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, 2020. 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 128th 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** |
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| 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.<br>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.<br>The Company established a Risk Management Center to implement appropriate response measures for Typhoon Hagibis (Typhoon No. 19) that hit eastern Japan in October 2019, such as |

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| | other relevant division(s) and subsidiary(ies)<br>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.<br>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. | measures to minimize damage to its business establishments (Shirakawa Factory and other facilities) 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.<br>Furthermore, the Company shall introduce an Executive Officer System to perform its business flexibly in response to the changing environment and customer needs.<br>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.<br>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 25 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.<br>The Corporate Ethics Committee, chaired by the President of the Company, shall identify, analyze, and evaluate those compliance risks comprehensively involving the entire Group, plan and conduct | 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 Ethics Committee to |

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| | training, ascertain the cause of any violation, propose measures to prevent their recurrence, and ensure thorough familiarization of the foregoing throughout the Group.<br>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.<br>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. | 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.<br>Furthermore, each division of the Group independently conducted activities to raise awareness of corporate ethics, such as holding a corporate ethics presentation and activities to disseminate the SRI WAY. |
| (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 systems to ensure adequate financial reporting by the Group. | The Company has consistently been striving to strengthen a system to ensure the adequate financial reporting by the Group. As part of such efforts, the Company is utilizing audits by accounting auditors and further improving the internal |

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| | | 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.<br>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.<br>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.<br>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.<br>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 | 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.<br>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. | At the Audit & Supervisory Board meetings of the Company, Audit & Supervisory Board Members conducted a total of 11 interviews with Directors or heads of divisions of the |

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| | | 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, 2019 to December 31, 2019)

(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, 2019 | 42,658 | 39,487 | 441,062 | (69) | (74,482) | (391) |
| Cumulative effect of changes in accounting policies | | | (991) | | | |
| Balance as of January 1, 2019 reflecting changes in accounting policies | 42,658 | 39,487 | 440,071 | (69) | (74,482) | (391) |
| Profit | | | 12,072 | | | |
| Other comprehensive income | | | | | (1,989) | 113 |
| Total comprehensive income | − | − | 12,072 | − | (1,989) | 113 |
| Purchase of treasury stock | | | | (7) | | |
| Disposal of treasury stock | | (1) | | 1 | | |
| Dividends | | | (13,150) | | | |
| Transfer to retained earnings | | | 5,790 | | | |
| Total transactions with owners | − | (1) | (7,360) | (6) | − | − |
| Balance as of December 31, 2019 | 42,658 | 39,486 | 444,783 | (75) | (76,471) | (278) |

(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, 2019 | 9,662 | − | (65,211) | 457,927 | 14,880 | 472,807 |
| Cumulative effect of changes in accounting policies | | | − | (991) | (12) | (1,003) |
| Balance as of January 1, 2019 reflecting changes in accounting policies | 9,662 | − | (65,211) | 456,936 | 14,868 | 471,804 |
| Profit | | | − | 12,072 | 1,099 | 13,171 |
| Other comprehensive income | 1,130 | 5,695 | 4,949 | 4,949 | (449) | 4,500 |
| Total comprehensive income | 1,130 | 5,695 | 4,949 | 17,021 | 650 | 17,671 |
| Purchase of treasury stock | | | − | (7) | | (7) |
| Disposal of treasury stock | | | − | 0 | | 0 |
| Dividends | | | − | (13,150) | (781) | (13,931) |
| Transfer to retained earnings | (95) | (5,695) | (5,790) | − | | − |
| Total transactions with owners | (95) | (5,695) | (5,790) | (13,157) | (781) | (13,938) |
| Balance as of December 31, 2019 | 10,697 | − | (66,052) | 460,800 | 14,737 | 475,537 |

# 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: 95 companies

Names of major consolidated subsidiaries

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

Dunlop Tire Trading Co., Ltd. was newly included within the scope of consolidation following its establishment.

SRNA MEXICO S. DE R.L. DE C.V. was newly included within the scope of consolidation following its establishment.

(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, excluding trade and other receivables that include a significant financing component, 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 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, intangible assets and leases

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 determines whether a contract is, or contains, a lease in accordance with the definition of a lease under IFRS 16. For all leases other than leases that have a lease term of 12 months or less and leases for which the underlying asset is of low value, right-of-use assets that represent a right to use an underlying asset and lease liabilities that represent the obligation for lease payments are recognized.

At the commencement date of a lease, right-of-use assets are recognized at the discounted present value of total lease payments adjusted for any initial direct costs, etc. and lease liabilities are recognized at the discounted present value of total lease payments. The Group generally uses the incremental borrowing rate as the discount rate. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease payments are allocated between repayments of the remaining balance of lease liability and finance costs on lease expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance costs are presented separately from the depreciation charge for the right-of-use assets in the consolidated statement of income.

Lease payments for leases that have a lease term of 12 months or less and leases for which the underlying asset is of low value are recognized as an expense in the consolidated statement of income on a straight-line basis 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.

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| 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 during or after the following fiscal year 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 16 | Leases | Stipulating accounting treatment and disclosure of leases |

In applying IFRS 16"Leases" (issued in January 2016,hereinafter "IFRS 16"), the group adopted modified retrospective approach. Therefore, we recognize the cumulative influence of applying IFRS 16 is adjustment of balance at the beginning of period of retained earnings at January 1,2019.

(i) Definition of a lease

Previously, the Group determined whether a contract is, or contains, a lease in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease." Following the application of IFRS 16, the Group determines whether a contract is, or contains, a lease in accordance with the definition of a lease under IFRS 16.

(ii) Lease accounting treatment as a lessee

Previously, the Group, as a lessee, classified leases as an operating lease or a finance lease based on the assessment of whether all the risks and rewards incidental to ownership of an underlying asset are substantially transferred to the Group in accordance with the IAS 17 Leases.

Following the application of IFRS 16, leases are not classified as a finance lease or an operating lease. For all leases other than leases that have a lease term of 12 months or less and leases for which the underlying asset is of low value, right-of-use assets that represent a right to use an underlying asset and lease liabilities that represent the obligation for lease payments are recognized.

At the commencement date of a lease, right-of-use assets are recognized at the discounted present value of total lease payments adjusted for any initial direct costs, etc. and lease liabilities are recognized at the discounted present value of total lease payments. The Group generally uses the incremental borrowing rate as the discount rate. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease payments are allocated between repayments of the remaining balance of lease liability and finance costs on lease expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance costs are presented separately from the depreciation charge for the right-of-use assets in the consolidated statement of income. Lease payments for leases that have a lease term of 12 months or less and leases for which the underlying asset is of low value are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

(iii) The treatment on transition

Methods for measuring lease liabilities and right-of-use assets on transition are as follows. Note that, on the application of IFRS 16, the Group has applied the practical expedient to grandfather the previous assessment whose existing contracts are, or contain, leases. Accordingly, the definition of a lease under IFRS 16 is applied to contracts entered into (or changed) on or after January 1, 2019.

(Leases classified as operating leases under IAS 17)

Lease liabilities on transition are measured at the present value of the total remaining lease payments at the date of transition, discounted using the Group's incremental borrowing rate as of January 1, 2019. In addition, right -of-use assets on transition are measured at either:

- The carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
- An amount of lease liability measurements, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Group has applied the following when applying IFRS 16 to leases classified as operating leases under IAS 17.

-Apply the exemption not to recognize right-of-use assets and lease liabilities for leases with a remaining lease term of 12 months or less.

-The practical expedient to use ex post judgment when calculating the lease term of a contract that includes an extension or cancellation option.

-Adjust right-of-use assets by the amount of any provision for onerous contracts under IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.

(Leases classified as finance leases under IAS 17)

The carrying amounts of right-of-use assets and the lease liabilities are determined at the carrying amount of leased assets and lease liabilities under IAS 17 at the date of initial application.

(iv) Consequences on consolidated financial statements

As a result of the above, other current assets increased JPY 673 million, property, plant and equipment increased JPY 55,761 million, intangible assets increased JPY 26 million, deferred tax assets increased JPY 340 million, other non-current assets decreased JPY 4,207 million, other financial liabilities (current) increased JPY 10,284 million, other financial liabilities (non-current) increased JPY 43,312 million, retained earnings decreased JPY 991 million and non-controlling interests decreased JPY 12 million as of January 1, 2019, the date of the application of IFRS 16. In addition, cost of sales decreased JPY 91 million, selling, general and administrative expenses decreased JPY 511 million, and financial expenses increased JPY 896 million in the consolidated statement of income for the fiscal year ended December 31, 2019, compared with those calculated under the previous method.

(Notes on Consolidated Statement of Financial Position)

1. Allowance for doubtful accounts directly deducted from assets

| | | |
|---|---|---|
| Trade and other receivables | 2,996 | million yen |
| Other financial assets (non-current assets) | 916 | million yen |

2. Accumulated depreciation and accumulated impairment loss of property, plant and equipment — 788,505 million yen

(Notes on Consolidated Statement of Income)

We recognized an impairment loss of JPY 18,212 million in other expenses in the consolidated statement of income in the fiscal year under review. The main categories of assets for which an impairment loss was recognized are as follows.

(Unit: JPY Million)

| Cash-generating unit | Category | Amount |
|---|---|---|
| The Tire Business in North America | Property, plant and equipment | 3,609 |
| | Goodwill | 4,979 |
| | Intangible assets | 386 |
| Sumitomo Rubber South Africa (Pty) Limited | Property, plant and equipment | 7,306 |
| Lonstroff AG | Goodwill | 1,205 |

In the tire business in North America, the Group reviewed business plans of the U.S. Factory it acquired following the dissolution of alliance with Goodyear in the U.S. in October 2015 due to a decline in profitability caused by a decrease in productivity, and determined that it would take a long time to recover the full investment. Accordingly, we wrote down the carrying amount of the said asset to its recoverable amount, and recorded the resulting decrease in the carrying amount in other expenses in the consolidated statement of income. The entire carrying amount of goodwill was recorded as an impairment loss.

Regarding Sumitomo Rubber South Africa (Pty) Limited, the Group reviewed business plans following a decline in profitability caused by a decrease in productivity, and determined that it would take a long time to recover the full investment. Accordingly, we wrote down the carrying amount of the said asset to its recoverable amount, and recorded the resulting decrease in the carrying amount in other expenses in the consolidated statement of income.

Regarding the business of precision rubber parts for medical use at Lonstroff AG, the Group reviewed business plans because of a delay in turnaround to profitability of the business due to sales plans falling behind schedule, and determined that it would take a long time to recover the full investment. Accordingly, we wrote down the carrying amount of the said asset to its recoverable amount, and recorded the resulting decrease in the carrying amount in other expenses in the consolidated statement of income.

(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 | 34,890 | 4,781 | 172 | 39,499 |

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 127th Ordinary General Meeting of Shareholders held on March 26, 2019

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

Dividends paid based on the resolution of the Board of Directors' meeting held on August 7, 2019

| | |
|---|---|
| Types of shares | Common stock |
| Total amount of dividends | 6,575 million yen |
| Dividends per share | 25 yen |
| Record date | June 30, 2019 |
| Effective date | September 5, 2019 |

(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 128th Ordinary General Meeting of Shareholders to be held on March 26, 2020

| | |
|---|---|
| Types of shares | Common stock |
| Source of dividends | Retained earnings |
| Total amount of dividends | 7,890 million yen |
| Dividends per share | 30 yen |
| Record date | December 31, 2019 |
| Effective date | March 27, 2020 |

(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, 2019 are as follows.

(Unit: JPY million)

| | Carrying amount | Fair value |
|---|---|---|
| Financial assets | | |
| Financial assets measured at fair value through profit or loss | | |
| Derivatives | 214 | 214 |
| Loans | 1,041 | 1,041 |
| Financial assets measured at fair value through other comprehensive income | | |
| Equity instruments | 24,153 | 24,153 |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents | 60,631 | 60,631 |
| Trade and other receivables | 190,261 | 190,261 |
| Other financial assets | 9,192 | 9,192 |
| Financial assets designated as hedging instruments | | |
| Derivatives | 154 | 154 |
| Total | 285,646 | 285,646 |
| Financial liabilities | | |
| Financial liabilities measured at fair value through profit or loss | | |
| Derivatives | 214 | 214 |
| Financial liabilities measured at amortized cost | | |
| Trade and other payables | 127,040 | 127,040 |
| Bonds payable and loans payable | 264,233 | 266,129 |
| Financial liabilities designated as hedging instruments | | |
| Derivatives | 690 | 690 |
| Total | 392,177 | 394,073 |

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: | 1752.07yen |
| Basic earnings per share: | 45.90yen |

(Notes on significant subsequent events)

Not applicable.

## NON-CONSOLIDATED STATEMENT OF CHANGE IN TOTAL EQUITY

(From January 1, 2019 to December 31, 2019)

(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 | 38,702 | 0 | 38,702 |
| 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 | | | (0) | (0) |
| Net changes of items other than Total Equity | | | | |
| Total change of items during the period | — | — | (0) | (0) |
| 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 | 2,576 | 247 | 74,842 | 160,788 | 242,989 | (69) | 324,280 |
| Change of items during the period: | | | | | | | | |
| Dividends of surplus | | | | | (13,150) | (13,150) | | (13,150) |
| Net income | | | | | 19,413 | 19,413 | | 19,413 |
| Reversal of reserve for special depreciation | | | (97) | | 97 | — | | — |
| Reversal of reserve for advanced depreciation of non-current assets | | (61) | | | 61 | — | | — |
| Purchase of treasury stock | | | | | | | (6) | (6) |
| Disposal of treasury stock | | | | | | | 0 | 0 |
| Net changes of items other than Total Equity | | | | | | | | |
| Total change during the period | — | (61) | (97) | — | 6,421 | 6,263 | (6) | 6,257 |
| Balance at the end of current period | 4,536 | 2,515 | 150 | 74,842 | 167,209 | 249,252 | (75) | 330,537 |

(Unit: JPY million)

| | Valuation and Translation Adjustments | | Total Net Assets |
|---|---|---|---|
| | Valuation Difference on Available-For-Sale Securities | Total Valuation and Translation Adjustments | |
| Balance at the beginning of current period | 8,846 | 8,846 | 333,126 |
| Change of items during the period: | | | |
| Dividends of surplus | | | (13,150) |
| Net income | | | 19,413 |
| Reversal of reserve for special depreciation | | | — |
| Reversal of reserve for advanced depreciation of non-current assets | | | — |
| Purchase of treasury stock | | | (6) |
| Disposal of treasury stock | | | 0 |
| Net changes of items other than Total Equity | 862 | 862 | 862 |
| Total change during the period | 862 | 862 | 7,119 |
| Balance at the end of current period | 9,708 | 9,708 | 340,245 |

# 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<br>Major useful lives are as follows:<br>Buildings: 3 to 50 years<br>Structures: 4 to 60 years<br>Machinery and equipment: 3 to 17 years<br>Tools, furniture and fixtures: 2 to 20 years |
| Intangible assets (excluding leased assets) | Straight-line method<br>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.<br>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.<br><br>Method of attributing estimated retirement benefits of service period of an employee's service<br>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.<br>Method of amortization of for actuarial gains or losses and prior service costs<br>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 recalling products, an amount reasonably estimated to be incurred during and after the following fiscal year 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<br>Interest rate swap contracts<br>Interest rate and currency swap contracts |
| | Hedged items: | Transactions to be contracted in a foreign currency<br>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 — 418,537 million yen

2. Notes receivable-trade discounted — 91 million yen

3. Guarantee obligations

| | | |
|---|---|---|
| Guarantee obligations | 46,419 | million yen |
| Letter of guarantee | 46,400 | million yen |
| (in foreign currency) | 151,700 | thousand US dollars |
| | 53,900 | thousand Euros |
| | 15,210 | thousand UK pounds |
| | 113,010 | thousand Thai baht |
| | 5 | thousand Australian dollars |
| | 2,621,000 | thousand South African rand |
| | 1,188 | thousand Brasil real |
| | 3,500 | thousand Korean won |
| Letter of comfort | 19 | million yen |
| (in foreign currency) | 132 | thousand UK pounds |

4. Monetary balance with subsidiaries and associates

| | | |
|---|---|---|
| Short-term accounts receivables | 201,186 | million yen |
| Long-term accounts receivables | 3,665 | million yen |
| Short-term accounts payables | 130,671 | million yen |
| Long-term accounts payables | 2,610 | 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 | 492 | million yen |
| Notes payable-trade, etc. | 7,955 | million yen |

(Notes on the Statement of Income)

1. Transactions with subsidiaries and associates

| | | |
|---|---|---|
| Operating transactions | | |
| Net Sales | 326,744 | million yen |
| Purchases, etc. | 186,356 | million yen |
| Non-operating transactions | 53,575 | million yen |

2. Provision of allowance for doubtful accounts for subsidiaries and associates

The provision of allowance for doubtful accounts for subsidiaries and associates is related to receivables from Sumitomo Rubber South Africa (Pty) Limited, a consolidated subsidiary of the Company.

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 | 34,890 | 4,781 | 172 | 39,499 |

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)

| | | |
|---|---|---|
| Deferred tax assets | Shares of subsidiaries and associates | 9,341 |
| | Allowance for doubtful accounts | 2,935 |
| | Impairment loss on non-current assets | 966 |
| | Sales incentive | 965 |
| | Advertising expenses | 797 |
| | Provision for bonuses | 634 |
| | Loss on valuation of inventories | 371 |
| | Research and development expenses | 297 |
| | Excess depreciation | 208 |
| | Accrued enterprise tax | 183 |
| | Asset retirement obligations | 141 |
| | Investment securities | 116 |
| | Social security contributions related to provision for bonuses | 100 |
| | Others | 1,015 |
| | Sub-total of deferred tax assets | 18,069 |
| | Valuation allowance | (12,541) |
| | Total deferred tax assets | 5,528 |

| | | |
|---|---|---|
| Deferred tax liabilities | Valuation difference on available-for-sale securities | (4,186) |
| | Provision for retirement benefits | (1,964) |
| | Reserve for advanced depreciation of non-current assets | (1,207) |
| | Valuation difference on foreign currency denominated receivables and payables | (68) |
| | Others | (362) |
| | Total deferred tax liabilities | (7,787) |
| | Deferred tax liabilities, net | (2,259) |

(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 (1) below for details | * Please refer to (1) below for details | Sales of automobile tires, provision of services, concurrent holding of positions by officers | Sales of tires, etc. (Note 1) | 129,875 | Accounts receivable-trade | 53,410 |
| | | | | Deposit of funds (Note 4) | 77 | Deposits received | 27,834 |
| | 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) | 43,914 | Accounts receivable-trade | 25,181 |
| | | | | Deposit of funds (Note 4) | 3,080 | Deposits received | 8,154 |
| | 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) | 35,988 | Accounts receivable-trade | 14,299 |
| | 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) | 28,058 | Accounts receivable-trade | 12,059 |
| | | | | Deposit of funds (Note 4) | 2 | Deposits received | 10,960 |
| | 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) | 90,692 | Accounts payable-trade | 11,712 |
| | SRI USA, Inc. | 100.0% directly held | Provision of services, concurrent holding of positions by officers | Financing (Note 4) | 2,054 | Short-term loans receivable | 9,388 |

| 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) | 988 | Short-term loans receivable | 13,581 |
| | Sumitomo Rubber (China) Co., Ltd | 100.0% directly held | Sales of automobile tires, provision of services, concurrent holding of positions by officers | Loans payable (Note 7) | 7,762 | Current portion of long-term loans payable | 10,186 |
| | 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 7) | 4,407 | Current portion of long-term loans payable | 14,103 |
| | Sumitomo Rubber South Africa (Pty) Limited | 100.0% directly held | Purchase of automobile tires, provision of services, concurrent holding of positions by officers | Financing (Note 4) | 3,204 | Short-term loans receivable | 7,838 |
| | | | | Guarantee obligations (Note 5) | 20,549 | — | — |
| | 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 6) | 22,561 | — | — |
| | Dunlop Sports Marketing Co. Ltd. | 100.0% directly held | Sales of sports equipment, concurrent holding of positions by officers | Sales of golf clubs, etc. (Note 1) | 25,688 | Accounts receivable-trade | 9,419 |
| | Dunlop International 1902 Limited and its subsidiaries * Please refer to (2) below for details | * Please refer to (2) below for details | Provision of services, concurrent holding of positions by officers | Transfer of trademark right following business restructuring (Note 8) | 13,079 | Accounts payable-other | 11,523 |

*(1)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 |
|---|---|
| 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.

*(2)Names of companies, etc. and ratio of voting rights, etc. held by the Company are as follows:

| Name of company, etc. | Ratio of voting rights held by the Company |
|---|---|
| Dunlop International 1902 Limited | 100.0% directly held |
| Dunlop International Group Limited | 100.0% indirectly held |

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, deposits and collection of funds pertain to the cash management system (CMS) and the rate of interest is reasonably determined by considering the market interest rate.

(Note 5) Loans payable from banks (2,621,000 thousand South African rand) of subsidiaries were guaranteed, and the “amount of transaction” is the balance at the end of December 2019.

(Note 6) Loans payable from banks (150,000 thousand US dollars, 50,000 thousand euros) of subsidiaries were guaranteed, and the “amount of transaction” is the balance at the end of December 2019.

(Note 7) 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 8) Transaction price for transfer of trademark rights is determined based on the assessments of external experts.

(Notes on Per share information)

1. Net assets per share JPY 1,293.69
2. Net income per share JPY 73.81

(Notes on Significant subsequent events)

(Capital increase of subsidiary)

The Company, at its Board of Directors meeting held on January 30, 2020, resolved to implement a capital increase of Sumitomo Rubber South Africa (Pty) Limited, a wholly-owned subsidiary of the Company, with the following details.

1. Purpose of Capital Increase

The capital increase will be executed to strengthen the financial base of Sumitomo Rubber South Africa (Pty) Limited to facilitate its smooth business operations in the African market.

2. Overview of Subsidiary Subject to Capital Increase

(1) Name Sumitomo Rubber South Africa (Pty) Limited

(2) Location KwaZulu-Natal Province, Republic of South Africa

(3) Business description Manufacture and sales of automobile tires

3. Details of Capital Increase

(1) Amount of capital increase: 2,300 million South African rand

(2) Payment date January 31, 2020 1,150 million South African rand

February 3, 2020 1,150 million South African rand