	-
Ordinary income	87,968	74,582	17.9
Net income	53,206	44,794	18.8

Foreign exchange rates applied

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2013	Increase (Decrease)
	Yen	Yen	Yen
Yen / U.S. Dollar	106	98	8
Yen / Euro	140	130	10

During the fiscal year ended December 31, 2014, the global economy was weak as a whole due to the following factors. Although the U.S. economy saw continued expansion on a moderate pace, the European economies showed weakness partly due to concerns over governmental debts in some regions. The economic growth of emerging markets, including those in Asia, remained moderate, as the deceleration of Chinese economic growth affected many countries and regions.

The Japanese economy showed a gradual recovery, reflecting improved corporate earnings due to continued yen depreciation and the resulting elevation of stock prices. However, the economic climate was slow as a whole, mainly due to the slumping personal consumption after the consumption tax hike in April 2014.

Looking at the business environment surrounding the Sumitomo Rubber Group, there were some favorable factors: the weak yen improved the export environment, natural rubber prices remained low and crude oil prices declined significantly. However, the worldwide stagnation of demand intensified competition in the sale of tires, resulting in severe business conditions for the Group.

Addressing the situation, the Group pursued initiatives to achieve its long-term “VISION 2020” targets for fiscal 2020. Specifically, we strove to achieve greater sales of high-value added products, including fuel-efficient tires, while proactively entering new markets and business fields. We were thus able to rally our Groupwide strengths to support initiatives aimed at driving business growth and improving profitability.

As a result, for fiscal 2014, consolidated net sales of the Group increased 7.3% from the same period of

the previous fiscal year to ¥837,647 million, consolidated operating income increased 11.9% to ¥86,251 million, consolidated ordinary income advanced 17.9% to ¥87,968 million and consolidated net income increased 18.8% to ¥53,206 million.

2) Overview of Results by Segment

Tire Business

Net sales in the tire business increased 7.4% from the same period of the previous fiscal year to ¥731,245 million, and operating income increased 12.3% to ¥78,416 million.

In the domestic replacement market, sales exceeded the level of the previous fiscal year. We promoted sales and improved the product mix of Dunlop-brand tires, ranking first (*1) for the fifth consecutive year in terms of sales volume of fuel-efficient tires, such as the “ENASAVE” series, and expanded sales of “WINTER MAXX” studless snow tires, benefitting from snowfalls across the nation in December. For Goodyear-brand tires, we promoted sales expansion of the new “EAGLE RV F” touring tires for minivans that feature smooth steering, fuel efficiency and long life.

In the domestic original equipment market, sales exceeded the level of the previous fiscal year due to continued efforts to expand sales of high-value-added products, including fuel-efficient tires, as automobile production volume rose above the previous fiscal year.

In the overseas replacement market, sales exceeded the level of the previous fiscal year, reflecting the effects of yen depreciation and sales increases in new markets including Brazil and South Africa, although we faced intensifying competition mainly in emerging markets such as China and Russia.

In the overseas original equipment market, sales exceeded the level of the previous fiscal year chiefly due to a significant increase in sales volume to accommodate growing automobile production in China, although we suffered sales volume decreases in Indonesia and Thailand where the business climate was slow.

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

(*1) According to a survey by JMA Research Institute Inc., on the sales volumes of top two (top three in 2014) domestic automobile goods store chains.

Sports Business

Net sales in the sports business decreased 6.3% from the same period of the previous fiscal year to ¥70,462 million, and operating income decreased 20.6% to ¥3,170 million.

In the domestic market, despite the sluggishness of the golf equipment market due to the worldwide business downturn, our flagship “XXIO 8” golf clubs have continued to enjoy favorable sales since their launch in December 2013. The “SRIXON NEW Z series” marketed in September 2014 also had a good start, enabling us to win the top share (*2) again in fiscal 2014 in terms of sales of golf clubs and golf balls.

In overseas markets, we strove to increase our market shares by conducting strategic promotion of our three major brands: “XXIO,” “SRIXON” and “Cleveland Golf.”

In addition, we entered into the Wellness business in the fourth quarter of fiscal 2014 to make it the third pillar of our core businesses next to the golf and tennis equipment businesses.

As a result, net sales in the sports business remained unchanged from the same period of the previous fiscal year.

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

Industrial and Other Products Business

Net sales in the industrial and other products business increased 8.1% from the same period of the previous fiscal year to ¥35,940 million, and operating income increased 45.0% to ¥4,648 million.

Under the “MIRAIE” brand, a series of vibration control dampers for housing, which help reduce structural vibration, we have continued to offer a wide range of products to address customer needs, including the “MIRAIE 2×4” for wooden houses with two-by-four construction and the “MIRAIE Reform” dampers for remodeling use. We also achieved steady growth of sales in such fields as medical rubber parts and precision

rubber parts for printers and photocopiers. For artificial turf for sports facilities, the extremely durable “Hibrid-Turf EX,” long-pile artificial turf was newly launched in 2014, which received high acclaim.

As a result, net sales in the industrial and other products business exceeded the level of the same period of the previous fiscal year.

3) Business Forecast for Fiscal 2015

In fiscal 2015, 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, 2015, are as follows.

	Full year	Increase (Decrease)	First half	Increase (Decrease)
	Millions of yen	%	Millions of yen	%
Net sales	900,000	7.4	400,000	5.6
Tires	780,000	6.7	344,000	4.5
Sports	78,000	10.7	38,000	16.2
Industrial and Other Products	42,000	16.9	18,000	6.8
Operating income	90,000	4.3	30,000	(14.5)
Tires	85,000	8.4	29,000	(8.2)
Sports	2,000	(36.9)	0	0.0
Industrial and Other Products	3,000	(35.5)	1,000	(52.1)
Adjustments	-	-	-	-
Ordinary income	88,000	0.0	29,000	(17.3)
Net income	55,000	3.4	18,000	(17.6)

Foreign exchange rates applied

	Full year	Increase (Decrease)	First half	Increase (Decrease)
	Yen	Yen	Yen	Yen
Yen / U.S. Dollar	115	9	115	13
Yen / Euro	130	(10)	130	(10)

(2) Financial Position

	As of December 31, 2014	As of December 31, 2013	Increase (Decrease)
	Millions of yen	Millions of yen	Millions of yen
Total assets	973,587	867,464	106,123
Net assets	446,960	358,844	88,116
[excluding minority interests]	[413,374]	[329,813]	[83,561]
Equity ratio	42.5	38.0%	4.5
ROE	14.3	15.6%	(1.3)
ROA	9.4	9.6%	(0.2)
Interest-bearing debt	295,747	302,113	(6,366)
d/e ratio	0.7	0.9	(0.2)
Net assets per share	1,575.82 yen	1,257.26 yen	318.56 yen

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

(i) Assets, Liabilities and Net Assets

Total assets as of December 31, 2014, were up ¥106,123 million from the previous fiscal year-end to ¥973,587 million. Total current assets rose ¥32,813 million, mainly due to increases in notes and accounts receivable - trade and inventories. Total noncurrent assets climbed ¥73,310 million, mainly reflecting an increase in property, plant and equipment.

Total liabilities as of December 31, 2014, were up ¥18,007 million from the previous fiscal year-end to ¥526,627 million. Interest-bearing debt decreased ¥6,366 million to ¥295,747 million.

Total net assets as of December 31, 2014, amounted to ¥446,960 million, of which total equity was ¥413,374 million, and the equity ratio was 42.5%. Net assets per share were ¥1,575.82.

(ii) Cash Flows

Net cash provided by operating activities amounted to ¥108,941 million, the increase being primarily due to the recording of income before income taxes and minority interests of ¥87,411 million, although there were cash outflows, including an increase in notes and accounts receivable—trade of ¥8,025 million, an increase in inventories of ¥4,888 million and a decrease in notes and accounts payable—trade of ¥3,676 million.

Net cash used in investing activities amounted to ¥71,584 million, chiefly due to the purchase of property, plant and equipment of ¥61,846 million to increase production capacity.

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 ¥37,357 million.

Cash flows from financing activities included outflows of ¥17,309 million due to repayments of short-term loans payable and long-term debt as well as redemption of bonds and ¥11,805 million for the payment of cash dividends. As a result, cash and cash equivalents at the end of the fiscal year under review were ¥53,584 million after reflecting the effect of exchange rate change on cash and cash equivalents.

Cash Flow Indicators

	As of December 31, 2011	As of December 31, 2012	As of December 31, 2013	As of December 31, 2014
Equity ratio (%)	29.4	33.1	38.0	42.5
Market value-based equity ratio (%) (Closing stock price at year-end on which the calculation is based)	36.1 (¥924)	36.8 (¥1,035)	45.2 (¥1,494)	48.5 (¥1,800)
Years of debt redemption	14.5	3.6	3.9	2.7
Interest coverage ratio (times)	4.0	17.5	15.9	23.2

(Method of calculation)

- Equity ratio: Total equity / Total assets
- Market value-based equity ratio: Market capitalization / Total assets
- Years of debt redemption: 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 balance sheets 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.

(3) Basic Policy on Profit Distribution and Dividends for Fiscal 2014 and 2015

Sumitomo Rubber Industries recognizes that the return of gains to shareholders is a priority issue. Backed by the comprehensive assessment of dividend payout ratios on a consolidated basis, performance prospects and the level of 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 2014, we intend to pay a year-end dividend of ¥30 per share. Combined with an interim dividend of ¥20 per share, which has already been paid, the annual cash dividends per share for fiscal 2014 will be ¥50.

For fiscal 2015, we plan to pay an annual dividend of ¥50 per share, consisting of interim and year-end dividends per share of ¥25 each.

(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 ratio from 25.2% in fiscal 2001

to 52.7% in fiscal 2014, the possibility exists that its results may be further affected by exchange rate fluctuations. The 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) Alliance with Goodyear

Based on its alliance with Goodyear, the Group operates several joint ventures. Under the alliance, these joint ventures engage in tire production and sales in Europe and North America as well as tire sales in Japan in addition to the promotion of tire technology exchanges and procurement. The Group also maintains cross-shareholdings with Goodyear. As each joint venture is included in the Group's scope of consolidation as a consolidated subsidiary or an equity-method affiliate, changes in the alliance with Goodyear or the operating results of joint ventures may impact the Group's operating results.

6) 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.

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 income 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.

(3) Issues to Be Addressed

With regard to the outlook of the global economy, the U.S. economy is likely to continue to see a gradual growth, while the European economy is anticipated to begin recovering despite lingering financial anxieties. Although emerging markets are expected to enjoy stable economic growth, some of these nations might be negatively impacted by a rise in geopolitical risks, which could, in turn, trigger economic uncertainty.

As for Japan's economic prospects, although the recovery is expected to sustain its current momentum, consumer confidence is likely to be undercut by the effect of the financial 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 Business Performance 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. Specifically, under the Dunlop brand, we launched the "ENASAVE RV504" fuel-efficient tire for minivans, featuring long life and instability control, in February 2015.

Under the Goodyear brand, we marketed another fuel-efficient tire, "EfficientGrip ECO EG01," in February 2015, for which we have achieved enhancement of fuel efficiency and wet performance, as well as longer life.

In overseas markets, we will continue to seek sales expansion mainly in the emerging nations where business growth is expected. Meanwhile, we will begin operations in March 2015 at the Australian sales company established in December 2014, through which we will promote sales of Falken brand and Sumitomo brand tires. 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 have developed new products including the “ENASAVE 100”, the world’s first mass-produced tire made entirely of 100% fossil resource-free materials that enables great contribution to global environmental protection; the “ENASAVE NEXT” tire with 50% less rolling resistance (compared to our products in 2008); and premium run-flat tires manufactured with the new next-generation “NEO-T01” method: the Dunlop “SP SPORT MAXX 050 NEO” and the Falken “AZENIS FK453 RUNFLAT.” Subsequent to these products, we will continue to launch and attractive products using our original advanced technologies.

In terms of production, we will increase our production capacity to meet growing sales in world markets. In addition to the capacity increases achieved by the beginning of operations at the Brazilian factory in October 2013 and the third Thai factory for agricultural machinery tires in April 2014, as well as acquiring a South African factory in December 2013, we are in the final stage of starting operations at a Turkish factory in July 2015, an important location for supplying tires to the European, Russian, Middle- and Near-East and African markets, and will continue to ensure optimum supply-demand conditions for sustainable growth.

Sports Business

For golf equipment, we will continue to win the top share in the domestic market by promoting sales of our flagship golf club XXIO series, as well as the SRIXON and Cleveland Golf brands. For golf balls, we will introduce the premium “NEW SRIXON Z-STAR series” and “XXIO AERO DRIVE” series. For golf shoes, we will promote sales of golf shoes under the ASICS brand, which was jointly designed with Asics Corporation, a business alliance partner.

In overseas markets, we will continue to engage in sales expansion of the XXIO and SRIXON golf clubs and increase the share of SRIXON golf balls.

For tennis equipment, we will aggressively launch new tennis rackets of the SRIXON and BABOLA brands, while striving to increase sales of tennis balls and shoes. We will also promote sales of soft tennis balls and rackets certified by the Japan Soft Tennis Association to expand our tennis business.

For the wellness business that we entered in fiscal 2014, we will seek sales expansion by utilizing synergies with existing golf and tennis schools.

Industrial and Other Products Business

In promising business fields, including vibration control dampers, medical rubber parts and precision rubber parts for printers and copiers, we will increase our production capacity to accommodate growing demand on a global basis and ensure sales expansion and the stable supply of products that can achieve a high reputation for their safety and quality in world markets. For the medical rubber parts business, we acquired Swiss-based Lonstroff Holding AG in January 2015 to secure bases for manufacturing and selling these parts in Europe, through which we will pursue global business development centering on Europe. For artificial turf for sports facilities and rubber gloves, we will continue to develop and supply high-value-added products in terms of quality and function to seek further business growth.

4. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	42,441	54,476
Notes and accounts receivable-trade	*4 198,189	*4 210,027
Merchandise and finished goods	79,834	87,901
Work in process	6,159	6,240
Raw materials and supplies	44,433	47,902
Deferred tax assets	12,557	11,950
Other	25,815	23,820
Allowance for doubtful accounts	(1,945)	(2,020)
Total current assets	407,483	440,296
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	187,486	211,688
Accumulated depreciation	(97,631)	(109,011)
Buildings and structures, net	89,855	102,677
Machinery, equipment and vehicles	469,641	518,785
Accumulated depreciation	(337,399)	(373,070)
Machinery, equipment and vehicles, net	132,242	145,715
Tools, furniture and fixtures	91,037	100,818
Accumulated depreciation	(71,199)	(76,157)
Tools, furniture and fixtures, net	19,838	24,661
Land	37,127	37,569
Leased assets	8,141	9,469
Accumulated depreciation	(3,453)	(4,412)
Leased assets, net	4,688	5,057
Construction in progress	33,225	44,276
Total property, plant and equipment	316,975	359,955
Intangible assets		
Goodwill	8,827	10,465
Trademark right	1,683	1,538
Software	8,940	11,775
Other	7,433	6,872
Total intangible assets	26,883	30,650
Investments and other assets		
Investment securities	*1 69,589	*1 81,430
Long-term loans receivable	1,313	1,280
Deferred tax assets	6,010	6,686
Prepaid pension cost	21,135	-
Net defined benefit asset	-	30,133
Other	19,041	24,082
Allowance for doubtful accounts	(965)	(925)
Total investments and other assets	116,123	142,686
Total noncurrent assets	459,981	533,291
Total assets	867,464	973,587

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable-trade	*4 76,741	*4 74,990
Current portion of bonds	20,000	-
Commercial papers	11,000	1,000
Short-term loans payable	78,719	82,008
Current portion of long-term loans payable	37,339	28,812
Lease obligations	1,514	1,644
Accounts payable - other	*4 46,371	*4 57,132
Income taxes payable	10,437	12,714
Provision for bonuses	3,891	4,564
Provision for directors' bonuses	140	162
Provision for sales returns	2,645	2,106
Provision for sales rebate	601	555
Provision for loss on voluntary recall of products	304	181
Other	23,484	26,437
Total current liabilities	313,186	292,305
Noncurrent liabilities		
Bonds payable	45,000	65,000
Long-term loans payable	104,588	113,184
Lease obligations	3,953	4,099
Deferred tax liabilities	15,983	21,981
Provision for retirement benefits	13,959	-
Net defined benefit liability	-	17,018
Provision for directors' retirement benefits	112	115
Other	11,839	12,925
Total noncurrent liabilities	195,434	234,322
Total liabilities	508,620	526,627
Net assets		
Shareholders' equity		
Capital stock	42,658	42,658
Capital surplus	38,661	38,661
Retained earnings	224,681	265,997
Treasury stock	(551)	(559)
Total shareholders' equity	305,449	346,757
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,521	14,246
Deferred gains or losses on hedges	164	507
Foreign currency translation adjustment	31,677	62,913
Pension liability adjustments in affiliated foreign companies	(18,998)	-
Remeasurements of defined benefit plans	-	(11,049)
Total accumulated other comprehensive income	24,364	66,617
Minority interests	29,031	33,586
Total net assets	358,844	446,960
Total liabilities and net assets	867,464	973,587

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Millions of yen)

	For the fiscal year ended December 31, 2013		For the fiscal year ended December 31, 2014	
Net sales		780,609		837,647
Cost of sales	*2,*6	486,704	*2,*6	511,616
Gross profit		293,905		326,031
Selling, general and administrative expenses	*1,*2	216,850	*1,*2	239,780
Operating income		77,055		86,251
Non-operating income				
Interest income		993		1,461
Dividends income		453		625
Equity in earnings of affiliates		-		4,674
Gain on valuation of derivatives		4,098		3,953
Subsidy income		753		1,598
Other		2,069		2,389
Total non-operating income		8,366		14,700
Non-operating expenses				
Interest expenses		4,811		4,601
Foreign exchange losses		3,562		5,881
Equity in losses of affiliates		356		-
Other		2,110		2,501
Total non-operating expenses		10,839		12,983
Ordinary income		74,582		87,968
Extraordinary income				
Gain on sales of noncurrent assets	*3	647	*3	232
Total extraordinary income		647		232
Extraordinary loss				
Loss on sales and retirement of noncurrent assets	*4	761	*4	686
Impairment loss	*5	136	*5	103
Loss on sales of shares of subsidiaries and associates		311		-
Total extraordinary losses		1,208		789
Income before income taxes and minority interests		74,021		87,411
Income taxes - current		24,682		28,211
Income taxes - deferred		1,687		1,838
Income taxes		26,369		30,049
Income before minority interests		47,652		57,362
Minority interests in income		2,858		4,156
Net income		44,794		53,206

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
Income before minority interests	47,652	57,362
Other comprehensive income		
Valuation difference on available-for-sale securities	6,844	2,709
Deferred gains or losses on hedges	6	342
Foreign currency translation adjustment	36,886	32,071
Pension liability adjustments in affiliated foreign companies	(27)	-
Remeasurements of defined benefit plans	-	(596)
Share of other comprehensive income of entities accounted for using equity method	7,838	4,468
Total other comprehensive income	51,547	38,994
Comprehensive income	99,199	96,356
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	94,470	91,078
Comprehensive income attributable to minority interests	4,729	5,278

(3) Consolidated Statements of Changes in Equity
For the fiscal year ended December 31, 2013

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	42,658	38,661	188,700	(543)	269,476
Changes of items during period					
Disposal of treasury shares		0		0	0
Dividends of surplus			(9,182)		(9,182)
Net income			44,794		44,794
Purchase of treasury shares				(8)	(8)
Other			15		15
Change of scope of consolidation			354		354
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	35,981	(8)	35,973
Balance at end of current period	42,658	38,661	224,681	(551)	305,449

	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments in affiliated foreign companies	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	4,737	158	(8,737)	(21,470)	-	(25,312)	26,938	271,102
Changes of items during period								
Disposal of treasury shares								0
Dividends of surplus								(9,182)
Net income								44,794
Purchase of treasury shares								(8)
Other								15
Change of scope of consolidation								354
Net changes of items other than shareholders' equity	6,784	6	40,414	2,472	-	49,676	2,093	51,769
Total changes of items during period	6,784	6	40,414	2,472	-	49,676	2,093	87,742
Balance at end of current period	11,521	164	31,677	(18,998)	-	24,364	29,031	358,844

For the fiscal year ended December 31, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	42,658	38,661	224,681	(551)	305,449
Changes of items during period					
Disposal of treasury shares		0		0	0
Dividends of surplus			(11,805)		(11,805)
Net income			53,206		53,206
Purchase of treasury shares				(8)	(8)
Other					
Change of scope of consolidation			(85)		(85)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	41,316	(8)	41,308
Balance at end of current period	42,658	38,661	265,997	(559)	346,757

	Accumulated other comprehensive income						Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustments in affiliated foreign companies	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	11,521	164	31,677	(18,998)	-	24,364	29,031	358,844
Changes of items during period								
Disposal of treasury shares								0
Dividends of surplus								(11,805)
Net income								53,206
Purchase of treasury shares								(8)
Other								
Change of scope of consolidation								(85)
Net changes of items other than shareholders' equity	2,725	343	31,236	18,998	(11,049)	42,253	4,555	46,808
Total changes of items during period	2,725	343	31,236	18,998	(11,049)	42,253	4,555	88,116
Balance at end of current period	14,246	507	62,913	-	(11,049)	66,617	33,586	446,960

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	74,021	87,411
Depreciation	43,279	48,204
Impairment loss	136	103
Loss (gain) on sales and retirement of non-current assets	114	454
Loss (gain) on sales of shares of subsidiaries and associates	311	-
Share of (profit) loss of entities accounted for using equity method	356	(4,674)
Increase (decrease) in allowance for doubtful accounts	106	(81)
Increase (decrease) in provision for retirement benefits	342	-
Increase (decrease) in net defined benefit liability	-	644
Decrease (increase) in prepaid pension costs	682	-
Decrease (increase) in net defined benefit asset	-	(609)
Interest and dividend income	(1,446)	(2,086)
Interest expenses	4,811	4,601
Decrease (increase) in notes and accounts receivable - trade	(20,367)	(8,025)
Decrease (increase) in inventories	10,540	(4,888)
Increase (decrease) in notes and accounts payable - trade	(1,928)	(3,676)
Increase (decrease) in accounts payable - other	3,544	10,361
Other, net	(4,528)	8,526
Subtotal	109,973	136,265
Interest and dividend income received	2,547	3,162
Interest expenses paid	(4,852)	(4,702)
Income taxes paid	(30,656)	(25,784)
Net cash provided by (used in) operating activities	77,012	108,941
Cash flows from investing activities		
Payments into time deposits	-	(1,992)
Proceeds from withdrawal of time deposits	324	1,626
Purchase of property, plant and equipment	(54,650)	(61,846)
Purchase of intangible assets	(5,807)	(4,663)
Proceeds from sales of non-current assets	1,053	459
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,736)	(4,871)
Purchase of investment securities	(12)	(99)
Proceeds from sales of investment securities	0	34
Purchase of shares of subsidiaries and associates	(3,494)	-
Net decrease (increase) in short-term loans receivable	(123)	54
Payments of long-term loans receivable	(398)	(21)
Collection of long-term loans receivable	1,058	37
Other, net	(490)	(302)
Net cash provided by (used in) investing activities	(68,275)	(71,584)

(Millions of yen)

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	8,422	(10,087)
Proceeds from long-term debt and newly issued bonds	23,692	50,182
Repayments of long-term debt and redemption of bonds	(24,113)	(57,404)
Proceeds from share issuance to minority shareholders	202	1,961
Cash dividends paid	(9,182)	(11,805)
Cash dividends paid to minority shareholders	(3,265)	(3,571)
Net decrease (increase) in treasury shares	(8)	(8)
Other, net	(1,572)	(1,775)
Net cash provided by (used in) financing activities	(5,824)	(32,507)
Effect of exchange rate change on cash and cash equivalents	5,533	4,269
Net increase (decrease) in cash and cash equivalents	8,446	9,119
Cash and cash equivalents	32,876	42,004
Increase in cash and cash equivalents due to change in reporting entities	682	2,461
Cash and cash equivalents	42,004	53,584

(5) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Basis of Presentation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 75 companies

Names of major consolidated subsidiaries are omitted, as they are disclosed in 2. Status of the Business Group.

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

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

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

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

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

(2) Major unconsolidated subsidiaries

Major unconsolidated subsidiaries:

Suzhou Nakata Engineering, Ltd. Floor tech Co., Ltd.

(Reason for exclusion from consolidation)

None of the unconsolidated subsidiaries' aggregate total assets, net sales, net income for the period (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., had a material impact on the consolidated financial statements.

2. Disclosure about application of the equity method

(1) Number of unconsolidated subsidiaries accounted for using the equity method: 3 companies

Major companies

Tohoku GY Co., Ltd. GY Tires Kita Kanto Co., Ltd.

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

(2) Number of affiliates accounted for using the equity method: 8 companies

Major companies

Goodyear Dunlop Tires Europe B.V. Goodyear Dunlop Tires North America, Ltd.

Sumitomo Electric Tochigi Co., Ltd. Naigai Rubber Co., Ltd.

(3) Unconsolidated subsidiaries (SRI With Co., Ltd. and other companies) and affiliates (Evermore Engineering Corporation and other companies) are excluded from the scope of application of the equity method because they had only a minimal impact on the consolidated financial statements from the viewpoint of net income for the period (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., even when they are excluded from the scope of application of the equity method and have little importance as a whole.

(4) With regard to equity-method companies with a balance sheet date that is different from the consolidated balance sheet date, the financial statements for the most recent fiscal years of the respective equity-method companies have been incorporated.

(5) Treatment of differences in investment amount

With respect to differences in investment amount generated as a result of application of the equity method, the differences for which the cause is clear are treated appropriately according to that cause, the differences for which the cause is not clear are amortized evenly for five years and the differences for which the amount is insignificant are amortized entirely in the period when they were generated.

3. Disclosure about fiscal years, etc., of consolidated subsidiaries

For the consolidated subsidiaries with a balance sheet date that is different from the consolidated balance sheet, accounts settled tentatively as of the consolidated balance sheet are incorporated into the consolidated financial statements of the Company.

4. Disclosure of accounting policies

(1) Accounting policy for measuring significant assets

(i) Securities

Other securities:

With market value:

Securities with market value are stated at fair market value, based on the market price, etc., as of the balance sheet date (with unrealized gains or losses included as a component of net assets, and the cost of securities sold is determined on the gross average method.)

Without market value:

Securities with no market value are stated at cost determined mainly by the gross average method.

(ii) Derivatives

Derivatives are stated at fair market value.

(iii) Inventories

Inventories are stated at cost determined mainly by the gross average method. (The value stated on the balance sheet is calculated by devaluating the book value based on the reduction in profitability.)

(2) Accounting policy for depreciation of significant assets

(i) Property, plant and equipment (excluding lease assets)

Straight-line method

The major useful lives are as follows:

Buildings and structures: 3 to 60 years

Machinery, equipment and vehicles: 1 to 20 years

Tools, furniture and fixtures: 1 to 20 years

(ii) Intangible assets (excluding lease assets):

Straight-line method

For software for internal use, the straight-line method is adopted based on the anticipated useful term (5 years).

(iii) Lease assets

Finance leases that transfer ownership are depreciated in the same manner as owned noncurrent assets.

Finance leases that do not transfer title are accounted for as purchase and sale transactions and are depreciated by the straight-line method, in which it is assumed that the useful life is the lease period and the residual value of the relevant asset at the end of the lease period is zero.

Finance lease transactions that were executed on or before December 31, 2008, and which do not involve a transfer of ownership are accounted for using the same method as that used for operating leases.

- (3) Accounting policy for significant deferred assets
Bond issuance cost
All expenses are charged to income on cash basis.
- (4) Accounting policy for significant provisions
- (i) Allowance for doubtful accounts
To allow for loss from bad debts, general loans are recorded in the amount calculated by a doubtful accounts ratio, and for certain loans such as loans that are anticipated to be unrecoverable, the anticipated unrecoverable amounts after considering the possibility of collecting on each loan are recorded.
 - (ii) Provision for bonuses
To allow for regular payments of bonuses to employees, the estimated amount payable for the consolidated fiscal year under review is recorded.
 - (iii) Provision for directors' bonuses
To allow for the payment of bonuses to officers, the estimated amount payable for the consolidated fiscal year under review is recorded.
 - (iv) Provision for directors' retirement benefits
To allow for the payment of retirement benefits to directors and statutory auditors of certain consolidated subsidiaries, the amount that the subsidiaries would be required to pay at the balance sheet date based on their internal rules is recorded.
 - (v) Provision for sales returns
To allow for losses from returns of snow tires, the provision is made based on an estimated amount using the average rate of such returns in prior years.
 - (vi) Provision for sales rebate
In some consolidated subsidiaries, to allow for sales discount anticipated in the future in sale of products, an anticipated amount is recorded.
 - (vii) Provision for loss on voluntary recall of products
To allow for direct recalling expenses and related expenses for voluntarily recalling products, an amount reasonably estimated to be incurred after the current period is recorded.
- (5) Accounting for retirement benefits
- (i) Method of attributing the expected benefit to periods
In calculating retirement benefit obligation, the period corresponding basis is adopted as the method of attributing the expected benefit to periods until the end of the fiscal year under review.
 - (ii) Method of amortization of actuarial differences and prior service costs
Prior service costs are amortized on a straight-line basis over a fixed number of years (mainly 15 years) within the average remaining service period of employees when they are incurred. Actuarial differences are amortized on a straight-line basis, beginning from the following fiscal year after they are incurred, over a fixed number of years (10 and 15 years) within the average remaining service period of employees when the differences occur.
 - (iii) Adoption of the simplified method for small-sized companies, etc.
Some consolidated subsidiaries adopt the simplified method, which regards the retirement benefit amount required to pay by themselves at the year-end as benefit obligation for calculating defined benefit liability and retirement and pension costs benefit costs.

- (6) Conversion of significant foreign currency denominated assets and liabilities into Japanese yen
Foreign currency receivables and payables are translated into Japanese yen at the spot exchange rates at the balance sheet date, and resulting exchange gains and losses are included in the consolidated statements of income.
The asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the year-end spot exchange rates. The income and expense accounts of foreign subsidiaries and affiliates are translated at the average rates of exchange prevailing during the year and resulting exchange gains and losses are included in the foreign currency translation adjustment and minority interests under net assets.
- (7) Accounting policy for hedging
- (i) Method of hedge accounting
Deferred hedge accounting is adopted.
For foreign exchange forward contracts that fulfill the requirements for the allocation method, the allocation method is adopted. For interest rate swap contracts that fulfill the requirements for special exceptions, special exceptions are adopted. For interest rate and currency swap contracts that fulfill the requirements for the integration method (special exceptions and allocation method), the integration method is adopted.
- (ii) Hedging instruments and hedged items
Hedging instruments: Foreign exchange forward contracts, interest rate swaps, and interest rate and currency swaps
Hedged items: Accounts receivable and payable in foreign currencies, forecast transactions in foreign currencies, loans payable with variable interest rates
- (iii) Hedging policy
The Company and its consolidated subsidiaries use financial instruments to hedge market and interest rate fluctuation risks in accordance with their internal policies and procedures.
- (iv) Method for assessing hedge effectiveness
The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing the cumulative changes in fair value or the cumulative changes in cash flow on hedging instruments with those of the related hedged items from the commencement of the hedge until the time of evaluating its effectiveness.
- (8) Accounting policy for goodwill
Goodwill or negative goodwill generated on or before March 31, 2010, is equally amortized over a period within 20 years.
Goodwill of which the amount is insignificant is entirely amortized in the year when it was generated.
- (9) Cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents as stated in the consolidated statements of cash flows 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.
- (10) Other important matters for preparation of the consolidated financial statements
- (i) Accounting policy for consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
- (ii) Adoption of the consolidated taxation system
The Company and its consolidated subsidiaries adopt the consolidated taxation system.

(Changes in Accounting Policies)

Effective from the end of the fiscal year under review, the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012, hereinafter the “Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012, hereinafter the “Guidance”) have been applied, except for the provisions of Item 35 of the Accounting Standard and Item 67 of the Guidance. According to this application, an amount obtained by deducting the amount of plan assets from retirement benefit obligation is recognized as net defined benefit liability, and unrecognized actuarial differences and unrecognized prior service costs are recognized as net defined benefit liability. If the amount of plan assets exceeds retirement benefit obligation, the excess is recognized as net defined benefit asset.

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

As a result, as at the end of the fiscal year under review, net defined benefit asset of ¥30,133 million, net defined benefit liability of ¥17,018 million were reported and there was an increase of ¥4,396 million in accumulated other comprehensive income.

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

(Unapplied Accounting Standards)

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

1. Summary

The aforementioned accounting standard and guidance aim to revise the methods to recognize unrecognized actuarial gains and losses and past service costs and to calculate retirement benefit liabilities and service costs, as well as to expand the range of disclosure, for the purpose of improving financial reporting in line with international accounting trends.

2. Scheduled date of application

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

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

3. Impact of application

Due to the revision in the method to calculate retirement benefit liabilities and service costs, net defined benefit liability is expected to increase ¥1,110 million and net defined benefit asset to decrease ¥7,777 million, with retained earnings decreasing ¥5,570 million at the beginning of the fiscal year following the year of application.

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

(Changes in Presentation)

(Consolidated statements of income)

“Subsidy income,” which was included in “Other” under “Non-operating income” for the previous consolidated fiscal year, exceeded 10% of total non-operating income and was separated stated in the fiscal year under review. To reflect this change, reclassification of the relevant accounts was conducted in the consolidated statements of income for the previous fiscal year.

As a result, ¥2,822 million stated as “Other” under “Non-operating income” has been reclassified into ¥753 million as “Subsidy income” and ¥2,069 million as “Other,” in the consolidated statements of income for the previous fiscal year.

As “Loss on sales of notes payable” and “Product compensation obligations-related expenses” under “Non-operating expenses,” which was separately stated for the previous consolidated fiscal year, have become immaterial, they are included within “Other” for the current consolidated fiscal year. Reclassification have been made to the financial statements for the previous consolidated fiscal year to reflect such changes in presentation.

As a result, “Loss on sales of notes payable” and “Product compensation obligations-related expenses” under “Non-operating expenses,” which was stated as ¥269 million and ¥319 million for the previous consolidated fiscal year, are reclassified into “Other.”

(Notes on Consolidated Balance Sheets)

*1. Investments in unconsolidated subsidiaries and affiliates are as follows.

	As of December 31, 2013	As of December 31, 2014
	Millions of yen	Millions of yen
Investment securities (stocks)	41,664	49,139

2. Guarantee of obligations

Guarantee of obligations is provided for the following bank loans.

	As of December 31, 2013	As of December 31, 2014
	Millions of yen	Millions of yen
Employees (housing loans), etc.	50	24
Cleveland Golf Korea Co. Ltd.	340	406
Total	390	430

3. Discounts on notes receivable

	As of December 31, 2013	As of December 31, 2014
	Millions of yen	Millions of yen
Notes receivable-trade discounted	943	1,073

*4. Accounting for notes and accounts receivable and payable that matured at the fiscal year-end

As the fiscal year-end fell on a bank holiday, the following notes and accounts receivable and payable for which the date of clearance or settlement coincided with the fiscal year-end were accounted for when they were actually cleared or settled.

	As of December 31, 2013	As of December 31, 2014
	Millions of yen	Millions of yen
Notes receivable - trade	1,455	1,931
Notes and accounts payable - trade	6,449	6,935
Accounts payable - other	2,156	2,372

(Notes on Consolidated Statements of Income)

*1. The major components of selling, general and administrative expenses are as follows.

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
Promotion expenses	48,200	53,053
Advertising and promotion expenses	29,084	32,653
Transportation and warehousing expenses	35,152	41,480
Provision of allowance for doubtful accounts	434	214
Personnel expenses	52,326	55,982
Provision for bonuses	1,578	1,755
Provision for directors' bonuses	134	163
Retirement benefit expenses	2,108	1,892

*2. The following research-and-development expenses are included in general and administrative expenses and manufacturing costs for the year under review.

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
	21,822	23,543

*3. The major components of gain on sales of noncurrent assets are as follows.

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
Machinery, equipment and vehicles	92	135
Land	543	71

*4. The major components of loss on sales of noncurrent assets are as follows.

	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
Buildings and structures	322	230
Machinery, equipment and vehicles	299	276

*5. Impairment loss

Impairment losses were recognized for the following asset groups.

For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

Group	Location	Type of assets	Amount of impairment loss (Millions of yen)
Assets for rent	Abashiri-shi, Hokkaido Pref., etc.	Land and building	96
Idle assets	Daisen-shi, Akita Pref.	Land	1
Assets to be disposed of	-	Machinery and equipment, etc.	39

The Company and its consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties, unused idle assets, and assets to be disposed of as decided by the Board of the Directors are tested for recoverability on an individual basis.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because the fair value of assets in certain idle asset groups declined substantially; the book values of certain assets for which market prices have considerably declined along with the drop in land prices decreased; and the Company decided to dispose of certain assets. The recognized impairment losses for the year ended December 31, 2013, consist of ¥87 million for land, ¥12 million for machinery, ¥9 million for buildings and ¥28 million for other assets.

The recoverable amount of these asset groups was measured at their net realizable value. The recoverable amount for machinery and others for which the selling price was difficult to calculate was measured at the memorandum value. The recoverable amount for land and buildings was measured based on the publicly assessed fixed property tax value of the land and buildings.

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

Group	Location	Type of assets	Amount of impairment loss (Millions of yen)
Idle assets	Izumiotu-shi, Osaka Pref., etc.	Land and building, etc.	103

The Company and its consolidated subsidiaries group their assets at the lowest level for which cash flows are independently identifiable. Rental properties, unused idle assets and assets to be disposed of as decided by the Board of the Directors are tested for recoverability on an individual basis.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because the fair value of assets in certain idle asset groups declined substantially; the book values of certain assets for which market prices have considerably declined along with the drop in land prices decreased; and the Company decided to dispose of certain assets. The recognized impairment losses for the year ended December 31, 2014, consist of ¥93 million for land, ¥9 million for buildings and ¥1 million for other assets.

The recoverable amount of these asset groups was measured at their net realizable value. The recoverable amount for machinery and others for which the selling price was difficult to calculate was measured at the memorandum value. The recoverable amount for land and buildings was measured based on the publicly assessed fixed property tax value of the land and buildings.

*6. The year-end balance of inventories is stated by devaluating book value based on the reduction in profitability. Therefore, the following (gain) loss on valuation of inventories is included in cost of sales.

For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
Millions of yen (521)	Millions of yen (32)

(Segment Information, etc.)

Segment Information

1. Information by reportable segment

The Company's reportable segments are the units for which separate financial information is available and periodically reviewed by the Board of Directors for the purposes of deciding the allocation of management resources and evaluating business performance.

The Company and its subsidiaries have three divisions based on operations in Tires, Sports and Industrial and Other Products. Each division formulates comprehensive strategies for both domestic and overseas markets and develops business activities.

Therefore, the Company identifies "Tires," "Sports," and "Industrial and Other Products" as reportable segments.

Major products that belong to each reportable segment

Reportable segment	Major products
Tires	Tires and tubes (for automobiles, construction vehicles, industrial vehicles, automotive races and rallies, motorcycles, etc.)
Sports	Sporting goods (golf clubs, golf balls and other golf equipment, tennis equipment, etc.) Operation of golf tournaments Operation of golf and tennis schools Fitness business
Industrial and Other Products	High-performance rubber products (vibration control dampers, precision rubber parts for office machines, offset printing blankets, 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. Explanation of measurements of sales, profit (loss), asset, liability, and other items for each reportable segment

The accounting policies of each reportable segment are the same as those described in "Basis of Presentation of Consolidated Financial Statements" in (5) Notes to Consolidated Financial Statements under 4. Consolidated Financial Statements. Figures for reportable segment profit are based on operating income. Intersegment sales and transfers are stated at wholesale prices based on current market values.

3. Reportable segment sales, profit or loss, assets and other material items
For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

(Millions of yen)

	Reportable segment				Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Tires	Sports	Industrial and Other Products	Total		
Net sales						
Net sales to outside customers	681,100	66,260	33,249	780,609	-	780,609
Inter-segment net sales or transfers	19	337	46	402	(402)	-
Total	681,119	66,597	33,295	781,011	(402)	780,609
Segment profit	69,850	3,992	3,205	77,047	8	77,055
Segment assets	749,705	56,794	28,148	834,647	32,817	867,464
Other items						
Depreciation and Amortization	40,773	1,697	809	43,279	-	43,279
Amortization of goodwill	325	613	-	938	-	938
Investments in entities accounted for using equity method	36,703	69	-	36,772	-	36,772
Increase in property, plant and equipment and intangible assets	62,470	2,903	1,224	66,597	-	66,597

(Notes)

1. The amounts of "Adjustments" are as follows.
 - (1) Segment profit included in "Adjustment" comprised elimination of intersegment transactions.
 - (2) Segment assets included in "Adjustments" comprised corporate assets of ¥33,079 million, which consisted mainly of cash and time deposits; investment securities owned by the Company; and assets for administration divisions, as well as the elimination of intersegment transactions of ¥262 million.
2. Segment profit corresponds to operating income.
3. Depreciation and amortization included the amount of depreciation of long-term prepaid expenses.
4. The increase in tangible and intangible noncurrent assets included the amount of an increase in long-term prepaid expenses.

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

(Millions of yen)

	Reportable segment				Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Tires	Sports	Industrial and Other Products	Total		
Net sales						
Net sales to outside customers	731,245	70,462	35,940	837,647	-	837,647
Inter-segment net sales or transfers	14	368	20	402	(402)	-
Total	731,259	70,830	35,960	838,049	(402)	837,647
Segment profit	78,416	3,170	4,648	86,234	17	86,251
Segment assets	835,085	68,246	31,307	934,638	38,949	973,587
Other items						
Depreciation and Amortization	45,323	1,931	950	48,204	-	48,204
Amortization of goodwill	707	659	-	1,366	-	1,366
Investments in entities accounted for using equity method	47,623	110	-	47,733	-	47,733
Increase in property, plant and equipment and intangible assets	64,650	2,429	1,771	68,850	-	68,850

(Notes)

1. The amounts of "Adjustments" are as follows.
 - (1) Segment profit included in "Adjustment" comprised elimination of intersegment transactions.
 - (2) Segment assets included in "Adjustments" comprised corporate assets of ¥39,263 million, which consisted mainly of cash and time deposits; investment securities owned by the Company; and assets for administration divisions, as well as the elimination of intersegment transactions of ¥314 million.
2. Segment profit corresponds to operating income.
3. Depreciation and amortization included the amount of depreciation of long-term prepaid expenses.
4. The increase in tangible and intangible noncurrent assets included the amount of an increase in long-term prepaid expenses.

Related information

For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

1. 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.

2. Information about geographic areas

(1) Net sales

(Millions of yen)

Japan	Asia	North America	Other areas	Total
382,077	150,792	89,231	158,509	780,609

Note: Net sales are classified by the countries or regions where customers are located.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia	Other areas	Total
138,490	150,189	28,296	316,975

3. Information about major customers

Disclosure of this information is omitted because no customer accounts for 10% or more of the net sales to external customers stated in the consolidated statements of income.

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

1. 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.

2. Information about geographic areas

(1) Net sales

(Millions of yen)

Japan	Asia	North America	Other areas	Total
396,143	164,829	91,534	185,141	837,647

Note: Net sales are classified by the countries or regions where customers are located.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia	Other areas	Total
141,654	167,782	50,519	359,955

3. Information about major customers

Disclosure of this information is omitted because no customer accounts for 10% or more of the net sales to external customers stated in the consolidated statements of income.

Information about impairment losses on noncurrent assets by reportable segment

For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

(Millions of yen)

	Tires	Sports	Industrial and Other Products	Total
Impairment loss	136	-	-	136

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

(Millions of yen)

	Tires	Sports	Industrial and Other Products	Total
Impairment loss	103	-	-	103

Information about amortization of goodwill and unamortized balance by reportable segment

For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

(Millions of yen)

	Tires	Sports	Industrial and Other Products	Total
Amortization of goodwill	325	613	-	938
Goodwill	3,623	5,204	-	8,827

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

(Millions of yen)

	Tires	Sports	Industrial and Other Products	Total
Amortization of goodwill	707	659	-	1,366
Goodwill	2,984	7,481	-	10,465

Information about gains on negative goodwill

For the fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

Information is omitted since it is immaterial.

For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

None

(Per Share amounts)

Items	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
Net assets per share	1,257.26	1,575.82
Net income per share	170.76	202.82

(Notes)

1. Diluted net income per share is not presented because there were no outstanding common stock equivalents.
2. The basis of calculation is as follows.

(1) Net assets per share

Items	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
Total net assets	358,844	446,960
Amount deducted from total net assets	29,031	33,586
Minority interests included	[29,031]	[33,586]
Net assets associated with common stock	329,813	413,374
	Thousands of shares	Thousands of shares
Number of shares of common stock issued and outstanding at year-end	263,043	263,043
Number of shares of treasury common stock at year-end	715	720
Year-end number of shares of common stock used in calculation of net assets per share	262,328	262,323

(2) Net income per share

Items	For the fiscal year ended December 31, 2013	For the fiscal year ended December 31, 2014
	Millions of yen	Millions of yen
Net income	44,794	53,206
Amount not attributable to shareholders of common stock	-	-
Net income associated with common stock	44,794	53,206
	Thousands of shares	Thousands of shares
Average number of shares of common stock during the period	262,330	262,325

(Significant subsequent events)
None

5. Other Information

Appointment of Officers

The following appointments were tentatively decided, pending the approval of the Shareholders, at a Meeting of the Board of Directors held on Thursday, February 12, 2015.

1. Appointment of Member of the Board (Effective Thursday, March 26, 2015)

*(Current positions are listed in parentheses.)

Newly Appointed Member of the Board

A Resolution for the Appointment of the following Member of the Board will be introduced at the Annual General Shareholders Meeting scheduled to be held on Thursday, March 26, 2015.

Senior Executive Officer/Member of the Board	Mr. Satoru Yamamoto (Senior Executive Officer)
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2. Appointment of Executive Officers (Effective Thursday, March 26, 2015)

*(Current positions are listed in parentheses.)

Newly Appointed Executive Officers

A Resolution for the Appointment of the following Executive Officers will be introduced at the Meeting of the Board of Directors following the Annual General Shareholders Meeting scheduled to be held on Thursday, March 26, 2015.

Executive Officer	Mr. Kiyoshige Muraoka (General Manager of Material Department I)
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Executive Officer	Mr. Masatsugu Nishino (Vice-President of Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş, Turkish Subsidiary)
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New Member of the Board Candidate Career Summary

Mr. Satoru Yamamoto

Date of Birth: June 14, 1958 (Age: 56)

Place of Birth: Saitama Prefecture

April 1982	Entered Sumitomo Rubber Industries, Ltd.
January 2001	Appointed General Sales Manager of Tire Sales & Marketing Division
January 2007	Appointed President of Dunlop Falken Kyushu K.K. (Currently Dunlop Tire Kyushu K.K.)
March 2010	Appointed Deputy General Manager of Dunlop Tyres Sales HQ Appointed Executive Officer
March 2011	Appointed General Manager of Dunlop Tyres Sales HQ (Current Position)
March 2013	Appointed Senior Executive Officer (Current Position)

SRI Share Holdings: 6,530 Shares

New Executive Officer Career Summary

Mr. Kiyoshige Muraoka

Date of Birth: February 21, 1961 (Age: 53)

Place of Birth: Hyogo Prefecture

April 1985	Entered Sumitomo Rubber Industries, Ltd.
January 2010	Appointed General Manager of Material Department II
January 2012	Appointed General Manager of Material Department I (Current Position)

Mr. Masatsugu Nishino

Date of Birth: February 8, 1962 (Age: 53)

Place of Birth: Gifu Prefecture

April 1984	Entered Sumitomo Rubber Industries, Ltd.
January 2006	Appointed President of Dunlop Falken Hokkaido K.K. (Currently Dunlop Tire Hokkaido K.K.)
July 2010	Appointed President of Dunlop Tire Chuo K.K.
March 2013	Appointed Vice-President of Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş. (Turkish Subsidiary, Current Position)