The following is an English translation of the items published on the Internet Website concerning the convocation of the Ordinary General Meeting of Shareholders of Sumitomo Rubber Industries, Ltd. (the "Company") to be held on March 26, 2019. The Company provides this translation solely for reference and convenience of the shareholders and not for any other purposes. The Company makes no warranty, express or implied, as to the accuracy or completeness of the translation. Furthermore, the provision of this translation by the website shall neither constitute an offer to purchase or sell any securities or a solicitation of such offer nor be deemed a recommendation for investment.

(Translation)

The Items Published on the Internet Website concerning the Convocation of the Ordinary General Meeting of Shareholders

Sumitomo Rubber Industries, Ltd.

Pursuant to applicable laws and Article 15 of the Articles of Incorporation of the Company, the above items are provided to shareholders through the corporate website (http://www.srigroup.co.jp/) and are not included in the attached Reference Documents for the Notice of Convocation of the 127th Ordinary General Meeting of Shareholders.

Details of Resolution on Establishing Systems Necessary for Ensuring Appropriate Business Operations and Summary of Operational Status Thereof

	(1) Outline of the resolutions with regard to the establishment of systems to ensure the proper execution of business	(2) Outline of the status of the management of a system to ensure the proper execution of business
General Provisions	To establish a system necessary to ensure the proper execution of business of the Sumitomo Rubber Group, which comprises the Company and its subsidiaries as set forth in Article 2, Item 3, of the Companies Act, as described below, the Company determined the following by resolution of the Board of Directors.	For the fiscal year under review, a system to ensure the proper execution of business was managed properly in every aspect. The outline of the management status in each aspect is as follows.
(1) A System to Preserve and Manage Information Concerning the Execution of Business by Directors	Information concerning the execution of business by Directors, such as documents on proposals or decisions, shall be recorded and managed appropriately in accordance with the Regulations Concerning Preservation of Documents of the Company. Directors and Audit & Supervisory Board Members of the Company shall be permitted to view these records at all times.	Minutes were prepared for each important meeting including the Board of Directors' meeting and managed appropriately in accordance with the Regulations Concerning Preservation of Documents. Directors and Audit & Supervisory Board Members of the Company are permitted to view these records at all times.
(2) Rules concerning the Risk Management of Loss and Other Systems	Management risks involving quality, law, environment, credit, accidents, disasters, etc., that may materially adversely affect the business activities of the Group shall be addressed by the relevant division and subsidiary in advance, by analyzing those risks and planning countermeasures in accordance with the Regulations Concerning Risk Control that stipulate the risk management rules of the entire Group, and then referred to the management meeting of the Company for discussion. If necessary, advice and guidance may be sought from professionals, including legal counsel, in analyzing and planning countermeasures for such risks. Any risk comprehensively involving the Group shall be addressed by each business division for its respective business operation in coordination with	The Risk Management Committee meeting was held twice in accordance with the Regulations Concerning Risk Control of the Company to oversee cross-Group risk management activities and confirm that group-wide risk management system is functioning effectively. The Company established a Risk Management Center to implement appropriate response measures for Typhoon Jebi (Typhoon No.

	other relevant division(s) and subsidiary(ies) The Risk Management Committee shall oversee group-wide risk management activities and investigate as appropriate and confirm that the risk management system is functioning effectively. If any material risk becomes clear or could be anticipated within the Group, the President of the Company shall establish a Risk Management Center pursuant to the Regulations Concerning Risk Control.	21) that hit western Japan in September 2018, such as measures to minimize damage to its business establishments (Izumiotsu Factory and warehouses of the logistics subsidiary) in the aftermath of the typhoon.
(3) A System to Ensure the Efficient Execution of Business by Directors	In order to ensure that Directors and managerial and other personnel may execute their business properly and efficiently, duties, authority, and relevant operations shall be specifically allocated in the Company through the Regulations Concerning Allocation of Responsibility and Duties. Each subsidiary shall also establish a similar organizational system in compliance with the Company's regulations. Furthermore, the Company shall introduce an Executive Officer System to perform its business flexibly in response to the changing environment and customer needs. With respect to the performance and efficiency of each division and subsidiary, a mid-term managerial plan shall be drawn up, targets shall be set at budget meetings (to be reviewed on a quarterly basis), and the status of achievements of those targets shall be reported for analysis and review on a monthly basis at the Group's performance meetings. All business operations of the Group shall actively promote IT to enhance efficiency in the execution of business.	The Company has a system to ensure efficient business execution. As part of such a system, the Board of Directors held 12 ordinary meetings and 2 extraordinary meetings to check the status of progress of a mid-term managerial plan and other operations that were determined to be executed. The Company also introduced an Executive Officer System and held 24 management meetings, handling a broad scope of duties delegated from the Board of Directors, thereby performing its business flexibly.
(4) A System to Ensure the Execution of Business by Directors and Employees is in Compliance with Law/Regulations and the Articles of Incorporation	The corporate philosophy of the Sumitomo Rubber Group, THE SRI WAY, its corporate code of conduct, and various compliance manuals shall be distributed throughout the entire Group, top management shall clarify its principles, and it shall be made thoroughly clear throughout the Group that compliance with laws and corporate ethics create the basic foundation of management. The Corporate Ethics Committee, chaired by the President of the Company, shall identify, analyze, and evaluate those compliance risks comprehensively	In addition to supervision of the Board of Directors' meetings, the Company held 12 Audit & Supervisory Board meetings, thereby ensuring that the execution of business by directors was compliant with laws, regulations and the Articles of Incorporation. Moreover, the Company held 4 meetings of the Corporate

	involving the entire Group, plan and conduct training, ascertain the cause of any violation, propose measures to prevent their recurrence, and ensure thorough familiarization of the foregoing throughout the Group. A Corporate Ethics Help Line shall be established to allow employees, et al. of the Group, to directly report and consult on any actions that are questionable of corporate ethics. Information received by the Corporate Ethics Help Line shall be reported to the Corporate Ethics Committee, which shall assess the situation and adopt the necessary measures. The Sumitomo Rubber Group's corporate code of conduct shall stipulate that any relationship with such anti-social forces must be forbidden to reject any and all exigent demands from anti-social forces.	Ethics Committee to deliberate the Group's compliance issues and address those compliance risks comprehensively involving the entire Group. As part of such measures, we addressed the incidents reported to the Corporate Ethics Help Line in a sincere manner. In addition, the Company held a corporate ethics presentation in the corporate ethics month it has designated. Furthermore, each division of the Group independently conducted activities to raise awareness of corporate ethics.
(5) A System to Report to the Company Matters related to the Execution of Business by Directors and Other Personnel of Subsidiaries	A system shall be established whereby the relevant division of the Company shall periodically receive reports from the Directors and other personnel of each subsidiary on its performance targets and achievements, and, as necessary, receive reports on certain matters such as those that need to be reported to and discussed at the Company's management meetings and the meetings of the Board of Directors, risk management, and compliance matters. The foregoing shall then be discussed with the Company, if necessary, pursuant to the Regulations Concerning Management of Affiliated Companies.	The Company received necessary information from its subsidiaries as needed via regular reporting from the Directors of each subsidiary at 12 Group's performance meetings, and by putting the related matters on the agenda of management meetings and the meeting of the Board of Directors based on the Regulations Concerning Management of Affiliated Companies of the Company. Thus, the Company has a system to ensure proper business execution throughout the Group.
(6) A System to Ensure Adequate Financial Reporting	The Group shall strive to maintain internal control systems in accordance with the Financial Instruments and Exchange Law and assessment/audit standards and implementation standards prescribed by the Financial Services Agency, and to enhance	The Company has consistently been striving to strengthen a system to ensure the adequate financial reporting by the Group. As

	systems to ensure adequate financial reporting by the Group.	part of such efforts, the Company is utilizing audits by accounting auditors and further improving the internal control systems of the Company in line with laws and regulations.
(7) Establishment of a Post to Assist the Duties of Audit & Supervisory Board Members at the Request of Audit & Supervisory Board Members	An employee shall be selected to work as a dedicated assistant to assist the duties of Audit & Supervisory Board Members exclusively under their direction. The opinion of the Audit & Supervisory Board shall be sought in advance in the event of carrying out personnel changes and evaluating the performance of the aforementioned assistant of Audit & Supervisory Board Members.	The Company installed a dedicated assistant to assist the duties of Audit & Supervisory Board Members, with careful consideration as to the independence of this position.
(8) Systems to Allow Directors and Employees to Report to Audit & Supervisory Board Members of the Company and to Allow Other Reports to be Made to Audit & Supervisory Board Members	Standing Audit & Supervisory Board Members of the Company shall participate in management meetings and other important meetings of the Company to appropriately understand the circumstances of the Group. Important matters such as those involving risk management shall be reported directly by Directors or heads of divisions of the Group to Audit & Supervisory Board Members of the Company, as necessary. Matters reported to the Corporate Ethics Help Line (excluding minor problems) shall be reported to the Audit & Supervisory Board of the Company. With regard to Regulations Concerning the System to Address Corporate Ethics for all the Group companies, the Group shall establish a system which prevents informants being treated unfairly as a result of reporting to Audit & Supervisory Board Members of the Company by stipulating provisions such as the duty of confidentiality of personal information relating to informants and the prohibition of unfair treatment of informants who have contacted the Corporate Ethics Help Line.	Standing Audit & Supervisory Board Members of the Company participate in important meetings such as management meetings and the Corporate Ethics Committee meetings and receive the information necessary for effective audits as needed. By exchanging such information with outside Audit & Supervisory Board Members at the Audit & Supervisory Board meetings, objective, fair and effective audits were conducted.
(9) Other Systems to Ensure Effective Audit Coverage by	Audit & Supervisory Board Members of the Company shall be given opportunities to receive explanations from Directors or heads of divisions of the Group, as necessary.	At the Audit & Supervisory Board meetings of the Company, Audit &

Audit & Supervisory Board Members	Audit & Supervisory Board Members of the Company may request the Company to reimburse any expenses including ad-hoc expenditures incurred with respect to the execution of business within a reasonable scope.	Supervisory Board Members conducted a total of 11 interviews with Directors or heads of divisions of the Group with regard to the business duties for which they are responsible and the status of the progress of the Company's mid-term management plan. Also, the results of onsite investigations by Audit & Supervisory Board Members (Standing and Outside Audit & Supervisory Board Members inspected one domestic and overseas production base each) were shared among all Audit & Supervisory Board Members, thereby implementing effective audits.

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(From January 1, 2018 to December 31, 2018)

(Unit: JPY Million)

	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, 2018	42,658	37,865	428,799	(17,631)	(43,902)	(436)
Profit			36,246			
Other comprehensive income					30,347	86
Total comprehensive income	–	–	36,246	–	30,347	86
Purchase of treasury stock				(31)		
Disposal of treasury stock		1		3		
Dividends			(15,511)			
Change in ownership interests in subsidiaries that do not result in loss of control		3			0	
Acquisition of non-controlling interests involving merger of consolidated subsidiaries		(3,598)		17,590	(233)	0
Transfer to retained earnings			(3,256)			
Transfer to capital surplus		5,216	(5,216)			
Other increase and decrease						(41)
Total transactions with owners	–	1,622	(23,983)	17,562	(233)	(41)
Balance as of December 31, 2018	42,658	39,487	441,062	(69)	(74,482)	(391)

(Unit: JPY Million)

	Equity attributable to owners of parent				Non-controlling interests	Total
	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, 2018	12,554	－	(31,784)	459,907	30,979	490,886
Profit			－	36,246	940	37,186
Other comprehensive income	(2,907)	(3,405)	(36,573)	(36,573)	(1,912)	(38,485)
Total comprehensive income	(2,907)	(3,405)	(36,573)	(327)	(972)	(1,299)
Purchase of treasury stock			－	(31)		(31)
Disposal of treasury stock			－	4		4
Dividends			－	(15,511)	(1,300)	(16,811)
Change in ownership interests in subsidiaries that do not result in loss of control			0	3	96	99
Acquisition of non-controlling interests involving merger of consolidated subsidiaries	123	41	(69)	13,923	(13,923)	－
Transfer to retained earnings	(108)	3,364	3,256	－		－
Transfer to capital surplus			－	－		－
Other increase and decrease			(41)	(41)		(41)
Total transactions with owners	15	3,405	3,146	(1,653)	(15,127)	(16,780)
Balance as of December 31, 2018	9,662	－	(65,211)	457,927	14,880	472,807

Notes on Consolidated Financial Statements

(Notes on Significant Matters Forming the Basis of Preparation of the Consolidated Financial Statements)

1. Basis for the Preparation of the Consolidated Financial Statements

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. Pursuant to the provisions of the latter clause of the same paragraph, some disclosure items required under IFRS are omitted.

2. Matters Regarding the Scope of Consolidation

(1) Number of consolidated subsidiaries: 93 companies

Names of major consolidated subsidiaries

Dunlop Tire Hokkaido	Dunlop Sports Marketing Co., Ltd.
P.T. Sumi Rubber Indonesia	Sumitomo Rubber (Thailand) Co., Ltd.
SRI USA, Inc.	Sumitomo Rubber USA, LLC
Sumitomo Rubber (Changshu) Co., Ltd.	Sumitomo Rubber (Hunan) Co., Ltd.
Sumitomo Rubber (China) Co., Ltd.	Sumitomo Rubber do Brasil Ltda.
Sumitomo Rubber South Africa (Pty) Limited	
Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.	
Micheldever Group Ltd.	Roger Cleveland Golf Company, Inc.

Dunlop Sports Co., Ltd. and Dunlop International Co., Ltd. were excluded from the scope of consolidation following their mergers with the Company.

Chengdu D Guard Automotive Services Co., Ltd. was newly included within the scope of consolidation following its establishment.

Sports Surface Co., Ltd. was included within the scope of consolidation following its acquisition.

DIEL Pension Funding GP Limited, DIEL Pension Funding Limited Partnership, and Dunlop International Pension Scheme Trustees Limited were included within the scope of consolidation due to an increase in their materiality.

(2) Matters regarding fiscal years, etc. of consolidated subsidiaries

For consolidated subsidiaries having a fiscal closing date that differs from the consolidated fiscal closing date, trial financial statements are created as at the consolidated fiscal closing date and accounts are incorporated into the consolidated financial statements of the Company to improve the accuracy of consolidated financial information disclosed.

3. Matters Regarding Application of Equity Method

Number of affiliates accounted for using equity method: 3 companies

Major companies:

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

4. Matters Regarding Accounting Policies

(1) Basis and method of valuation for significant assets

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 as 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 the financial asset 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 as 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 asset 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 values of investments in equity instruments which are not held for sale.

(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 values of 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 values of equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income. If such equity instruments are derecognized or 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 loss is 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 increases 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 does not increase 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 case any event occurs 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 risks and rewards of 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 as financial liabilities measured at amortized cost.

(ii) Initial recognition and measurement

The Group initially recognizes debt instruments on their issue date. All other financial liabilities are initially recognized on the transaction date when the Group becomes a party to the contractual provisions of the financial liabilities. All financial liabilities are initially measured at fair value minus transaction costs.

(iii) Subsequent measurement

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

(iv) Derecognition of financial liabilities

Financial liabilities are derecognized when they are extinguished, i.e., when the contractual obligations are discharged, cancelled or expired.

C. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off against each other and the net amount is presented in the Consolidated Statement of Financial Position only if there is a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

D. Derivatives and hedge accounting

(i) Qualifying criteria for hedge accounting

The Group evaluates whether 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, for offsetting derivatives used in hedge activities with the fair values of hedged items or 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 effectiveness.

(ii) Accounting treatment for qualifying hedging relationship

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 a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, the Group 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 traded on active markets as of the reporting date is determined by referring to quoted market prices. The fair value of financial instruments for which an active market does not exist is determined using an appropriate evaluation technique.

F. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined principally with the gross 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.

(2) Valuation basis and method and depreciation or amortization method for property, plant and equipment and intangible assets

A. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Cost includes any costs directly attributable to the acquisition of assets, their dismantlement, removal or restoration of land, and borrowing costs directly attributable to the acquisition or construction of qualified assets or production.

Expenditures after acquisition are included in the carrying amount of the asset or recognized as a separate asset where appropriate, if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced portion is derecognized. All other costs relating to repairs and maintenance are recognized in profit or loss when they are incurred.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful lives of individual assets.

The estimated useful lives of major property, plant and equipment 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 property, plant and equipment are reviewed at the end of each reporting period. If any changes are made, such changes are applied prospectively as changes in accounting estimates.

B. Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is included in intangible assets.

Goodwill is measured at cost less accumulated impairment loss.

The Company does not amortize goodwill, but tests for impairment. Impairment of goodwill is described in “(4) Other important matters for preparation of the consolidated financial statements, B. Impairment of non-financial assets.”

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at fair value at the acquisition date, and are amortized using the straight-line method over their estimated useful lives, except for those intangible assets with indefinite useful lives.

(ii) Other intangible assets

Other intangible assets with definite useful lives acquired individually are stated at cost, net of accumulated amortization and accumulated impairment loss, and amortized using the straight-line method over their estimated useful lives. Intangible assets with indefinite useful lives are stated at cost, net of accumulated impairment loss.

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

- Customer-related intangible assets: 5 to 20 years
- 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 any changes are made, such changes are applied prospectively as changes in accounting estimates.

C. 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 recognized at the lower of the fair value of the leased property or 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.

(3) Accounting policies for significant 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 the amounts of such obligations can be estimated reliably.

If 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 obligations. In calculating present value, the Group uses the pretax discount rate reflecting the current market assessment of the time value of money and the risks specific to the liability. The increase in the provisions due to the passage of time is recognized in financial expenses.

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 end of the fiscal year under review is recorded.
Asset retirement obligations	Asset retirement obligations are recognized for the estimated restoration costs for leased offices and buildings. These expenses are primarily expected to be paid after one year or more, subject to changes due to future business plans, etc.

(4) Other important matters for the preparation of the consolidated financial statements

A. Foreign currency translation

(i) Foreign currency transactions

The financial statements of each company of the Group are prepared using a 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 dates of the transactions, or the rate that approximates such exchange 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 translation differences 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 as other comprehensive income.

(ii) Foreign operations

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

B. 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) generating 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.

C. Employee benefits

(i) 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 amounts of payment obligations can be reliably estimated, the estimated amounts to be paid in accordance with relevant regulations are recognized as a liability.

(ii) Post-employment benefits

(a) 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. Regarding the 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.

(b) 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 expenses at the payment due date.

(iii) 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 considerations for their services in the current and prior fiscal years and discounting such amount to the present value.

D. Revenue recognition

The Sumitomo Rubber Group recognizes revenue by applying the following five-step approach, except for revenue including interest and dividends income, etc. under IFRS 9 “Financial Instruments.”

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

E. Accounting policies for consumption taxes

Transactions subject to consumption taxes are recorded at an amount exclusive of consumption taxes.

F. Adoption of the consolidated taxation system

The Company and its consolidated subsidiaries have adopted the consolidated taxation system.

(Notes on Changes in Accounting Policies)

The Group has adopted the following standards from the fiscal year under review:

IFRS		Description of new standards and revisions
IFRS 15	Revenue from Contracts with Customers	Revision of accounting treatment for revenue recognition

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (together referred to as "IFRS 15") from the fiscal year under review.

In applying IFRS 15, as permitted under transitional measures in this standard, the Group recognizes the cumulative effect of applying this standard at the date of initial application.

In accordance with IFRS 15, except for revenue including interest and dividends income, etc. under IFRS 9 "Financial Instruments," revenue is recognized by applying the following five-step approach:

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

There are no material impacts resulting from the adoption of these standards and interpretations on the Group's consolidated financial results.

With the adoption of IFRS 15, from the fiscal year under review, provisions for sales discounts and returns that were previously presented as Provisions in Current liabilities have been presented as Trade and other payables. As a result, the amounts of Provisions in Current liabilities decreased by 6,274 million yen and the amount of Trade and other payables in Current liabilities increased by 6,274 million yen in the Consolidated Statement of Financial Position, as compared to the amounts calculated by the previous method.

(Notes on Consolidated Statement of Financial Position)

1. Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	2,386	million yen
Other financial assets (non-current assets)	807	million yen

2. Accumulated depreciation and accumulated impairment loss of property, plant and equipment 688,200 million yen

(Notes on Consolidated Statement of Income)

As a result of a review of the business plan which forms the basis for assessing the goodwill in relation to Sumitomo Rubber South Africa (Pty) Limited, a tire manufacturing sales subsidiary in South Africa, in the fiscal year under review, the projected cash flows were revised down. Accordingly, we recognized an impairment loss of JPY 2,407 million. This impairment loss is included in other expenses.

(Notes on Consolidated Statement of Changes in Equity)

1. Class and total number of issued shares at the end of the fiscal year under review

Common stock 263,043,057 shares

2. Matters concerning the number of treasury stock

Types of shares	Number of shares at the beginning of the fiscal year under review (shares)	Increase in the number of treasury stock during the fiscal year under review (shares)	Decrease in the number of treasury stock during the fiscal year under review (shares)	Number of shares at the end of the fiscal year under review (shares)
Common stock	9,029,444	15,427	9,009,981	34,890

Notes: 1. The increase in the number of treasury stock of common stock is due to the purchase of fractional shares.

2. The decrease in the number of treasury stock of common stock is due to a decrease of 9,008,294 shares as a result of the share allocation in the merger and a decrease of 1,687 shares resulting from the sale of fractional shares.

3. Matters Regarding Dividends

(1) Dividends paid

Dividends paid based on the resolution of the 126th Ordinary General Meeting of Shareholders held on March 29, 2018

Types of shares	Common stock
Total amount of dividends	7,620 million yen
Dividends per share	30 yen
Record date	December 31, 2017
Effective date	March 30, 2018

Dividends paid based on the resolution of the Board of Directors' meeting held on August 7, 2018

Types of shares	Common stock
Total amount of dividends	7,890 million yen
Dividends per share	30 yen
Record date	June 30, 2018
Effective date	September 5, 2018

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date falls in the following fiscal year

Dividends for which the resolution is scheduled to be proposed at the 127th Ordinary General Meeting of Shareholders to be held on March 26, 2019

Types of shares	Common stock
Source of dividends	Retained earnings
Total amount of dividends	6,575 million yen
Dividends per share	25 yen
Record date	December 31, 2018
Effective date	March 27, 2019

(Notes on Financial Instruments)

1. Matters Regarding the State of Financial Instruments

The Group's business activities are affected by the business environment in which it operates and the financial market environment. Because of that, financial instruments held or undertaken by the Group in the course of its business activities are exposed to specific risks including the following: (1) credit risk, (2) liquidity risk, and (3) market risk (foreign exchange risk, share price fluctuation risk, and interest rate risk).

(1) Credit risk

The Group is exposed to the risk of being unable to recover financial assets that are held by a partner if that partner defaults on debt (hereinafter "credit risk").

To mitigate credit risk, the Company has a system in place to promptly detect whether the financial position of a counterpart deteriorates.

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

Trade receivables are attributable to a large number of customers across vast regions. The Group identified no specific customer that accounted for significant credit risk exposure, which means no excessive credit risk does not exist.

(2) Liquidity risk

The Group makes short-term loans payable principally to finance working capital, and undertakes long-term loans payable and bonds payable principally to finance capital investment. These, combined with obligations such as notes and accounts payable-trade, expose the Group to the risk of being unable to perform these obligations. The Group manages liquidity risks by preparing and updating an appropriate fund plan based on the forecasted plan of cash flows required for settlement and by maintaining cash on hand.

(3) Market risk

A. Foreign exchange risk

The Group operates businesses globally, and sells products, etc., manufactured by the Company and each subsidiary, overseas. As a result, the Group is exposed to foreign currency fluctuation risk (hereinafter referred to as "foreign currency risk") arising from translating foreign-currency-denominated trade receivables, etc. from transactions conducted by the Company and each subsidiary in currencies other than the functional currency into the functional currency using the exchange rate prevailing at the end of the reporting period.

In addition, the Group is exposed to foreign currency risk associated with foreign-currency-denominated trade payables from imports of some raw materials and other foreign-currency-denominated payables. However, the total amount of such payables is constantly within the range of the balance of trade receivables, etc. denominated in the same currencies; therefore, such foreign currency risk can be offset with foreign exchange risk arising from foreign-currency-denominated trade receivables, etc.

The foreign currency risk of the Group mainly arises from fluctuations of the exchange rates of the US dollar and the euro against the yen. The Company and some of its subsidiaries monitor the monthly balance of foreign-currency-denominated trade receivables and payables by currency and, as a general rule, hedge foreign exchange risk by entering into forward- exchange contracts for the net amount of foreign-currency-denominated trade receivables and payables. In case the status of exchange rate requires, the Group also enter into forward-exchange contracts for the net amount of foreign-currency-denominated trade receivables and payables that are expected to arise definitely from forecast transactions on exports and import activities. In addition, the Group generally conduct currency swap transactions, etc. to reduce the risk of foreign exchange fluctuations regarding foreign-currency-denominated receivables and payables other than trade receivables and payables.

The Group uses derivative transactions solely for the purpose of hedging risks and did not engage in speculative transactions.

B. Share price risk

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

C. Interest rate risk

The risk of fluctuations in the fair values of financial instruments or future cash flows from financial instruments arising from fluctuations in market interest rates is defined as interest rate risk. The Group is exposed to interest rate risk, mainly arising from liabilities including loans payable and bonds payable and claims including interest-bearing deposits. The amounts of interest are subject to the effects of fluctuations in market interest rates; therefore, the Group is exposed to interest rate risk from the fluctuations of future cash flows of interest.

The Group procures funds by issuing bonds payable at fixed rates with the main purpose of controlling the increase in interest payments caused by higher interest rates. When the Group procures long-term loans payable under floating rate terms, the Group in principle enters into interest rate swap contracts with financial institutions under which the Group receives interest at floating rates while paying interest at fixed rates, thereby substantially fixing the financing interest rate and stabilizing cash flows.

2. Matters regarding market values of financial instruments

The fair values of financial assets and financial liabilities and their carrying amounts recorded on the consolidated statement of financial position as of December 31, 2018 are as follows.

(Unit: JPY million)

	Carrying amount	Fair value
Financial assets		
Financial assets measured at fair value through profit or loss		
Derivatives not accounted for using hedge accounting	161	161
Loans	1,041	1,041
Financial assets measured at fair value through other comprehensive income		
Derivatives accounted for using hedge accounting	203	203
Equity instruments	22,807	22,807
Financial assets measured at amortized cost		
Cash and cash equivalents	74,526	74,526
Trade and other receivables	202,638	202,638
Other financial assets	10,052	10,052
Total	311,428	311,428
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivatives not accounted for using hedge accounting	375	375
Financial liabilities measured at fair value through other comprehensive income		
Derivatives accounted for using hedge accounting	614	614
Financial liabilities measured at amortized cost		
Trade and other payables	141,838	141,838
Bonds payable and loans payable	279,638	281,657
Lease obligations	3,844	3,990
Total	426,309	428,474

Fair value measurement method

The Group determines the fair values of financial assets and financial liabilities using the following methods. The fair values of financial instruments with available market prices are measured at market price. The fair values of financial instruments with no available market values are estimated using an appropriate valuation method.

(1) Cash and cash equivalents, trade and other receivables, trade and other payables, and short-term loans payable

As these mature within a short period, the carrying amounts are reasonably approximate to their respective fair value.

(2) Bonds payable and long-term loans payable

The fair values of bonds payable and long-term loans payable are calculated based on the present value by discounting total amounts of principal and interest at the interest rate of a new similar borrowing.

(3) Derivatives

The fair values of derivatives are determined based on the prices presented by counterparty financial institutions.

(4) Other financial assets, etc.

Of other financial assets, current assets are settled within a short period and their carrying amounts are reasonably approximate to their respective fair value. The fair values of marketable securities are determined by their market prices.

The fair values of other financial instruments are determined using other valuation techniques such as the discounted cash flow analysis.

(Notes on per share information)

Equity attributable to owners of parent:	1,741.11 yen
Basic earnings per share:	137.81 yen

(Notes on significant subsequent events)

Not applicable.

NON-CONSOLIDATED STATEMENT OF CHANGE IN TOTAL EQUITY

(From January 1, 2018 to December 31, 2018)

(Unit: JPY million)

	Total Equity			
		Capital Surplus		
	Capital Stock	Legal Capital Surplus	Other Capital Surplus	Total Capital Surplus
Balance at beginning of current period	42,658	37,411	1,250	38,661
Change of items during the period:				
Dividends of surplus				
Net income				
Reversal of reserve for special depreciation				
Reversal of reserve for advanced depreciation of non-current assets				
Purchase of treasury stock				
Disposal of treasury stock			1	1
Increase (decrease) due to merger		1,291	(6,467)	(5,176)
Transfer of negative balance of other capital surplus			5,216	5,216
Net changes of items other than Total Equity				
Total change of items during the period	—	1,291	(1,250)	41
Balance at end of current period	42,658	38,702	0	38,702

(Unit: JPY million)

	Total Equity							
	Retained Earnings						Treasury Stock	Total Equity
	Legal Earned Earnings	Other Retained Earnings				Total Retained Earnings		
		Reserve for Advanced Depreciation of Non-current Assets	Reserve for special depreciation	General Reserve	Retained earnings brought forward			
Balance at the beginning of current period	4,536	2,645	345	74,842	149,346	231,714	(17,631)	295,402
Change of items during the period:								
Dividends of surplus					(15,511)	(15,511)		(15,511)
Net income					32,002	32,002		32,002
Reversal of reserve for special depreciation			(98)		98	—		—
Reversal of reserve for advanced depreciation of non-current assets		(69)			69	—		—
Purchase of treasury stock							(31)	(31)
Disposal of treasury stock							3	4
Increase (decrease) due to merger							17,590	12,414
Transfer of negative balance of other capital surplus					(5,216)	(5,216)		—
Net changes of items other than Total Equity								
Total change during the period	—	(69)	(98)	—	11,442	11,275	17,562	28,878
Balance at the end of current period	4,536	2,576	247	74,842	160,788	242,989	(69)	324,280

(Unit: JPY million)

	Valuation and Translation Adjustments			Total Net Assets
	Valuation Difference on Available-For-Sale Securities	Deferred Gains or Losses on Hedges	Total Valuation and Translation Adjustments	
Balance at the beginning of current period	11,575	(5)	11,570	306,972
Change of items during the period:				
Dividends of surplus				(15,511)
Net income				32,002
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of non-current assets				—
Purchase of treasury stock				(31)
Disposal of treasury stock				4
Increase (decrease) due to merger				12,414
Transfer of negative balance of other capital surplus				—
Net changes of items other than Total Equity	(2,729)	5	(2,724)	(2,724)
Total change during the period	(2,729)	5	(2,724)	26,154
Balance at the end of current period	8,846	—	8,846	333,126

Notes on Non-Consolidated Financial Statements

(Notes on Significant accounting policies for preparing the consolidated financial statements)

1. Accounting policy for measuring assets

Shares of subsidiaries and associates — Stated at cost using the gross average method

Other securities

With market value — Stated at fair market value, based on 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 determined using the gross average method).

Without market value — Stated at cost using the gross average method.

Derivatives — Stated at fair market value.

Merchandise and finished goods — Stated at cost using the gross average method (The value stated on the balance sheet is calculated by devaluating book value based on a reduction in profitability).

Work in progress — Stated at cost using the gross average method (The value stated on the balance sheet is calculated by devaluating book value based on a reduction in profitability).

Raw materials and supplies — Mainly stated at cost using the gross average method (The value stated on the balance sheet is calculated by devaluating book value based on a reduction in profitability).

2. Accounting policy for depreciation of non-current assets

Property, plant and equipment (excluding leased assets) — Straight-line method

Major useful lives are as follows:

Buildings: 3 to 50 years

Structures: 4 to 60 years

Machinery and equipment: 3 to 17 years

Tools, furniture and fixtures: 2 to 20 years

Intangible assets (excluding leased assets) — Straight-line method

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

Leased assets — With respect to leased assets related to finance leases which transfer ownership of properties to lessees, the depreciation method applicable to the company-owned non-current assets is used.

With respect to leased assets related to finance leases that do not transfer ownership of properties to lessees, the straight-line method is used in which the useful life is equal to the lease term and the residual value is zero.

3. Accounting policy for provisions

Allowance for doubtful accounts	To allow for losses 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 each loan are recorded.
Provision for bonuses	To allow for regular payments of bonuses to employees, the estimated amount payable for the fiscal year ended December 31, 2017 is recorded.
Provision for directors' bonuses	To allow for the payment of bonuses to officers, the estimated amount payable for the fiscal year ended December 31, 2017 is recorded.
Provision for retirement benefits	To allow for the retirement benefits of employees, the amount, which is considered to have accrued as of the end of the fiscal year ended December 31, 2017, is recorded based on estimated retirement benefits obligations and pension assets at the end of the period. Method of attributing estimated retirement benefits of service period of an employee's service To calculate retirement benefit obligations, the benefit formula basis method is used to allocate the estimated retirement benefits and service costs to the years of service by the end of the fiscal year ended December 31, 2017. Method of amortization of for actuarial gains or losses and prior service costs Prior service costs are amortized using the straight-line method based on a fixed period (15 years) within the average remaining service period of employees at the time the liability is incurred. The actuarial gains or losses are amortized using the straight-line method from the following fiscal year on the basis of a fixed period (15 years) within the average remaining service period of employees at the time that liability is incurred.
Provision for sales rebates	To allow for sales discounts anticipated in the following period on sales of products, an anticipated amount is recorded.
Provision for loss on voluntary recall of products	To allow for direct recalling expenses and related expenses for voluntarily recalled products, an amount reasonably estimated to be incurred after the end of the fiscal year ended December 31, 2017 is recorded.

4. Other important matters for preparing the financial statements

(1) Accounting policy for deferred assets

Bond issuance cost	All expenses are charged to expenses when incurred.

(2) Accounting policy for hedging

Method of hedge accounting	Deferred hedge accounting is adopted. The allocation method is adopted for forward exchange contracts which fulfill the requirements of the allocation method. For interest rate swap transactions which fulfill the requirements of special exceptions of interest rate swaps, such special exceptions are adopted. For interest rate and currency swaps that fulfill the requirements for integrated accounting (special exception and allocation method), such integrated accounting methods are adopted.
Hedging instruments and hedged items	Hedging instruments: Forward-exchange contracts Interest rate swap contracts Interest rate and currency swap contracts Hedged items: Transactions to be contracted in a foreign currency Short-term loans payable and long-term loans payable with variable interest rates
Hedging policy	In accordance with the internal rules of the Company, hedging instruments are used to hedge against foreign exchange fluctuation risk and interest rate fluctuation risk.
Method for evaluating the hedge effectiveness	Hedge effectiveness is evaluated by comparing cumulative market fluctuations or cash flow fluctuations of hedged items and hedging instruments, and is determined based on their fluctuation amounts, etc. for the period from the start of hedging until the evaluation of effectiveness.

(3) Accounting policy for retirement benefits

The accounting methods used for unrecognized actuarial gains or losses related to retirement benefits and unrecognized prior service costs differ from those used in the financial statements.

(4) Accounting policy for consumption taxes

Consumption taxes are computed using the tax-exclusion method.

(5) Adoption of consolidated taxation system

Consolidated taxation system is adopted.

(Notes – Balance Sheet)

1. Total accumulated depreciation of property, plant and equipment 414,706 million yen

2. Notes receivable-trade discounted 51 million yen

3. Guarantee obligations

Guarantee obligations	33,507	million yen
Letter of guarantee	33,507	million yen
(in foreign currency)	116,000	thousand US dollars
	9,693	thousand UK pounds
	34,500	thousand Thai baht
	5	thousand Australian dollars
	2,495,816	thousand South African rand
	1,110	thousand Brazil real

4. Monetary balance with subsidiaries and associates

Short-term accounts receivables	197,041	million yen
Long-term accounts receivables	3,672	million yen
Short-term accounts payables	91,726	million yen
Long-term accounts payables	14,737	million yen

5. Method of treating notes receivable that mature at the end of the period

The following notes, etc. are settled on the actual date of exchange of notes or the date of settlement.

Notes receivable-trade	470	million yen
Notes payable-trade, etc.	7,689	million yen

(Notes on the Statement of Income)

1. Transactions with subsidiaries and associates

Operating transactions		
Net Sales	330,172	million yen
Purchases, etc.	179,774	million yen
Non-operating transactions	44,896	million yen

2. Gain on extinguishment of tie-in shares

A gain on extinguishment of tie-in shares was recorded as a result of the absorption-type merger of Dunlop Sports Co., Ltd., which was a consolidated subsidiary, by the Company effective January 1, 2018.

3. Loss on valuation of shares of subsidiaries and associates

A loss on valuation of shares of subsidiaries and associates was recorded as a result of posting an impairment loss on shares of Sumitomo Rubber South Africa (Pty) Limited, etc. held by the Company.

(Notes on the Statement of Changes in Equity)

Matters concerning the number of treasury stock

Types of share	Number of shares at the beginning of the fiscal year under review (shares)	Increase in the number of treasury stock during the fiscal year under review (shares)	Decrease in the number of treasury stock during the fiscal year under review (shares)	Number of shares at the end of the fiscal year under review (shares)
Common shares	9,029,444	15,427	9,009,981	34,890

Notes: 1. The increase in the number of treasury stock of common stock is due to the purchase of fractional shares by a resolution of the board of directors.

2. The decrease in the number of treasury stock of common stock is due to a decrease of 9,008,294 shares as a result of the share allocation in the merger and a decrease of 1,687 shares resulting from the sale of fractional shares.

(Notes on Tax effect accounting)

1. The breakdown of the major items that give rise to deferred tax assets and deferred tax liabilities are as follows.

(Unit: JPY million)

(Current)	Deferred tax assets	Sales incentive	1,050
		Provision for bonuses	632
		Advertising expences	365
		Loss on valuation of inventories	321
		Research and development expenses	286
		Accrued enterprise tax	250
		Social security contributions related to provision for bonuses	100
		Allowance for doubtful accounts	93
		Others	426
		Total deferred tax assets	3,523
(Non-current)	Deferred tax assets	Shares of subsidiaries and associates	6,854
		Impairment loss on non-current assets	1,010
		Advertisement costs	286
		Excess depreciation	202
		Asset retirement obligations	134
		Investment securities	116
		Allowance for doubtful accounts	67
		Others	537
		Sub-total of deferred tax assets	9,206
		Less valuation allowance	(7,926)
		Total deferred tax assets	1,280

Deferred tax liabilities	Valuation difference on available-for-sale securities	(3,806)
	Reserve for advanced depreciation of non-current assets	(1,239)
	Provision for retirement benefits	(856)
	Valuation difference on foreign currency denominated	(68)
	Others	(404)
	Total deferred tax liabilities	(6,373)
	Deferred tax liabilities, net	(5,093)

(Notes on Transactions with related parties)

(Unit: JPY million)

Attribution	Name of company, etc.	Ratio of voting rights, etc. held by the Company (indirect ownership ratio)	Relationship with the related party	Description of transactions	Amount of transaction	Item	Balance at the end of the period
Subsidiaries	Domestic sales subsidiaries *Please refer to the following for details.	*Please refer to the following for details.	Sales of automobile tires, provision of services, concurrent holding of positions by officers	Sales of tires, etc. (Note 1)	136,520	Accounts receivable-trade	60,743
				Deposit of funds (Note 4)	4,897	Deposits received	27,757
	Sumitomo Rubber North America, Inc.	100.0% indirectly held	Sales of automobile tires, provision of services, concurrent holding of positions by officers	Sales of tires, etc. (Note 3)	41,205	Accounts receivable-trade	16,619
	Falken Tyre Europe GmbH	100.0% directly held	Sales of automobile tires, provision of services, concurrent holding of positions by officers	Sales of tires, etc. (Note 3)	35,297	Accounts receivable-trade	14,705
	Sumitomo Rubber Middle East FZE	100.0% directly held	Sales of automobile tires, provision of services, concurrent holding of positions by officers	Sales of tires, etc. (Note 3)	22,825	Accounts receivable-trade	10,343
				Deposit of funds (Note 4)	1,831	Deposits received	10,958
	Sumitomo Rubber (Thailand) Co., Ltd.	100.0% directly held	Purchase of automobile tires, provision of services, concurrent holding of positions by officers	Purchase of tires, etc. (Note 2)	91,127	Accounts payable-trade	13,588
				Financing (Note 4)	8,475	Short-term loans receivable	—
	SRI USA, Inc.	100.0% directly held	Provision of services, concurrent holding of positions by officers	Financing (Note 4)	1,069	Short-term loans receivable	11,442

Attribution	Name of company, etc.	Ratio of voting rights, etc. held by the Company (indirect ownership ratio)	Relationship with the related party	Description of transactions	Amount of transaction	Item	Balance at the end of the period
Subsidiaries	Micheldever Tyre Services Ltd.	100.0% indirectly held	Provision of services, concurrent holding of positions by officers	Financing (Note 4)	1,021	Short-term loans receivable	12,593
	Sumitomo Rubber (Changshu) Co., Ltd.	100.0% indirectly held	Purchase of automobile tires, provision of services, concurrent holding of positions by officers	Loans payable (Note 6)	678	Current portion of long-term loans payable	9,696
	Sumitomo Rubber South Africa (Pty) Limited	100.0% directly held	Purchase of automobile tires, provision of services, concurrent holding of positions by officers	Guarantee obligations (Note 5)	19,118	—	—
	Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.	80.0% directly held	Purchase of automobile tires, provision of services, concurrent holding of positions by officers	Guarantee obligations (Note 5)	12,543	—	—
	Sumitomo Rubber do Brasil Ltda.	100.0% directly held	Purchase of automobile tires, provision of services, concurrent holding of positions by officers	Underwriting of capital increase (Note 7)	8,685	—	—

*Names of companies included as domestic sales subsidiaries and ratio of voting rights held by the Company are as follows:

Name of company, etc.	Ratio of voting rights held by the Company (ownership percentage)
Dunlop Tire Hokkaido Ltd.	100.0% directly held
Dunlop Tire Tohoku Ltd.	98.8% directly held
Dunlop Tire Kanto Ltd.	98.7% directly held
Dunlop Tire Chuo Ltd.	99.3% directly held
Dunlop Tire Chubu Ltd.	100.0% directly held
Dunlop Tire Hokuriku Ltd.	58.7% directly held
Dunlop Tire Kinki Ltd.	100.0% directly held
Dunlop Tire Chugoku Ltd.	98.9% directly held
Dunlop Tires Shikoku Ltd.	100.0% directly held
Dunlop Tires Kyushu Ltd.	100.0% directly held
Dunlop Motorcycle Corporation	100.0% directly held

Of the amounts stated above, the “amount of transaction” does not include consumption taxes and “balance at the end of the period” includes consumption taxes.

Terms of transaction and the method of deciding the terms of transaction:

(Note 1) Transaction price is determined through price negotiations conducted regularly based on the Company's desired price determined after taking into account market price and gross cost.

(Note 2) Transaction price is determined by adding a certain margin to the estimated cost.

(Note 3) Transaction price is determined using a calculation based on market prices of the Company's products.

(Note 4) Financing and deposits pertain to the cash management system (CMS) and the rate of interest is reasonably determined by considering the market interest rate. The amount of transaction is net increase (or decrease).

(Note 5) Loans payable from banks (2,495,816 thousand South Africa rand, 113,000thousand US dollars) of subsidiaries were guaranteed, and the "amount of transaction" is the balance at the end of December 2018.

(Note 6) Regarding loans payable, the rate of interest is reasonably determined by considering the market interest rate. The amount of transaction is the net increase (or decrease).

(Note 7) The full amount of the capital increase carried out by the company was underwritten.

(Notes on Per share information)

1. Net assets per share	JPY1,266.60
2. Net income per share	JPY 121.68

(Notes on Significant subsequent events)

Not applicable.

(Absorption-type Merger of Consolidated Subsidiaries)

Common control transactions, etc.

The Company resolved at a meeting of its board of directors held on August 29, 2017 to implement an absorption-type merger (hereinafter referred to as "Merger (1)") with Dunlop Sports Co., Ltd. (hereinafter referred to as "Dunlop Sports", and together with the Company, hereinafter collectively referred to as the "two companies"), a subsidiary of the Company, under which the Company is designated as the company surviving the absorption-type merger and Dunlop Sports is designated as the company absorbed in the absorption-type merger, and the two companies executed an absorption-type merger agreement. In addition, Dunlop International Co., Ltd. (hereinafter referred to as "Dunlop International"), a joint venture between the Company and the two companies, resolved at a meeting of its board of directors on the same date to implement an absorption-type merger (hereinafter referred to as "Merger (2);" together with Merger (1), hereinafter collectively referred to as the "Integration"), under which the Company is designated as the company surviving the absorption-type merger and Dunlop International is designated as the company absorbed in the absorption-type merger, and executed an absorption-type merger agreement with the Company. Prior to the Integration, the Company resolved at the meeting of its board of directors to receive the transfer of all the shares of Dunlop International held by Dunlop Sports effective as of December 28, 2017 (hereinafter referred to as the "Share Transfer"), and executed a share transfer agreement between the two companies.

In accordance with the above resolutions, following the conversion of Dunlop International into a wholly-owned subsidiary of the Company through the transfer of shares during the fiscal year under review, the Integration was implemented effective as of January 1, 2018 (hereinafter referred to as the "Effective Date").

The common stock of Dunlop Sports was delisted from the First Section of the Tokyo Stock Exchange effective as of December 27, 2017 (the last trading date was on December 26, 2017).

1. Outline of Transaction

(1) Outline of absorbed companies

(As of December 31, 2017)

	Company absorbed in absorption-type merger (Merger (1))	Company absorbed in absorption-type merger (Merger (2))
Corporate name	Dunlop Sports Co., Ltd.	Dunlop International Co., Ltd.
Details of business	Manufacture and sale of golf and tennis goods, etc.	Management of trademark rights to the Dunlop brand and the sporting goods and licensing businesses of the Dunlop brand
Capital stock	JPY 9,207 million	JPY 3,005 million
Net assets	JPY 31,373 million	JPY 5,077 million
Total assets	JPY 52,800 million	JPY 20,884 million
Net sales	JPY 42,172 million	JPY2,925 million

(2) Date of the business combination

January 1, 2018

(3) Legal form of business combination

1) Merger (1)

(i) Method of Merger (1)

Merger (1) was an absorption-type merger with the Company being the surviving entity and Dunlop Sports being the absorbed entity. For Merger (1), the Company used simplified merger procedures, which do not require approval at a general meeting of shareholders pursuant to the provision of Article 796, Paragraph 2 of the Companies Act, and Dunlop Sports obtained approval for the Merger Agreement (1) at an extraordinary general meeting of shareholders held on November 7, 2017, and the two companies performed Merger (1) with the effective date of January 1, 2018.

(ii) Details of Allotment in Merger (1)

Company Name	The Company (Company surviving the absorption-type merger)	Dunlop Sports (Company absorbed in the absorption-type merger)
Merger Ratio	1	0.784
Number of Shares Delivered through Merger (1)	The Company's common stock: 9,008,294 shares	

Notes: 1. Share allotment ratio

0.784 shares of common stock of the Company was allotted and delivered for each share of common stock of Dunlop Sports; provided, however, that no shares were allotted in Merger (1) for the shares of common stock of Dunlop Sports held by the Company or for the treasury stock held by Dunlop Sports.

2. Number of shares delivered in Merger (1)

In Merger (1), the Company allotted and delivered to the shareholders of Dunlop Sports (excluding, the Company, Dunlop Sports, and the shareholders who had exercised the rights of dissenting shareholders to demand the purchase of shares as set forth in Article 785, Paragraph 1 of the Companies Act with respect to Merger (1)) as of the time immediately before the time at which Merger (1) took effect 9,008,294 shares of common stock of the Company. As for the common stock of the Company delivered, the Company allotted the treasury stock held by the Company and the treasury stock the Company had acquired by the effective date of Merger (1), and no new shares of common stock were issued.

(iii) Basis and Reasons for Details of Allotment in Merger (1)

In order to ensure fairness in relation to the merger ratio under Merger (1), the two companies decided that each of them should separately and respectively request an independent third-party valuation institution to calculate the merger ratio, and the Company retained Daiwa Securities Co. Ltd. (hereinafter referred to as "Daiwa Securities"), while Dunlop Sports retained PwC Advisory LLC ("PwC"), respectively, as a third-party valuation institution.

The Company and Dunlop Sports sincerely conducted consultations and discussions between the two companies, examining the valuation reports on the merger ratio respectively submitted by the said third-party valuation institutions and the advice thereof, as well as respectively reviewing the financial conditions, business results, and share price movements, etc. of the two companies.

The Company conducted a careful discussion and consideration based on the valuation report concerning the merger ratio received from Daiwa Securities and advice, etc. received from an independent law firm, and reached the conclusion that the merger ratio was appropriate and it would be appropriate to implement Merger (1) at the said merger ratio.

(iv) Ratio of voting rights acquired

Voting right ratio before acquisition: 60.39%

Voting right ratio after acquisition: 100.00%

(v) Acquisition cost of the acquired company and its breakdown by type of consideration

Consideration for acquisition

Market value of the shares of the Company's common stock delivered on the date of business combination

JPY 18,881 million

Acquisition cost

JPY 18,881 million

2) Merger (2)

(i) Method of Merger (2)

Merger (2) was an absorption-type merger with the Company being the surviving entity and Dunlop International being the absorbed entity. As for the Company, Merger (2) was a simplified merger as set forth in Article 796, Paragraph 2 of the Companies Act, without the need to obtain approval by way of a resolution at a general meeting of shareholders. As for Dunlop International, as the Company held all the shares of Dunlop International through the Share Transfer and Merger (2) was a short-form merger as set forth in Article 784, Paragraph 1 of the Companies Act, approval did not need to be obtained by way of a resolution at a general meeting of shareholders. Merger (2) was implemented effective as of the same date as the Effective Date subject to the condition precedent that the Share Transfer was conducted and Merger (1) took effect.

(ii) Details of Allotment in Merger (2)

Because Merger (2) was implemented subject to the condition precedent that the Share Transfer was conducted and Merger (1) took effect, Merger (2) was implemented on the premise that Dunlop International had already become a wholly-owned subsidiary of the Company at the time immediately before Merger (2) took effect. Therefore, the Company did not allot any shares and other monies, etc. in Merger (2).

(4) Name of the company after the business combination

Sumitomo Rubber Industries, Ltd

.

2. Purpose of the transaction

The Sumitomo Rubber Group had seen it as an important management issue to plan and promote strategies for globally enhancing the value of the Dunlop brand and thereby lead to improving the profitability of the Group as a whole, including existing businesses, and we considered the best way to use the Dunlop brand at the Company, Dunlop Sports, and Dunlop International.

As a result, we reached the conclusion that it would contribute to maximizing the corporate value of each business, including the sports business and the tire business, to integrate the sports business of Dunlop Sports and Dunlop International, building a business strategy for the sports business that uses the Dunlop brand to accelerate global expansion, while at the same time integrating the sports business with the Company, thereby using the financial strength and the Materials and Research Department's management resources owned by the Company, as well as human resources who are well-versed in the sports business and management resources owned by Dunlop Sports, to enhance the value of the Dunlop brand and expand the sports business. Accordingly, the three companies involved, i.e., Sumitomo Rubber Industries, Dunlop Sports, and Dunlop International, decided to implement the Integration.

3. Outline of Accounting Procedures Implemented

Merger (1) and Merger (2) were accounted for as common control transactions in accordance with the "Accounting Standards for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013).