SUMITOMO RUBBER GROUP

SUMITOMO RUBBER INDUSTRIES, LTD.

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SUMITOMO RUBBER GROUP

Fact Book 2018

SUMITOMO RUBBER INDUSTRIES, LTD.

Consolidated Financial Statements

(1) Consolidated Financial Statements

Consolidated Statement of Financial Position

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Assets			
Current assets			
Cash and cash equivalents	7, 19	¥ 64,528	**¥ 74,526**
Trade and other receivables	8, 19	209,308	**202,638**
Other financial assets	19	9,195	**1,627**
Inventories	9	159,010	**174,747**
Other current assets		23,932	**23,352**
Total current assets		465,973	**476,890**
Non-current assets			
Property, plant and equipment	10	379,747	**371,557**
Goodwill	11	35,202	**32,142**
Intangible assets	11	49,989	**44,782**
Investments accounted for using equity method	13	4,171	**4,215**
Other financial assets	19	37,098	**32,637**
Net defined benefit assets	17	25,378	**20,801**
Deferred tax assets	18	15,172	**14,136**
Other non-current assets		5,536	**5,223**
Total non-current assets		552,293	**525,493**
Total assets		¥1,018,266	**¥1,002,383**

Millions of yen

	Note	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Liabilities and Equity			
Liabilities			
Current liabilities			
Bonds and loans payable	15, 19	¥ 116,477	**¥ 137,455**
Trade and other payables	14, 19	136,100	**141,838**
Other financial liabilities	12, 19	1,776	**1,677**
Income tax payable		5,602	**5,850**
Provisions	16	6,782	**776**
Other current liabilities		36,562	**36,530**
Total current liabilities		303,299	**324,126**
Non-current liabilities			
Bonds and loans payable	15, 19	152,424	**142,183**
Other financial liabilities	12, 19	3,644	**3,156**
Net defined benefit liabilities	17	21,680	**21,073**
Provisions	16	1,199	**1,230**
Deferred tax liabilities	18	22,382	**17,540**
Other non-current liabilities		22,752	**20,268**
Total non-current liabilities		224,081	**205,450**
Total liabilities		527,380	**529,576**
Equity			
Capital stock	20	42,658	**42,658**
Capital surplus	20	37,865	**39,487**
Retained earnings	20	428,799	**441,062**
Treasury stock	20	(17,631)	**(69)**
Other components of equity	20	(31,784)	**(65,211)**
Total equity attributable to owners of the parent		459,907	**457,927**
Non-controlling interests	30	30,979	**14,880**
Total equity		490,886	**472,807**
Total liabilities and equity		¥1,018,266	**¥1,002,383**

Consolidated Statement of Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Sales revenue	6, 22	¥877,866	**¥894,243**
Cost of sales		(611,185)	**(632,756)**
Gross profit		266,681	**261,487**
Selling, general and administrative expenses	23	(199,706)	**(200,806)**
Business profit		66,975	**60,681**
Other income	24	4,025	**2,900**
Other expenses	24	(3,551)	**(6,426)**
Operating profit		67,449	**57,155**
Financial income	25	2,928	**2,786**
Financial expenses	25	(4,748)	**(9,640)**
Share of (profit) loss of entities accounted for using equity method	13	104	**48**
Profit before tax		65,733	**50,349**
Income tax expenses	18	(16,189)	**(13,163)**
Profit for the year		49,544	**37,186**
Profit attributable to:			
Owners of the parent company		46,979	**36,246**
Non-controlling interests	30	2,565	**940**
Profit for the year		¥ 49,544	**¥ 37,186**
Earning per share			
Basic earning per share (yen)	26	¥180.45	**¥137.81**

Consolidated Statement of Comprehensive Income

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Profit for the year		¥49,544	**¥37,186**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	21	3,454	**(2,907)**
Remeasurements of defined benefit plan	21	5,103	**(3,343)**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	21	(531)	**86**
Currency translation differences of foreign operations	21	5,304	**(32,321)**
Other comprehensive income, net of tax		13,330	**(38,485)**
Total comprehensive income for the year		¥62,874	**¥ (1,299)**
Total comprehensive income for the year attributable to:			
Owners of the parent company		60,440	**(327)**
Non-controlling interests	30	2,434	**(972)**
Total comprehensive income for the year		¥62,874	**¥ (1,299)**

Consolidated Statement of Changes in Equity

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

January 1 to December 31, 2017

Millions of yen

	Note	Equity attributable to owners of the parent company					
						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, 2017		¥42,658	¥37,937	¥389,970	¥ (570)	¥(49,657)	¥(185)
Profit for the year				46,979			
Other comprehensive income	21					5,635	(531)
Total comprehensive income		—	—	46,979	—	5,635	(531)
Purchase of treasury stock	20				(17,061)		
Disposal of treasury stock	20		0		0		
Dividends	28			(13,116)			
Changes in ownership interests in subsidiaries without a loss of control	29		(72)			120	
Changes in scope of consolidation							
Transfer to retained earnings				4,966			
Transfer to capital surplus							
Other increase and decrease							280
Total transactions with owners		—	(72)	(8,150)	(17,061)	120	280
Balance as of December 31, 2017		¥42,658	¥37,865	¥428,799	¥(17,631)	¥(43,902)	¥(436)

Millions of yen

	Note	Equity attributable to owners of the parent company					
		Other components of equity					
		Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total	Total	Non-controlling interests	Total
Balance as of January 1, 2017		¥ 9,163	¥ —	¥(40,679)	¥429,316	¥30,225	¥459,541
Profit for the year				—	46,979	2,565	49,544
Other comprehensive income	21	3,427	4,930	13,461	13,461	(131)	13,330
Total comprehensive income		3,427	4,930	13,461	60,440	2,434	62,874
Purchase of treasury stock	20			—	(17,061)		(17,061)
Disposal of treasury stock	20			—	0		0
Dividends	28			—	(13,116)	(1,545)	(14,661)
Changes in ownership interests in subsidiaries without a loss of control	29			120	48	(135)	(87)
Changes in scope of consolidation				—	—		—
Transfer to retained earnings		(36)	(4,930)	(4,966)	—		—
Transfer to capital surplus				—	—		—
Other increase and decrease				280	280		280
Total transactions with owners		(36)	(4,930)	(4,566)	(29,849)	(1,680)	(31,529)
Balance as of December 31, 2017		¥12,554	¥ —	¥(31,784)	¥459,907	¥30,979	1

January 1 to December 31, 2018

Millions of yen

		Equity attributable to owners of the parent company					
						Other components of equity	
	Note	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 for the year				**36,246**			
Other comprehensive income	21					**(30,347)**	**86**
Total comprehensive income		**—**	**—**	**36,246**	**—**	**(30,347)**	**86**
Purchase of treasury stock	20				**(31)**		
Disposal of treasury stock	20		**1**		**3**		
Dividends	28			**(15,511)**			
Changes in ownership interests in subsidiaries without loss of control			**3**			**0**	
Changes in scope of consolidation			**(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)**

Millions of yen

		Equity attributable to owners of the parent company					
		Other components of equity					
	Note	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan	Total	Total	Non-controlling interests	Total
Balance as of January 1, 2018		**¥12,554**	**¥ —**	**¥(31,784)**	**¥459,907**	**¥30,979**	**¥490,886**
Profit for the year				**—**	**36,246**	**940**	**37,186**
Other comprehensive income	21	**(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	20			**—**	**(31)**		**(31)**
Disposal of treasury stock	20			**—**	**4**		**4**
Dividends	28			**—**	**(15,511)**	**(1,300)**	**(16,811)**
Changes in ownership interests in subsidiaries without loss of control				**0**	**3**	**96**	**99**
Changes in scope of consolidation		**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**

Consolidated Statement of Cash Flows

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

Millions of yen

	Note	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Cash flows from operating activities			
Profit before tax		¥ 65,733	**¥50,349**
Depreciation and amortization		56,010	**57,365**
Impairment loss		64	**2,410**
Interest and dividend income		(2,508)	**(2,786)**
Interest expenses		4,748	**4,659**
Share of (profit) loss of entities accounted for using equity method		(104)	**(48)**
Loss (gain) on sales and retirement of non-current assets		1,323	**1,006**
Decrease (increase) in inventories		(9,534)	**(24,663)**
Decrease (increase) in trade and other receivables		(15,581)	**11**
Increase (decrease) in trade and other payables		3,095	**8,767**
Other, net		(3)	**990**
Subtotal		103,243	**98,060**
Interest received		1,880	**2,258**
Dividend income received		615	**551**
Interest expense paid		(4,422)	**(4,248)**
Income taxes paid		(25,207)	**(13,801)**
Net cash provided by (used in) operating activities		76,109	**82,820**
Cash flows from investing activities			
Purchase of property, plant and equipment		(64,484)	**(66,417)**
Proceeds from sales of property, plant and equipment		902	**330**
Purchase of intangible assets		(3,452)	**(3,285)**
Purchase of investment securities		(59)	**(158)**
Proceeds from sales of investment securities		268	**5**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	29	(32,665)	**(83)**
Payment for transfer of business	29	(1,195)	**(1,715)**
Net decrease (increase) in short-term loans receivable		18	**6,211**
Other, net		(57)	**(382)**
Net cash provided by (used in) investing activities		(100,724)	**(65,494)**
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	27	23,979	**22,748**
Proceeds from long-term debt and newly issued bonds	27	55,662	**16,839**
Repayments of long-term debt and redemption of bonds	27	(23,884)	**(22,928)**
Proceeds from contributions of non-controlling interests		607	**99**
Cash dividends paid	28	(13,116)	**(15,511)**
Cash dividends paid to non-controlling interests		(1,545)	**(1,300)**
Purchase of shares of non-controlling interests		(694)	**—**
Net decrease (increase) in treasury stock		(17,061)	**(27)**
Other, net	27	(2,242)	**(2,042)**
Net cash provided by (used in) financing activities		21,706	**(2,122)**
Effect of exchange rate changes on cash and cash equivalents		945	**(5,206)**
Net increase (decrease) in cash and cash equivalents		(1,964)	**9,998**
Cash and cash equivalents at the beginning of current period	7	66,492	**64,528**
Cash and cash equivalents at the end of current period	7	¥ 64,528	**¥74,526**

Notes to Consolidated Financial Statements

Sumitomo Rubber Industries, Ltd. and Its Consolidated Subsidiaries

1. Reporting Company

Sumitomo Rubber Industries, Ltd. (hereinafter the "Company") is based in Japan. The consolidated financial statements presented herein comprise the operating results for the fiscal year ended December 31, 2018 recorded by the Sumitomo Rubber Group and the Company's affiliates. For a description of the Group's primary business activities, please refer to Note 6. "Segment Information."

2. Basis for Preparation

(1) Compliance with IFRS

In accordance with Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 in 1976), the Group's consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS), as the Company meets the requirements concerning a "Designated International Accounting Standards Specified Company" prescribed in Article 1-2.

The consolidated financial statements presented herein were approved by Satoru Yamamoto, Representative Director and President of the Company, on March 26, 2019.

(2) Basis for Measurements

As stated in Note 3. "Significant Accounting Policies," the consolidated financial statements have been prepared based on historical cost, except for specific financial instruments that are measured at fair value.

(3) Presentation Currency and Unit

The Company uses Japanese yen as the primary functional currency for its operations and as the presentation currency used in preparing its consolidated financial statements. Figures are rounded to the nearest million yen.

(4) Changes in Accounting Policies

The Group has adopted the following standards from the fiscal year ended December 31, 2018.

IFRS		New or Revised Content
IFRS 15	Revenue from contracts with customers	Revised accounting treatment related to revenue recognition

The Group applies IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016), collectively referred to as "IFRS 15."

In applying IFRS 15, the Group has chosen to recognize the cumulative impact of applying these standards on the initial date of application, as permitted under transitional measures.

In line with the Group's application of IFRS 15 and excluding interest and dividend revenue based on IFRS 9 "Financial Instruments," revenue recognition entails the following five-step procedure:

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 from the application of the standard and clarification on the Group's consolidated financial statements.

In addition, in line with its application of IFRS 15, from the fiscal year ended December 31, 2018, refund liabilities related to discounts and sales returns, which had been included in provisions under current liabilities, are now included in trade and other payables.

As a result, in comparison with the previous method, provisions under current liabilities decreased 6,274 million yen and trade and other payables increased 6,274 million yen in the consolidated statement of financial position.

3. Significant Accounting Policies

Unless otherwise noted, the accounting policies described below have been consistently applied throughout the entirety of each fiscal year presented in the consolidated financial statements.

(1) Basis for Consolidation

(i) Subsidiaries

A subsidiary is defined as a company under the control of the Sumitomo Rubber Group. The term "control" refers to the Group's exposure or entitlement to variable returns due to its involvement in the management of said company, the returns of which the Group is able to impact through the exercise of its power. The financial statements of subsidiaries are included in the scope of consolidation from the date that control over said company is established to the date that such control is relinquished.

All intragroup balances and transactions within the Group as well as unrealized profit and loss resulting from transactions within the Group are eliminated in preparation of the consolidated financial statements.

A subsidiary's comprehensive income is allocated to owners of the parent and non-controlling interests even when that portion attributable to non-controlling interests is negative.

To disclose the most accurate information, the operating results of subsidiaries whose fiscal year end differs from that of the parent company are subject to provisional closing. This is undertaken at the closing date of the consolidated financial results, with the results of the provisional closing included therein.

Changes in equity held by the Group in subsidiaries under its control are treated as capital transactions. The difference between adjustments for non-controlling interests and the fair value of such interests is classified as equity attributable to owners of the parent and directly recognized as capital.

(ii) Affiliates

An affiliate is defined as a company over which the Group exerts neither sole nor joint control but nevertheless is able to exert significant influence with regard to financial and management decisions. Investments in affiliates are accounted for using equity method from the date on which the Group gains significant influence until the date on which it ceases to hold that influence.

(2) Business Combinations

Business combinations are accounted for using the "Acquisition Method." Identifiable assets, identifiable liabilities and contingent liabilities acquired through business combinations are measured at fair value as of the date of acquisition. Acquisition-related costs incurred through business combinations are accounted for as expenses in the period incurred. Non-controlling interests are identified separately from equity held by the Group. The Group recognizes its non-controlling interests in an acquiree based on a) fair value or b) the proportion of the non-controlling interest's share in the net value of identifiable assets and liabilities of the acquiree on a transaction by transaction basis respectively.

Goodwill is measured when the total of a) the price of business combination, b) the value of non-controlling interests acquired and c) the fair value of equity capital in the investee held by the acquiring company prior to the new acquisition surpasses d) the net value of the investee's identifiable assets and liabilities as of the date of acquisition. Goodwill thus is measured as the excess of the total of a), b) and c) over d).

In cases where the total of a), b) and c) falls short of the value of d) due to a bargain purchase, the difference is recognized as profit or loss.

(3) Foreign Currencies Translation

(i) Foreign Currency Denominated Transactions

The financial statements of Sumitomo Rubber Group subsidiaries have been prepared based on functional currencies, that is, the primary currencies of the respective business economies in which each subsidiary conducts business operations.

Transactions denominated in other foreign currencies have been translated into the functional currencies of the relevant subsidiaries using exchange rates at the date of the transactions or rates that approximate the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies as of each fiscal year-end have been translated into the functional currencies using the exchange rates at the fiscal year-end. Exchange differences resulting from translation and settlements are recognized as profit or loss. However, financial assets measured through other comprehensive income and exchange differences resulting from cash flow hedging are recognized as other comprehensive income.

(ii) Foreign Operations

The assets and liabilities of foreign operations have been translated into Japanese yen using the exchange rates at the fiscal year-end. Income and expenses recorded by such foreign operations have been translated into Japanese yen using the average exchange rate during the fiscal year, except for cases of significant exchange rate movements during the fiscal year. Exchange differences resulting from the translation of financial statements of foreign operations are recognized in other comprehensive income (or loss). The exchange differences are included in other components of equity as "currency translation differences of foreign operations."

The translation differences of foreign operations that have been disposed of by the Company are recognized as net profit or loss in the period in which the disposal took place.

(4) Cash and Cash Equivalents

Cash and cash equivalents consist of a) cash on hand, b) readily available deposits and c) short-term highly liquid investments with original maturities of three months or less that entail insignificant price fluctuation risk.

(5) Financial Instruments

(i) Financial Assets Other than Derivatives

i. Classification

The Group classifies financial assets other than derivatives into the following categories: (a) those measured at amortized cost; (b) those measured at fair value through other comprehensive income; and (c) those measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are measured at amortized cost when the following conditions are met:

- Contained within a business model with the objective of holding financial 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 payments of principal and interest on the outstanding principal

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

(b. 1) Debt equivalents

Financial assets are classified as debt equivalents when the following conditions are met:

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

(b. 2) Equity equivalents

Excluding the financial assets classified as (b. 1) above, the Group holds investments that are equity equivalents (excluding assets held for trading) that would otherwise meet the requirements of (a) above. Once any such investment is recognized as an equity equivalent, the Group's decision to present subsequent changes in fair value in other comprehensive income becomes irrevocable.

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

Financial assets that do not meet the criteria of (a) or (b) above are measured at fair value through profit or loss. The Sumitomo Rubber Group has not classified any of its investments in debt equivalents in this category as it aims to promote accounting consistency.

ii. Initial Recognition and Measurement

The Sumitomo Rubber Group recognizes trade and other receivables as of their accrual date. As for all other financial assets, the Sumitomo Rubber Group undertakes the initial recognition as of the transaction date on which the Group becomes a signatory on contracts for such assets. The value of all financial assets, except for those classified as financial assets measured at fair value through profit or loss as well as operating receivables that include significant financing components, reflects initial measurements based on the total of fair value and transaction costs.

iii. Subsequent Measurement

To remeasure the value of financial assets after initial recognition, the Group applies the following methods by asset category.

(a) Financial assets measured at amortized cost

The Group undertakes subsequent measurement using the effective interest method.

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

(b. 1) Debt equivalents

Changes in the fair value of financial assets in this category, excluding gains and losses attributable to impairment and foreign exchange, are recognized as other comprehensive income until the Group derecognizes said assets. After derecognition, previously recognized other comprehensive income is reclassified to profit or loss.

(b. 2) Equity equivalents

Changes in the fair value of financial assets in this category are recognized as other comprehensive income. In cases where the Group derecognizes said assets or the fair value of such assets falls significantly, previously recognized other comprehensive income is directly reclassified to retained earnings. In addition, dividends derived from these financial assets are recognized as profit.

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

Following initial recognition, the value of financial assets in this category is measured at fair value. Changes in the fair value are recognized as profit or loss.

iv. Impairment of Financial Assets

The Sumitomo Rubber Group recognizes an allowance for doubtful accounts to counter expected credit loss in relation to financial assets measured at amortized cost.

Determination of a significant increase in credit risk

At every fiscal year-end, the Group evaluates whether there has been a significant increase in the credit risk of financial assets after initial recognition by comparing the default risk of such assets at the account closing date and at the date of initial recognition.

In addition, the Group undertakes the aforementioned evaluation based on changes in default risk following the initial recognition. To determine whether there has been a change in the default risk of financial assets, the Group takes the following factors into consideration.

- Significant changes in ratings by external credit rating agencies
- Downward revisions in internal credit ratings
- Deterioration in the business performance of borrowers
- Information about lapses in maturity dates

Measurement of expected credit loss

Expected credit loss refers to the present value of differences between contractual cash flows that are due to the Group in accordance with the contract; and the cash flows that the Group expects to receive. The allowance for doubtful accounts associated with financial assets is determined at an amount equal to the present value of the expected credit loss over the lifetime of such assets if the credit risk has increased significantly since initial recognition or at an amount equal to the expected credit loss over the 12-month period if the credit risk of such assets has not increased significantly.

However, notwithstanding the above, the allowance for doubtful accounts associated with operating receivables that include no significant financing components is determined at an amount equal to lifetime expected credit loss.

Allowance for doubtful accounts in relation to financial assets is recognized as profit or loss. In cases where the allowance for doubtful accounts decreases, the reversal of such allowance is recognized as profit or loss.

v. Derecognition of Financial Assets

Financial assets are derecognized if the Group's contractual rights to the cash flows expire or if the Group transfers such rights or otherwise transfers substantially all the risks and rewards of ownership of the financial assets.

If there is no reasonable expectation for the partial or full collection of the Group's claims associated with a financial asset, the Group directly deducts the value from the carrying amount of total financial assets.

(ii) Financial Liabilities Other than Derivatives

i. Classification

The Group classifies financial liabilities other than derivatives as those measured at amortized cost.

ii. Initial Recognition and Measurement

The Group undertakes the initial recognition of debt securities issued by the Group at the date of issuance. All other financial liabilities are subject to initial recognition undertaken at the transaction date, that is, the date on which the Group became a signatory to contracts associated with such liabilities. All financial liabilities are measured at fair value less transaction cost.

iii. Subsequent Measurement

To remeasure the value of financial liabilities, the Group uses amortized cost based on the effective interest method.

iv. Derecognition of Financial Liabilities

Financial liabilities are derecognized when they have been extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

(iii) Offset of Financial Assets and Liabilities

Financial assets and liabilities are offset only when the Group currently has a legally enforceable right to offset the transactions and intends either to settle on a net basis or to simultaneously realize the financial assets and settle the financial liabilities. The outcome of such offset is included in the consolidated statement of financial position.

(iv) Derivatives and Hedge Accounting

The Group utilizes such derivatives as forward exchange contracts and interest rate swaps as hedges against foreign exchange risk and interest rate risk. These derivatives are initially measured at fair value as of the contract date. The Group undertakes subsequent remeasurement using fair value.

When derivatives are designated as eligible hedging instruments, accounting treatment methods for changes in the fair value of such derivatives are determined by hedging objectives and designations. When they are not designated as such, the changes in the fair value of such derivatives are recognized as profit or loss.

i. Qualifying Criteria for Hedge Accounting

When a derivative transaction is initiated, the Group documents the relationship between hedging instruments and hedged items as well as its risk management goals and strategies for various hedging transactions, with the aim of evaluating whether the hedge relationship meets hedge accounting requirements. Moreover, from the inception of hedging, the performance of derivatives (used for hedge transactions to offset changes in the fair value of or cash flows from hedged items) is constantly evaluated and documented to determine whether they meet all the applicable hedge effectiveness requirements. The evaluation of hedge effectiveness is undertaken at the earlier of the closing date of each fiscal year or whenever a significant change in circumstances may affect hedge effectiveness requirements.

ii. Accounting Treatment of Qualifying Hedge Relationships

Derivatives that meet the strict criteria for hedge accounting are treated as follows.

Fair value hedge

Changes in the fair value of hedging instruments are recognized as profit or loss. Changes in the fair value of hedged items are adjusted in the carrying amount of such items and recognized as profit or loss.

Cash flow hedges

The effective portion of gain or loss on hedging instruments is recognized as other comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

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

Cash flow hedge reserves, other than those derived from the aforementioned cash flow hedges, are reclassified to profit or loss in the same period or periods during which the hedged expected future cash flow affects profit or loss.

However, if the initial amount is negative and the partial or full recovery of such amount may not be expected in the future, the estimated loss is immediately reclassified to profit or loss.

Cash flow hedge reserves are retained until cash flows are generated even when the Group decides to discontinue hedge accounting, provided that the future generation of cash flows from hedged accounts is expected. However, if the future generation of such cash flows cannot be expected, cash flow hedge reserves are immediately reclassified to profit or loss.

(v) Fair Value of Financial Instruments

To determine the fair value of financial instruments being traded in active markets as of the reporting dates for each fiscal year, the Group refers to quoted market prices. The fair value of financial instruments without active markets is calculated using appropriate valuation models.

(6) Inventories

Inventories are stated at the lower of acquisition cost or net realizable value. Historical cost is calculated mainly based on the gross average method and includes purchase price, processing cost and all other expenses incurred in bringing such inventories to their present location and state. Net realizable value is calculated by deducting the estimated cost of completion as well as relevant variable selling expenses from selling prices estimated in the course of regular business operations.

(7) Property, Plant and Equipment

All property, plant and equipment is stated at acquisition cost less accumulated depreciation and accumulated impairment loss. Acquisition cost includes any costs directly attributable to the acquisition of the assets, their dismantlement, removal and restoration cost, as well as borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets.

Subsequent expenditures are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Other expenses for maintenance and repair are recognized as profit or loss as incurred.

The depreciation of assets other than land and construction in progress is calculated using the straight-line method over their estimated useful lives.

The estimated useful lives of primary assets by category are as follows:

• Building and structures:	2 to 60 years
• Machinery, equipment and vehicles:	2 to 20 years
• Tools, furniture and fixture:	1 to 20 years

The depreciation methods, residual values and estimated useful lives are reviewed at the end of each fiscal year, and if any changes are made, those changes are applied prospectively as a change in accounting estimates.

(8) Intangible Assets

(i) Goodwill

Goodwill resulting from the acquisition of subsidiaries is stated as an intangible asset.

Matters regarding the measurement of goodwill as of the initial recognition are presented in "(2) Business Combinations." Goodwill is measured at the amount of acquisition cost less accumulated impairment loss. Goodwill is not amortized and is subject to impairment testing. Matters regarding the impairment of such assets are presented in "(10) Impairment of Non-Financial Assets."

The Group undertakes the initial recognition of intangible assets acquired through business combination and recognized as separate from goodwill at fair value as of the date of acquisition. Except for those with indefinite useful lives, such assets are amortized using the straight-line method over their estimated useful lives.

(ii) Other Intangible Assets

Other intangible assets acquired on an individual basis are stated at acquisition cost less accumulated amortization and impairment loss if their useful lives are definite. Such assets are amortized using the straight-line method over their estimated useful lives. The value of intangible assets with indefinite useful lives is stated at acquisition cost less accumulated impairment loss.

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

- Customer-related assets: 5 to 20 years
- Software: 3 to 5 years

The amortization methods, residual value and estimated useful lives are reviewed at the end of every fiscal year, and if any changes are made, those changes are applied prospectively as a change in accounting estimates.

(9) Leases

Leases are classified as finance leases if substantially all the risks and rewards incidental to ownership of such assets are transferred to the Group. Other leases are classified as operating leases.

Lease assets and liabilities resulting from finance lease transactions are recognized at the lower of the fair value of leased properties calculated at the inception of the lease or the present value of the minimum lease payments. In accordance with applicable accounting policies, such assets are depreciated after initial recognition by using the straight-line method over their estimated useful lives, or if shorter, their terms of lease.

Lease payments for operating leases are recognized as expenses using the straight-line method over the lease terms and presented in the consolidated statement of income.

(10) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever there is an indication that the carrying amount of such assets may not be recoverable due to unforeseen events or changes in circumstance. The carrying amount of said assets in excess of the recoverable amount is recognized as impairment loss. In addition, the recoverable amount is the higher of fair value less selling cost or value in use. In calculating value in use, estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and risks specific to the assets. When assets are reviewed for impairment, they are grouped into minimum units (cash-generating units) in which individual cash flows can be identified.

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are not subject to amortization. The recoverable amount of such assets is estimated annually and is subject to impairment testing.

Goodwill is also subject to annual impairment testing, with its carrying amount representing acquisition costs less accumulated impairment loss. To perform impairment testing, the Group allocates goodwill to individual cash-generating units or cash-generating unit groups that are expected to bring benefits by creating synergies attributable to business combination.

As for property, plant and equipment and intangible assets (excluding goodwill) for which impairment has been recognized previously, the Group evaluates the possibility of reversal of impairment at the end of each reporting period.

(11) Non-Current Assets (or Disposal Group) Held for Sale

Of assets and asset groups whose value is expected to be recovered through sale and not through ongoing use, those that can be sold immediately in present condition are classified as assets held for sale when plans call for completing the sale within one year and the Group's management is committed to executing the sale. Assets classified as such are measured at the lower of carrying amount or fair value less selling cost.

(12) Employee Benefits

(i) Short-Term Employee Benefits

Short-term employee benefits are not subject to discount and are recognized as expenses whenever relevant services have been provided. Whenever a reliable estimation can be undertaken, bonuses and the cost of paid leave are recognized as liabilities based on the estimated cost in accordance with the applicable schemes to which the Group has legal or constructive obligations.

(ii) Postretirement Benefit Plans

i. Defined Benefit Plans

The Company and some of its subsidiaries have adopted defined benefit plans. Assets and liabilities recognized in relation to said plans are classified by individual plan, with their value being determined by deducting the fair value of plan assets from the present value of the defined benefit obligation at the end of reporting period. Defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. With the determination of the discount period based on the residual term until the future payment date in each fiscal year, the discount rate applied is determined by reference to market yields on high-quality corporate bonds at the end of the corresponding reporting period.

Actuarial differences resulting from adjustments based on performance and changes in actuarial assumptions are immediately reclassified to retained earnings after recognizing them in other comprehensive income for the period in which such differences were recorded.

Prior service costs are recognized as profit or loss for the period in which such costs were incurred.

ii. Defined Contribution Plans:

The Company and some of its subsidiaries have adopted defined contribution plans. Upon payment, each defined contribution is recognized as employee benefit cost since the retirement benefit cost of such plans entails no additional obligation. Such contribution is the sole expense associated with these plans.

(iii) Other Long-Term Employee Benefits

Liabilities due to long-term employee benefits (other than retirement benefits) are calculated by estimating the future amount for benefits that employees will have earned as consideration for their services in the current and prior fiscal years and discounting such amount in order to determine the present values.

(13) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; settlement is expected to result in an outflow of resources embodying economic benefits: and the amount of obligation can be reliably estimated.

In cases where the effect of the time value of money is material, the amount of a provision is measured at the present value of expenditures expected to be required to settle the obligation after applying a discount rate (pre-tax rate) that reflects current market assessments and risks specific to the liability. Increases due to passage of time are recognized as financial expenses.

(i) Provision for Loss on Voluntary Recall of Products

This item represents the estimated loss, at the fiscal year-end, that may directly arise from a product recall and other relevant expenses.

(ii) Provision for Sales Returns

This item is provided for losses incurred on the return of tires that are sold but subsequently returned. The amount is based on an estimate using the average rate of such returns in prior years.

(iii) Asset Retirement Obligation

This item represents estimated expenses for returning leased offices and buildings to their original condition. The amount is expected to be paid after the passage of one year or later and is affected by future business plans and other factors.

(14) Equity
(i) Common shares
In terms of common shares, capital stock and capital surplus are stated at the issuance price.

(ii) Treasury Stock
Treasury stock is evaluated at acquisition cost and deducted from equity. Proceeds or losses are not recognized at the time of the purchase, sale or retirement. However, differences between the carrying amount and proceeds from sales are recognized as capital surplus.

(15) Revenue Recognition
Excluding interest and dividend revenue based on IFRS 9 "Financial Instruments," the Group's revenue recognition entails the following five steps:

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.

(16) Government Grants
Recognition of eligibility for the receipt of government grants may be secured if conditions for the receipt of grants have been met and reasonable guarantee for the receipt could be obtained. Grants for the acquisition of assets are recognized as revenues with regularity over the useful lives of the related assets, with unearned grant income being included in liabilities as deferred income. Grants for other business expenses are recognized as revenues in the fiscal year in which relevant expenses are recognized.

(17) Income Taxes
Income tax expenses consist of current income taxes and deferred taxes. As such they are recognized as loss or profit, with the exception of taxes on items recognized as other comprehensive income or taxes directly included in equity.

Income tax expenses are calculated using the statutory tax rates and tax laws enforced or substantially enforced at the end of the fiscal year in countries where taxable income is generated from business activities undertaken by the Company and its subsidiaries.

Deferred tax assets and liabilities are recognized using the asset and liability method on the basis of temporary differences arising between the tax bases of said assets or liabilities and their carrying amount as presented in the consolidated financial statements.

In addition, deferred tax assets and liabilities are not recognized for the following temporary differences.

- The initial recognition of goodwill
- The initial recognition of assets or liabilities in relation to transactions (excluding business combinations) that affect neither accounting profit or loss nor taxable income (tax loss carryforwards)
- Taxable temporary differences arising from investments in subsidiaries or affiliates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed annually. Such amount is reduced proportionately with the utilization of deferred tax assets, which may be partial or full depending on the sufficiency of taxable income. An unrecognized deferred tax asset is reviewed every fiscal year and is recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the statutory tax rates and tax laws that will be enforced or substantially enforced by the end of the accounting period and applied to the period in which deferred tax assets are realized or deferred tax liabilities are settled.

Deferred tax assets and liabilities are offset if the Company and its subsidiaries have a legally enforceable right to offset a current tax asset against a current tax liability and if the same taxation authority levies income taxes either on the same taxable entity or on different taxable entities that intend to settle current tax assets and liabilities on a net basis.

(18) Dividends Paid
Dividends paid to owners of the parent comprise year-end and interim dividends, each of which requires approval of a general meeting of shareholders or the Board of Directors. These dividends are recognized as liabilities for the period in which such approval was furnished.

(19) Profit per Share
Basic profit per share is calculated by dividing profit attributable to owners of the parent by the weighted-average number of outstanding common shares adjusted by number of treasury shares.

(20) Segment Information
An operating segment is the basic source of business activities that generate revenues and incur expenses, including through transactions with other operating segments. Discrete financial information is available for each of these segments and reviewed regularly by the Board of Directors, which the Group has positioned as the highest body in charge of management decision making. As such, the Board of Directors is responsible for making decisions about the allocation of resources and assessing performance of each operating segment.

4. Important Accounting Estimates and Judgment
In the preparation of the consolidated financial statements of the Group, management is required to establish judgments, estimates and assumptions that have an effect on the application of accounting policies, as well as the reported amounts of assets, liabilities, revenues and expenses. Actual operating results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of revisions to the accounting estimates are recognized in the fiscal period where such estimates are revised and in future fiscal periods.

Of the items subject to the estimates and judgments, the following have a significant impact on the amounts stated in the consolidated financial statements for the fiscal year under review and subsequent fiscal years:

- Impairment of intangible assets (Note 11. "Goodwill and Other Intangible Assets")
- Accounting treatment and valuation of provisions (Note 16. "Provisions")
- Measurement of defined benefit obligation (Note 17. "Employee Benefits")
- Recoverability of deferred tax assets (Note 18. "Income Taxes")
- Measurement of fair value of financial instruments (Note 19. "Financial Instruments")

5. Accounting Standards and Guidelines Not Yet Applied
The Group has yet to adopt the following accounting standards and guidelines, which have been newly released or revised as of the date on which the accompanying consolidated financial statements were approved. These standards are not subject to earlier adoption.

IFRS		Mandatory adoption date	To be adopted by the Group for the fiscal year ending:	Description of new or revised standards
IFRS 16	Leases	Jan. 1, 2019	Dec. 31, 2019	Accounting treatment and disclosure of leases

With the adoption of IFRS 16, the Group introduces a single accounting model for including leases on balance sheets. The lessee will not distinguish between finance leases and operating leases and, with regard to all leases except for those for periods of 12 months or less and those with low-value underlying assets, will recognize right-of-use assets that grant rights to underlying assets and lease liabilities that include the obligation to pay the lease fees. The recognition of right-of-use assets and lease liabilities ensures that the depreciation of right-of-use assets and the interest expenses related to lease obligations will be recognized.

The Group plans to apply IFRS 16 using the modified retrospective approach. Accordingly, comparative information will not be restated, and the cumulative impact of applying IFRS 16 will be recognized as an adjustment to retained earnings at the beginning of the fiscal year on January 1, 2019.

In addition, the Group plans to utilize the practical expedient that exempts certain transactions from being defined as leases at the time of transition. In this case, based on IFRIC 4 and IAS 17, IFRS 16 applies to all contracts identified as leases that were signed prior to January 1, 2019.

In line with this, on January 1, 2019 (the application date of these standards), assets and liabilities are expected to increase 52,531 million yen and 53,921 million yen, respectively, while retained earnings are expected to decline 1,390 million yen.

6. Segment Information
(1) Overview of the Reportable Segments
The reportable segments of the Sumitomo Rubber Group are the units for which separate financial information is available and periodically reviewed by the Board of Directors, the highest decision-making body in charge of allocating management resources and evaluating business performance.

The Group has three divisions based on operations in Tires, Sports, and Industrial and Other Products. Each division formulates comprehensive strategies for both domestic and overseas markets and develops business activities. Therefore, the Company identifies "Tires," "Sports" and "Industrial and other Products" as reportable segments. The main products, service and content of operations of these reportable segments are described below.

Reportable segments	Main products, services and content of operations
Tires	Tires and tubes (for automobiles, construction machinery, industrial vehicles, racing and rally cars, motorcycles, etc.) Automotive business (instant mobility systems, tire deflation warning systems, etc.)
Sports	Sports goods (golf clubs, golf balls and other golf-related goods, as well as tennis-related goods, etc.) Operation of golf tournaments Management of golf and tennis schools Fitness club operations, etc.
Industrial and Other Products	Highly functional rubber products (vibration-control dampers, precision rubber parts for office machines, medical rubber parts, etc.) Daily life products (rubber gloves for food preparation and work, portable ramps for wheelchairs, etc.) Infrastructure (marine fenders, various flooring materials for factories and sports facilities, etc.)

(2) Reportable Segment Sales, Profit or Loss, and Other Material Items

Accounting treatment methods adopted by reportable segments are the same as those described in Note 3. "Significant Accounting Policies."

Intersegment sales and transfers are stated at wholesale prices based on current market values.

Figures for reportable segment profit or loss are based on business profit.

Information on reportable segments for the previous fiscal year and the fiscal year under review is as follows.

(i) January 1 to December 31, 2017

Millions of yen

	Reportable segments					
	Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	¥756,576	¥81,734	¥39,556	¥877,866	¥ —	¥877,866
Intersegment sales and transfers	30	310	809	1,149	(1,149)	—
Total	¥756,606	¥82,044	¥40,365	¥879,015	¥(1,149)	¥877,866
Segment income (Note 1)	58,341	4,372	4,229	66,942	33	66,975
Other income and expenses						474
Operating profit						67,449
Other important items						
Depreciation and amortization	51,896	2,623	1,491	56,010	—	56,010
Impairment loss	8	35	21	64	—	64
Capital expenditures	63,792	2,149	2,002	67,943	—	67,943

Notes: 1. Segment income (business profit) is calculated by deducting the total of cost of sales and selling, general and administrative expenses from sales revenue.
2. Adjustments for segment income include the elimination of intersegment transactions.

(ii) January 1 to December 31, 2018

Millions of yen

	Reportable segments					
	Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	**¥768,012**	**¥84,477**	**¥41,754**	**¥894,243**	**¥ —**	**¥894,243**
Intersegment sales and transfers	**90**	**342**	**936**	**1,368**	**(1,368)**	**—**
Total	**¥768,102**	**¥84,819**	**¥42,690**	**¥895,611**	**¥(1,368)**	**¥894,243**
Segment income (Note 1)	**51,187**	**5,489**	**4,013**	**60,689**	**(8)**	**60,681**
Other income and expenses						**(3,526)**
Operating profit						**57,155**
Other important items						
Depreciation and amortization	**52,652**	**3,000**	**1,713**	**57,365**	**—**	**57,365**
Impairment loss	**2,410**	**—**	**—**	**2,410**	**—**	**2,410**
Capital expenditures	**63,181**	**2,749**	**4,539**	**70,469**	**—**	**70,469**

Notes: 1. Segment income (business profit) is calculated by deducting the total of cost of sales and selling, general and administrative expenses from sales revenue.
2. Adjustments for segment income include the elimination of intersegment transactions.

(3) Products and Services Information

Revenue by products and services are not presented since the segmentation of products and services is the same as that for reportable segments.

(4) Geographic Information

The regional breakdown of sales to external customers and non-current assets by country and region is as follows.

(i) Sales to External Customers

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Japan	¥323,778	**¥331,664**
North America	153,713	**148,528**
Europe	106,206	**131,553**
Asia	177,544	**177,112**
Other	116,625	**105,386**
Total	¥877,866	**¥894,243**

Note: Breakdown is based on product destination.

(ii) Non-Current Assets

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Japan	¥160,665	**¥157,831**
North America	37,722	**40,025**
Europe	63,112	**63,548**
Asia	135,478	**123,268**
Other	73,497	**69,032**
Total	¥470,474	**¥453,704**

Note: Breakdown is based on the location of assets. The above figures exclude investments accounted for using equity method and other financial assets, as well as net defined benefit assets and deferred tax assets.

(5) Information on Major Customers

The Group had no transaction with a single external customer amounting to 10% or more of total external revenue.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Cash and deposits	¥64,679	**¥74,791**
Time deposits with a maturity of over three months	(151)	**(265)**
Total	¥64,528	**¥74,526**

Note: The value of cash and cash equivalents is identical in the consolidated statement of financial position and the consolidated statement of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Trade notes	¥ 45,200	**¥ 39,706**
Accounts receivable	160,791	**158,039**
Accrued accounts receivable	6,215	**7,279**
Allowance for doubtful accounts	(2,898)	**(2,386)**
Total	¥209,308	**¥202,638**

9. Inventories

The breakdown of inventories is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Finished products	¥103,032	**¥112,634**
Work-in-progress	8,328	**8,357**
Raw materials and supplies	47,650	**53,756**
Total	¥159,010	**¥174,747**

Note: The write-down of inventories recognized as expenses totaled 88 million yen and 1,001 million yen as of December 31, 2017 and 2018, respectively.

10. Property, Plant and Equipment

(1) Acquisition Cost, Changes in Accumulated Depreciation, Accumulated Impairment Loss and Carrying Amount

The acquisition cost of property, plant and equipment, changes in accumulated depreciation and accumulated impairment loss on such assets and their carrying amount are as follows.

(i) Acquisition Cost

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2017	¥41,559	¥230,592	¥554,821	¥123,609	¥33,387	¥ 983,968
Individual acquisitions	780	3,597	8,902	1,727	49,293	64,299
Transfer from construction in progress	—	2,852	22,312	10,890	(36,054)	—
Acquisition through business combination	—	845	1,220	327	20	2,412
Disposal	(623)	(2,009)	(9,602)	(7,138)	(152)	(19,524)
Foreign currency translation differences	144	1,839	5,561	1,789	288	9,621
Other	—	756	3,187	770	(1,507)	3,206
Balance as of December 31, 2017	¥41,860	¥238,472	¥586,401	¥131,974	¥45,275	¥1,043,982
Individual acquisitions	**259**	**3,344**	**2,330**	**1,394**	**59,857**	**67,184**
Transfer from construction in progress	**—**	**9,848**	**33,902**	**10,792**	**(54,542)**	**—**
Acquisition through business combination	**—**	**20**	**74**	**3**	**—**	**97**
Disposal	**(4)**	**(1,347)**	**(8,667)**	**(7,269)**	**(72)**	**(17,359)**
Foreign currency translation differences	**(140)**	**(6,300)**	**(18,422)**	**(2,254)**	**(5,662)**	**(32,778)**
Other	**—**	**(560)**	**36**	**(82)**	**(763)**	**(1,369)**
Balance as of December 31, 2018	**¥41,975**	**¥243,477**	**¥595,654**	**¥134,558**	**¥44,093**	**¥1,059,757**

(ii) Accumulated Depreciation and Accumulated Impairment Loss

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2017	¥(4,405)	¥(120,642)	¥(404,281)	¥ (91,347)	¥—	¥(620,675)
Depreciation	—	(7,489)	(30,561)	(11,665)	—	(49,715)
Impairment loss	(25)	(37)	—	(1)	—	(63)
Disposal	309	1,750	8,757	6,533	—	17,349
Foreign currency translation differences	(103)	(994)	(4,037)	(1,293)	—	(6,427)
Other	—	(766)	(3,216)	(722)	—	(4,704)
Balance as of December 31, 2017	¥(4,224)	¥(128,178)	¥(433,338)	¥ (98,495)	¥—	¥(664,235)
Depreciation	**—**	**(7,645)**	**(31,212)**	**(11,822)**	**—**	**(50,679)**
Impairment loss	**(2)**	**(1)**	**—**	**—**	**—**	**(3)**
Disposal	**37**	**1,095**	**7,845**	**7,074**	**—**	**16,051**
Foreign currency translation differences	**(157)**	**1,007**	**8,991**	**1,158**	**—**	**10,999**
Other	**—**	**(416)**	**(11)**	**94**	**—**	**(333)**
Balance as of December 31, 2018	**¥(4,346)**	**¥(134,138)**	**¥(447,725)**	**¥(101,991)**	**¥—**	**¥(688,200)**

(iii) Carrying Amount

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools furniture and fixtures	Construction in progress	Total
Balance as of January 1, 2017	¥37,154	¥109,950	¥150,540	¥32,262	¥33,387	¥363,293
Balance as of December 31, 2017	37,636	110,294	153,063	33,479	45,275	379,747
Balance as of December 31, 2018	**37,629**	**109,339**	**147,929**	**32,567**	**44,093**	**371,557**

Notes: 1. No material borrowings are included in acquisition cost of property, plant and equipment.
2. Depreciation of property, plant and equipment is included in "cost of sales" and "selling, general and administrative expenses" presented in the consolidated statement of income.

(2) Lease Assets under Finance Leases

The carrying amounts of lease assets that have been held under finance leases and included in property, plant and equipment are as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Buildings and structures	¥1,566	**¥1,754**
Machinery, equipment and vehicles	1,784	**1,487**
Tools, furniture and fixtures	1,558	**1,256**
Total	¥4,908	**¥4,497**

11. Goodwill and Other Intangible Assets

(1) Acquisition Cost, Changes in Accumulated Amortization, Accumulated Impairment Loss and Carrying Amount

The acquisition cost of goodwill and other intangible assets, changes in accumulated amortization and accumulated impairment loss on such assets and their carrying amount are as follows.

(i) Acquisition Cost

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2017	¥19,827	¥ 5,472	¥ 2,305	¥27,865	¥2,583	¥ 58,052
Individual acquisitions	—	—	3	3,336	305	3,644
Acquisition through business combination	19,140	12,061	17,615	4	—	48,820
Disposal	—	—	(5)	(2,677)	(128)	(2,810)
Currency translation differences	711	690	1,574	88	3	3,066
Other	—	—	—	148	(227)	(79)
Balance as of December 31, 2017	¥39,678	¥18,223	¥21,492	¥28,764	¥2,536	¥110,693
Individual acquisitions	—	—	—	2,587	698	3,285
Acquisition through business combination	1,265	748	—	—	—	2,013
Disposal	—	—	—	(4,681)	(2,159)	(6,840)
Currency translation differences	(2,050)	(1,532)	(2,101)	(301)	(157)	(6,141)
Other	—	—	—	1,017	986	2,003
Balance as of December 31, 2018	**¥38,893**	**¥17,439**	**¥19,391**	**¥27,386**	**¥1,904**	**¥105,013**

(ii) Accumulated Amortization and Accumulated Impairment Loss

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2017	¥(4,476)	¥ (692)	¥(620)	¥(13,721)	¥(1,747)	¥(21,256)
Amortization	—	(1,003)	(269)	(4,947)	(76)	(6,295)
Impairment loss	—	—	—	—	(1)	(1)
Disposal	—	—	5	2,642	128	2,775
Currency translation differences	—	(64)	(13)	(91)	(4)	(172)
Other	—	(596)	—	(7)	50	(553)
Balance as of December 31, 2017	¥(4,476)	¥(2,355)	¥(897)	¥(16,124)	¥(1,650)	¥(25,502)
Amortization	—	(1,289)	(356)	(4,924)	(117)	(6,686)
Impairment loss	(2,407)	—	—	—	—	(2,407)
Disposal	—	—	—	4,681	2,158	6,839
Currency translation differences	132	301	530	112	48	1,123
Other	—	—	—	(15)	(1,441)	(1,456)
Balance as of December 31, 2018	**¥(6,751)**	**¥(3,343)**	**¥(723)**	**¥(16,270)**	**¥(1,002)**	**¥(28,089)**

(iii) Carrying Amount

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Total
Balance as of January 1, 2017	¥15,351	¥ 4,780	¥ 1,685	¥14,144	¥836	¥36,796
Balance as of December 31, 2017	35,202	15,868	20,595	12,640	886	85,191
Balance as of December 31, 2018	**32,142**	**14,096**	**18,668**	**11,116**	**902**	**76,924**

Notes: 1. No material borrowings are included in acquisition cost of intangible assets.
2. Amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" presented in the consolidated statement of income.
3. Research and development costs recognized as expenses for the fiscal years ended December 31, 2017 and 2018, totaled 25,720 million yen and 25,780 million yen, respectively.

(2) Lease Assets under Finance Leases

The carrying amount of lease assets that have been held under finance lease and included in intangible assets is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Software	¥742	**¥562**

(3) Intangible Assets with Indefinite Useful Lives

Of the aforementioned intangible assets excluding goodwill, those intangible assets with indefinite useful lives for the fiscal years ended December 31, 2017 and 2018 totaled 18,788 million yen and 17,331 million yen, respectively. Trademark rights acquired through business combinations constitute the majority of said assets, and, because they will exist for as long as the business lasts, their useful lives cannot be determined.

(4) Impairment Test of Goodwill and Intangible Assets with Indefinite Useful Lives

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to each cash-generating unit or group thereof is as follows.

Millions of yen

	As of Dec. 31, 2017		**As of Dec. 31, 2018**	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Tires	¥28,098	¥18,788	**¥25,144**	**¥17,331**
Sports	2,911	—	**2,911**	**—**
Industrial and Other Products	4,193	—	**4,087**	**—**
Total	¥35,202	¥18,788	**¥32,142**	**¥17,331**

Material amounts of the aforementioned goodwill and intangible assets with indefinite useful lives are related to Micheldever Group Ltd. and Dunlop (the entire group of cash-generating units in the tire segment). Their carrying amounts are as follows.

Millions of yen

	As of Dec. 31, 2017		**As of Dec. 31, 2018**	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Micheldever Group Ltd.	¥17,031	¥ 2,902	**¥17,050**	**¥ 2,683**
Dunlop (the entire group of cash-generating units in the tire segment)	2,759	14,251	**2,550**	**13,173**

Micheldever Group Ltd.

The recoverable amount of Micheldever Group Ltd.'s goodwill and intangible assets with indefinite useful lives is calculated based on fair value, excluding disposal costs. Said value is the present value of future cash flows calculated under the business plan for a period of up to 5 years (6 years in the previous fiscal year), a management-approved formula that incorporates past experience and external input, with the discount rate set at the pre-tax weighted average cost of capital (WACC). This is classified as "Level 3" within the fair value hierarchy.

In the fiscal year ended December 31, 2018, the pre-tax WACC was 10.3% (10.7% in the previous fiscal year). To calculate the continued value beyond the period of the plan, the Group uses 2.0% (1.9% in the previous fiscal year) in consideration of the United Kingdom's long-term growth rate forecasts.

In the fiscal year ended December 31, 2018, the recoverable value was 622 million yen higher than the carrying amount of Micheldever Group Ltd. and its subsidiaries. However, if the pre-tax WACC rises 0.1%, or if the growth rate falls 0.2%, the recoverable value will be equivalent to the carrying amount.

Dunlop (the entire group of cash-generating units in the tire segment)

The synergy and brand benefits that arise from the acquisition of goodwill and intangible assets with indefinite useful lives, which arose from the acquisition of Dunlop International 1902 Ltd. and its subsidiaries, will be generated from the entire group of cash-generating units in the tire segment. Therefore, in the impairment test, said goodwill and intangible assets with indefinite useful lives are allocated to the entirety of the aforementioned group of cash-generating units.

The recoverable value of said cash-generating units is calculated based on value in use. Value in use is the present value of future cash flows calculated under the business plan for a period of up to 4 years (5 years in the previous fiscal year), a management-approved formula that incorporates past experience and external input, with the discount rate set at the pre-tax WACC.

In the fiscal year ended December 31, 2018, the pre-tax WACC was 10.9% (13.6% in the previous fiscal year). To calculate the continued value beyond the period of the plan, the Group uses 2.1% (1.0% in the previous fiscal year) in consideration of each country's long-term growth rate forecasts.

The value in use is sufficiently higher than the carrying amount of said cash-generating units. Even if there are fluctuations within a reasonable range regarding the growth rates and the pre-tax WACC used to calculate value in use, the value in use is unlikely to fall below the carrying amount.

As of December 31, 2017, impairment loss on goodwill and intangible assets with indefinite useful lives was not recognized.

As of December 31, 2018, the Company recorded an impairment loss totaling 2,407 million yen on goodwill associated with the South African tire manufacturing and sales subsidiary Sumitomo Rubber South Africa (Pty) Ltd. because the subsidiary's business plan was updated, and the original assumptions and projections of profitability are no longer expected.

The aforementioned impairment loss on goodwill was recorded by the Tire Business. The recoverable value of the cash-generating units is 29,611 million yen, which was calculated using value in use.

To calculate value in use, the Group uses pre-tax WACC of 18.6% (19.5% in the previous fiscal year). To calculate the continued value beyond the period of the plan, the Group uses 5.5% (5.5% in the previous fiscal year) in consideration of South Africa's long-term growth rate forecasts.

The impairment loss on goodwill is included in other expenses in the consolidated statement of income.

12. Leases

(1) Finance Lease Obligations

The total and present value of minimum future lease payments under finance lease contracts are as follows.

Millions of yen

	Minimum lease payments		Present value of minimum lease payments	
	As of Dec. 31, 2017	**As of Dec. 31, 2018**	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Due within 1 year	¥1,607	**¥1,326**	¥1,578	**¥1,300**
Between 1 and 5 years	2,484	**2,136**	2,394	**2,056**
More than 5 years	677	**536**	613	**488**
Total	¥4,768	**¥3,998**	¥4,585	**¥3,844**
Future financing expenses	(183)	**(154)**		
Total present value of minimum lease payments	¥4,585	**¥3,844**		

(2) Operating Lease Obligations

Having signed operating lease contracts, the Group utilizes such leased properties as buildings, structures, machinery, equipment and vehicles.

Minimum lease payments under non-cancelable operating leases stated as expenses in the consolidated statement of income as of December 31, 2017 and 2018 are 2,782 million yen and 2,411 million yen, respectively.

Total minimum future lease payments under non-cancelable operating leases are as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Due within 1 year	¥ 2,677	**¥ 2,042**
Between 1 and 5 years	6,050	**4,929**
More than 5 years	3,353	**4,182**
Total	¥12,080	**¥11,153**

13. Investments Accounted for Using Equity Method

The carrying amount of investments in individually insignificant affiliates is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Carrying amount	¥4,171	**¥4,215**

The financial information of investments in individually insignificant affiliates is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
The Group's share of profit	¥104	**¥48**
The Group's share of other comprehensive income	—	**—**
The Group's share of comprehensive income	¥104	**¥48**

14. Trade and Other Payables

The breakdown of trade and other payables is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Notes payable—trade	¥ 4,671	**¥ 7,265**
Accounts payable—trade	78,378	**78,622**
Accounts payable—other	53,051	**44,977**
Refund liabilities	—	**10,974**
Total	¥136,100	**¥141,838**

15. Bonds and Loans Payable

The breakdown of bonds and loans payable is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**	Average interest rate (%)	Maturity
Current liabilities				
Short-term loans payable	¥ 91,627	**¥110,652**	1.08	—
Bonds payable (maturities of 1 year or less)	9,997	**9,997**	—	—
Long-term debt (maturities of 1 year or less)	14,853	**16,806**	1.86	—
Subtotal	116,477	**137,455**	—	—
Non-current liabilities				
Bonds payable (maturities of over 1 year)	49,875	**39,906**	—	2020–2027
Long-term debt (maturity of over 1 year)	102,549	**102,277**	0.85	2020–2028
Subtotal	152,424	**142,183**	—	—
Total	¥268,901	**¥279,638**	—	—

Notes: 1. Average interest rates are stated at the weighted average interest rates as of December 31, 2018, for the balance of loans outstanding.

2. Summary of issuance conditions for bonds payable is as follows.

Millions of yen

Company name	Series	Issuance	As of Dec. 31, 2017	**As of Dec. 31, 2018**	Interest rate (%)	Collateral	Maturity
Sumitomo Rubber Industries, Ltd.	18th series of unsecured bonds	Jun. 19, 2008	¥ 9,997	**¥ —**	2.17	None	Jun. 19, 2018
Sumitomo Rubber Industries, Ltd.	20th series of unsecured bonds	Jun. 26, 2009	9,992	**9,997**	2.07	None	Jun. 26, 2019
Sumitomo Rubber Industries, Ltd.	22nd series of unsecured bonds	Jun. 28, 2011	9,981	**9,986**	1.38	None	Jun. 28, 2021
Sumitomo Rubber Industries, Ltd.	23rd series of unsecured bonds	Jun. 25, 2014	9,981	**9,989**	0.34	None	Jun. 25, 2020
Sumitomo Rubber Industries, Ltd.	24th series of unsecured bonds	Jun. 25, 2014	9,967	**9,972**	0.76	None	Jun. 25, 2024
Sumitomo Rubber Industries, Ltd.	25th series of unsecured bonds	Jun. 20, 2017	9,954	**9,959**	0.34	None	Jun. 18, 2027
Total			¥59,872	**¥49,903**		¥—	
Bonds payable with maturities of 1 year or less			9,997	**9,997**		—	
Bonds payable with maturities of over 1 year			49,875	**39,906**		—	

16. Provisions

(1) Breakdown of Provisions

The breakdown of provisions is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Current liabilities		
Provision for loss on voluntary recall of products	¥ 235	**¥ 140**
Provision for sales returns	5,412	**—**
Other	1,135	**636**
Total	¥6,782	**¥ 776**
Non-current liabilities		
Asset retirement obligation	1,195	**1,214**
Other	4	**16**
Total	¥1,199	**¥1,230**

(2) Changes in Provisions

The changes in provisions are as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2018			
	Provision for loss on voluntary recall of products	Asset retirement obligation	Others	Total
Beginning balance	**¥235**	**¥1,195**	**¥739**	**¥2,169**
Increase during the year	**2**	**8**	**677**	**687**
Decrease resulting from settlement	**(35)**	**(7)**	**(699)**	**(741)**
Decrease due to reversal	**(94)**	**—**	**(2)**	**(96)**
Increase due to passage of time	**—**	**19**	**—**	**19**
Exchange differences on translation of foreign operations	**—**	**(1)**	**(63)**	**(64)**
Other	**32**	**—**	**—**	**32**
Ending balance	**¥140**	**¥1,214**	**¥652**	**¥2,006**

Notes 1. Descriptions of each item are presented in Note 3. "Significant Accounting Policies" (13) "Provisions."
2. The impact of the adoption of IFRS 15 on provisions is presented in Note 2. "Basis for Preparation" (4) "Changes in Accounting Principles." As a result, refund liabilities related to discounts and sales returns, which had been included in provisions under current liabilities, are now included in trade and other payables.

17. Employee Benefits

(1) Outline of Retirement Benefit Plans

The Company and its subsidiaries have a corporate pension plan and a retirement lump-sum plan in place as defined benefit plans. In addition, the Company and some of its subsidiaries maintain a defined contribution plan. Of those plans, the corporate pension plan is a defined benefit plan designed to share the burden of risk among the Company and its domestic subsidiaries under the Company's control. The amount of defined benefit costs borne by each company enrolling in the plan is determined based on the assessment of that company's service costs for individual employees during a fiscal year. Net interest expenses are also borne by each company enrolling in the plan; based on the assessment of retirement benefit obligation for individual employees, each company is allocated a portion of the value of total plan assets, subject to discount rates.

Some consolidated subsidiaries maintain a defined benefit contribution plan. And the Company has established a retirement benefit trust for defined benefit plans. Moreover, additional retirement benefits are paid to some retiring employees.

(2) Defined Benefit Plans

(i) The value of defined benefit plans presented in the consolidated statement of financial position is as follows.

Millions of yen

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
Present value of defined benefit obligation	¥138,845	**¥128,197**
Fair value of plan assets	(142,543)	**(127,925)**
Total	¥ (3,698)	**¥ 272**
Value of assets and liabilities presented in consolidated statement of financial position		
Net defined benefit liabilities	21,680	**21,073**
Net defined benefit assets	25,378	**20,801**

(ii) The following amount is recognized as expenses presented in the consolidated statement of income.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Service costs for the year	¥3,637	**¥3,438**
Net interest expense	295	**7**
Total	¥3,932	**¥3,445**

(iii) Changes in defined benefit obligation are as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Beginning balance	¥126,857	**¥138,845**
Service costs for the year	3,637	**3,438**
Interest expense	2,486	**2,480**
Remeasurements due to:		
Actuarial differences attributable to changes in demographic assumptions	493	**(2,111)**
Actuarial differences attributable to changes in financial assumptions	1,709	**(4,099)**
Actuarial differences attributable to adjustment of investment performance	(25)	**(825)**
Wages paid	(7,952)	**(7,400)**
Liabilities transferred to the Company through business combination	11,840	**—**
Others	(200)	**(2,131)**
Ending balance	¥138,845	**¥128,197**

(iv) Changes in the fair value of plan assets are as follows.

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
		Millions of yen
Beginning balance	¥125,304	**¥142,543**
Interest income	2,191	**2,473**
Remeasurements due to:		
Income from plan assets (excluding interest income)	8,895	**(12,097)**
Contributions by employer	3,209	**3,227**
Benefits paid	(6,777)	**(6,296)**
Assets transferred to the Company through business combination	10,006	**—**
Others	(285)	**(1,925)**
Ending balance	¥142,543	**¥127,925**

(v) The fair value of plan assets by component is as follows.

	As of Dec. 31, 2017		**As of Dec. 31, 2018**	Millions of yen
	Traded at quoted market prices in active markets	Not traded at quoted market prices in active markets	Traded at quoted market prices in active markets	Not traded at quoted market prices in active markets
Domestic stocks	¥ 29,742	¥ —	**¥ 22,884**	**¥ —**
Overseas stocks	13,862	400	**9,927**	**155**
Domestic bonds	8,463	—	**9,476**	**—**
Overseas bonds	61,607	—	**55,768**	**—**
General account of life insurance	—	12,251	**—**	**12,326**
Others	16,218	—	**17,389**	**—**
Total	¥129,892	¥12,651	**¥115,444**	**¥12,481**

(vi) Primary actuarial assumptions are as follows.

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
		%
Discount rate	1.99%	**1.94%**

Other than the above, actuarial assumptions include an assumed wage increase rate, a mortality rate and an employee turnover rate.

(vii) The sensitivity analysis of defined benefit obligation against changes in assumed weighted average is as follows.

	As of Dec. 31, 2017	**As of Dec. 31, 2018**
		Millions of yen
0.25% increase in discount rate	¥(4,139)	**¥(3,506)**
0.25% decrease in discount rate	4,166	**3,727**

The abovementioned sensitivity analysis was performed by changing one assumption, with all other assumptions remaining fixed. In actual circumstances, however, multiple interrelated assumptions may change simultaneously. In calculating the sensitivity of the defined benefit obligation to changes in significant actuarial assumptions, the Group applies the same method as the method it uses to calculate defined benefit liabilities recognized in the consolidated statement of financial position: measuring the present value of defined benefit obligation as of the closing date of reporting period using the projected unit credit method.

(viii) Impact of defined benefit plan on future cash flows

i. The Group adopted a policy of satisfying legal requirements pertaining to funds as well as rules for securing funds that affect contributions in the future, thereby ensuring its responsiveness to structural risk associated with benefit liabilities.

ii. Estimated contributions in the fiscal year ending December 31, 2019 totaled 7,378 million yen.

iii. The weighted-average duration of defined benefit obligation is 13.0 years and 12.1 years, respectively, for the fiscal years ended December 31, 2017 and 2018.

(3) Defined Contribution Plan

Costs recognized in relation with defined contribution plan are as follows.

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
		Millions of yen
Retirement benefit costs	¥1,506	**¥1,576**

The above figure includes expenses recognized in relation to public pension systems.

(4) Other Expenses in Relation to Employee Benefits

Expenses associated with employee benefits other than retirement benefits include the following item.

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
		Millions of yen
Employee benefit costs	¥157,505	**¥166,529**

18. Income Taxes

(1) Deferred Taxes

The breakdown of deferred tax assets and liabilities is as follows.

	As of Jan. 1, 2017	Recognized through profit or loss (Note)	Recognized through other comprehensive income	Acquisitions through business combinations	Other	As of Dec. 31, 2017
						Millions of yen
Deferred tax assets						
Tax loss carryforwards	¥ 1,536	¥ 1,862	¥ —	¥ —	¥ —	¥ 3,398
Financial liabilities measured at fair value through other comprehensive income	—	1	206	—	—	207
Inventories	6,576	(2,840)	—	—	—	3,736
Property, plant and equipment	3,785	1,708	—	—	—	5,493
Intangible assets	105	1,231	—	—	—	1,336
Net defined benefit liability	3,295	701	319	—	—	4,315
Accrued expenses and provisions	4,633	4,233	—	—	—	8,866
Other	6,223	(2,796)	170	—	(122)	3,475
Total deferred tax assets	¥ 26,153	¥ 4,100	¥ 695	¥ —	¥(122)	¥ 30,826
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	(3,947)	(36)	(1,500)	—	—	(5,483)
Property, plant and equipment	(1,976)	(6,396)	—	—	—	(8,372)
Inventories	(419)	(84)	—	—	—	(503)
Intangible assets	(1,684)	174	—	(5,072)	—	(6,582)
Undistributed profit of overseas subsidiaries	(10,484)	(1,620)	—	—	—	(12,104)
Net defined benefit assets	(2,595)	916	(1,934)	—	—	(3,613)
Other	(3,314)	1,871	64	—	—	(1,379)
Total deferred tax liabilities	¥(24,419)	¥(5,175)	¥(3,370)	¥(5,072)	¥ —	¥(38,036)
Net deferred tax assets	¥ 1,734	¥(1,075)	¥(2,675)	¥(5,072)	¥(122)	¥ (7,210)

Note: Exchange differences are included in amounts recognized through profit or loss.

Millions of yen

	As of Jan. 1, 2018	Recognized through profit or loss (Note)	Recognized through other comprehensive income	Acquisitions through business combinations	Other	As of Dec. 31, 2018
Deferred tax assets						
Tax loss carryforwards	¥ 3,398	¥ 64	¥ —	¥—	¥—	¥ 3,462
Financial liabilities measured at fair value through other comprehensive income	207	—	(206)	—	—	1
Inventories	3,736	1,359	—	—	—	5,095
Property, plant and equipment	5,493	(1,239)	—	—	—	4,254
Intangible assets	1,336	80	—	—	—	1,416
Net defined benefit liability	4,315	(578)	(190)	—	—	3,547
Accrued expenses, provisions and refund liabilities	8,866	1,493	—	—	—	10,359
Other	3,475	(959)	(19)	—	—	2,497
Total deferred tax assets	¥30,826	¥220	¥ (415)	¥—	¥—	¥ 30,631
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	(5,483)	—	1,331	—	—	(4,152)
Property, plant and equipment	(8,372)	(221)	—	—	—	(8,593)
Inventories	(503)	(236)	—	—	—	(739)
Intangible assets	(6,582)	666	—	—	—	(5,916)
Undistributed profit of overseas subsidiaries	(12,104)	(160)	—	—	—	(12,264)
Net defined benefit assets	(3,613)	(172)	1,909	—	—	(1,876)
Other	(1,379)	884	—	—	—	(495)
Total deferred tax liabilities	¥(38,036)	¥761	¥3,240	¥—	¥—	¥(34,035)
Net deferred tax assets	¥ (7,210)	¥981	¥2,825	¥—	¥—	¥ (3,404)

Note: Exchange differences are included in amounts recognized through profit or loss.

The Group evaluates the recoverability of deferred tax assets on an annual basis. The recognition of such assets takes into account significant uncertainties with regard to the recoverability of deferred tax assets held by the Group.

Deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized were as follows.

Millions of yen

	As of Dec. 31, 2017	As of Dec. 31, 2018
Tax loss carryforwards (Note)	¥15,819	¥15,250
Deductible temporary differences	2,481	2,538
Total	¥18,300	¥17,788

Note: The expiration of tax loss carryforwards for which deferred tax assets were not recognized was as follows.

Millions of yen

	As of Dec. 31, 2017	As of Dec. 31, 2018
1st year	¥ 3	¥ 432
2nd year	573	1,647
3rd year	2,287	2,313
4th year	3,201	126
5th year onwards	9,755	10,732
Total	¥15,819	¥15,250

The Company recognized no deferred tax liability in respect to temporary differences where the timing of a reversal, under the Group's control, is improbable in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries and affiliates for which deferred tax liability was not recognized were 32,092 million yen and 20,876 million yen as of December 31, 2017 and December 31, 2018, respectively.

(2) Income Tax Expenses

The breakdown of income tax expenses is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2018
Current tax expenses	¥16,129	¥14,753
Deferred tax expenses	60	(1,590)
Total	¥16,189	¥13,163

Current tax expenses include the benefits arising from previously unused tax loss, tax credits and temporary differences of prior periods. The resulting declines in current tax expenses in the fiscal years ended December 31, 2017 and 2018 were 221 million yen and 33 million yen, respectively.

Deferred tax expenses include the benefits arising from previously unused tax loss, tax credits and temporary differences of prior periods. The resulting declines in deferred tax expenses in the fiscal years ended December 31, 2017 and 2018 were 1,692 million yen and 142 million yen, respectively.

Primary factors contributing to differences between the applicable tax rate and the average effective tax rate are as follows.

%

	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2018
Applicable tax rate	30.8%	30.8%
Adjustments		
Foreign withholding tax	1.9%	3.8%
Non-deductible expenses for tax purposes	1.1%	1.4%
Impairment loss on goodwill	—	1.3%
Dividend income	0.7%	0.6%
Undistributed benefit of consolidated subsidiaries	2.5%	0.3%
Differences in tax rates applied to consolidated subsidiaries	(4.7)%	(6.0)%
Tax credits for research and development costs	(1.9)%	(2.4)%
Tax exemption for overseas subsidiaries	(1.6)%	(2.0)%
Changes in unrecognized deferred tax assets	(2.5)%	(0.6)%
Effect arising from the change in tax rate	1.1%	—
Change in treatment of subsidiary investment tax carry amount	(2.5)%	—
Other	(0.3)%	(1.1)%
Average effective tax rate	24.6%	26.1%

Changes in presentation methods

The line item "Income taxes for past fiscal years," which was listed separately in the fiscal year ended December 31, 2017, is included in the line item "Other" from the fiscal year ended December 31, 2018, due to diminished materiality. To reflect this change, the 0.4% previously presented as "Income taxes for past fiscal years" is now included in "Other."

19. Financial Instruments

(1) Capital Management

Aiming to secure the soundness and efficiency of its business operations and realize sustainable growth, the Group has positioned the establishment and maintenance of stable financial position as its basic capital risk management policy. Guided by this policy, the Group utilizes cash flows from operating activities, such as funds provided by the development and sale of competitive products, to execute investments for business expansion, provide shareholder returns through the payment of dividends, secure loans and repay debt.

(2) Financial Risk Management

The Group's business activities can be affected by changes in the operating environment and financial markets. Therefore, financial instruments held or underwritten by the Group in the course of its business activities may be exposed to specific risks. These risks include 1) credit risk; 2) liquidity risk; and 3) market risk (foreign exchange risk, stock price risk and interest rate risk).

(i) 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"). In line with its in-house rules on credit management, marketing departments at each business division monitor the status of their key business partners on a regular basis. To ensure the soundness of operating receivables, these departments assess the ability of each counterpart to fulfill their payments on time. To mitigate 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 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 in the fiscal year under review.

Operating 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. Accordingly, the excessive concentration of credit risk has not been detected.

Regarding trade and other receivables, the Group conducts exhaustive analysis of the credit status of its customers that includes examining their historical default rates as well as credit reports issued by external institutions. The Group estimates expected credit loss related to financial counterparties for 12 months or the full duration, records impairment loss on trade and other receivables, and sets aside an allowance for doubtful accounts.

The maximum credit risk exposure attributable to financial assets held by the Group, excluding the valuation of guarantees and collateral acquired, is the carrying amount of such assets presented in the consolidated financial statements after impairment.

i. Credit Risk Exposure

Maturity analysis of trade and other receivables is as follows.

As of December 31, 2017

Millions of yen

		Financial assets whose allowance for doubtful accounts is measured at the same amount as lifetime expected credit losses		
	Financial assets whose allowance for doubtful accounts is measured at the same amount as 12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Before maturity	¥3,609	¥—	¥184,666	¥188,275
Due within 30 days	—	—	18,885	18,885
Due after 30 days but within 60 days	—	—	2,239	2,239
Due after 60 days but within 90 days	—	—	574	574
More than 90 days	—	—	2,233	2,233
Total	¥3,609	¥—	¥208,597	¥212,206

As of December 31, 2018

Millions of yen

		Financial assets whose allowance for doubtful accounts is measured at the same amount as lifetime expected credit losses		
	Financial assets whose allowance for doubtful accounts is measured at the same amount as 12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Before maturity	**¥7,020**	**¥—**	**¥161,506**	**¥168,526**
Due within 30 days	**—**	**—**	**26,258**	**26,258**
Due after 30 days but within 60 days	**—**	**—**	**5,689**	**5,689**
Due after 60 days but within 90 days	**—**	**—**	**1,368**	**1,368**
More than 90 days	**—**	**—**	**3,183**	**3,183**
Total	**¥7,020**	**¥—**	**¥198,004**	**¥205,024**

ii. Analysis of Changes in Allowance for Doubtful Accounts

Changes in allowance for doubtful accounts in relation to trade and other receivables are as follows.

January 1 to December 31, 2017

Millions of yen

		Lifetime expected credit losses		
	12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Beginning balance	¥—	¥—	¥(2,385)	¥(2,385)
Increase	—	—	(1,148)	(1,148)
Decrease resulting from settlement	—	—	25	25
Decrease due to reversal	—	—	629	629
Other	—	—	(19)	(19)
Ending balance	¥—	¥—	¥(2,898)	¥(2,898)

January 1 to December 31, 2018

Millions of yen

		Lifetime expected credit losses		
	12-month expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets whose allowance for doubtful accounts has always been measured at the same amount as lifetime expected credit losses	Total
Beginning balance	**¥—**	**¥—**	**¥(2,898)**	**¥(2,898)**
Increase	**—**	**—**	**(757)**	**(757)**
Decrease resulting from settlement	**—**	**—**	**50**	**50**
Decrease due to reversal	**—**	**—**	**988**	**988**
Other	**—**	**—**	**231**	**231**
Ending balance	**¥—**	**¥—**	**¥(2,386)**	**¥(2,386)**

(ii) Liquidity Risk

The Group uses short-term borrowings mainly to raise operating funds while utilizing long-term debt and corporate bonds for such purposes as funding capital expenditure. Along with trade notes and accounts payables, these liabilities can be difficult to repay, thus exposing the Group to liquidity risk. To counter such risk, the Group maintains and updates appropriate fundraising plans based on the projections of the amounts necessary to settle these liabilities. The Group also manages such risk by, for example, maintaining liquidity on hand.

The maturity analysis of corporate bonds, borrowings, lease obligations and derivative liabilities is as follows.

As of December 31, 2017

Millions of yen

	Book balance	Contract value	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds and loans payable	¥268,901	¥275,772	¥119,242	¥28,738	¥40,492	¥23,680	¥12,255	¥51,365
Lease obligations	4,585	4,768	1,607	1,144	656	425	259	677
Forward exchange contracts	198	198	198	—	—	—	—	—
Interest rate swaps	637	733	129	129	127	127	127	94
Total	¥274,321	¥281,471	¥121,176	¥30,011	¥41,275	¥24,232	¥12,641	¥52,136

As of December 31, 2018

Millions of yen

	Book balance	Contract value	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Bonds and loans payable	**¥279,638**	**¥282,328**	**¥140,089**	**¥23,913**	**¥42,091**	**¥14,421**	**¥18,068**	**¥43,746**
Lease obligations	**3,844**	**3,998**	**1,326**	**849**	**620**	**410**	**257**	**536**
Forward exchange contracts	**375**	**375**	**375**	**—**	**—**	**—**	**—**	**—**
Interest rate swaps	**614**	**610**	**130**	**129**	**129**	**129**	**78**	**15**
Total	**¥284,471**	**¥287,311**	**¥141,920**	**¥24,891**	**¥42,840**	**¥14,960**	**¥18,403**	**¥44,297**

(iii) Market Risk

i. Foreign Exchange Risk

Engaging in global operations, the Company and its subsidiaries produce and sell a number of products to customers overseas. Accordingly, the Group is exposed to the risk of foreign currency exchange fluctuations (hereinafter "foreign exchange risk") associated with the exchange of foreign currency denominated operating receivables, acquired through transactions undertaken using currencies other than functional currencies, into functional currencies at exchange rates as of the closing date of reporting periods.

In addition, operating payables associated with the import of some raw materials and other liabilities denominated in foreign currencies are exposed to foreign exchange risk. However, the value of these liabilities is always within the scope of the balance of operating receivables denominated in the same currency. Therefore, foreign exchange risk associated with these liabilities can be offset by foreign exchange risk resulting from foreign currency denominated operating receivables.

The primary foreign exchange risk the Group is now exposed to is attributable to fluctuations in the market prices of the U.S. dollar and euro. The Company and some of its subsidiaries assess the balance of foreign currency denominated operating receivables and payables by currency and month, thereby avoiding foreign exchange risk associated with the net amount of such items mainly through the execution of forward exchange contracts. Depending on conditions in foreign exchange markets, the Group may execute forward exchange contracts whose value matches the expected net amount of foreign currency denominated operating receivables and payables arising from future import- or export-related transactions. As a general rule, the Group uses currency swap transactions to control fluctuation risks associated with foreign exchange in relation to foreign currency denominated assets and liabilities other than operating receivables and payables.

The Group utilizes derivative transactions for risk avoidance purpose only and, therefore, does not engage in derivative transactions for speculative purposes.

Sensitivity analysis of foreign exchange

The Group's prevailing exposure to foreign exchange risk—in connection mainly with the U.S. dollar and euro—is periodically subjected to a sensitivity analysis conducted as follows. Having estimated the impact of a 1% appreciation of the yen on receivables and payables denominated in foreign currencies and held at the end of the fiscal year, possible changes in profit (net of tax) for the period are presented below. In addition, this analysis assumes that all the other variables remain unchanged. The sensitivity analysis excludes payables and receivables that are hedged against foreign exchange risk through forward exchange contracts or interest rate currency swaps that essentially offset the impact of fluctuations in the value of the yen.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Income, net of tax		
U.S. dollar	¥100	**¥63**
Euro	72	**(13)**

ii. Stock Price Risk

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

iii. Interest Rate Risk

Interest rate risk is defined as risk attributable to fluctuations in the fair value of financial instruments or cash flows derived from these instruments due to changes in market interest rates. The Group's exposure to interest rate risk is mainly associated with borrowings, corporate bonds and other liabilities as well as such receivables as interest-bearing deposits. Changes in market interest rates necessarily affect interest income, thus exposing future cash flows to interest rate risk.

To counter such risk, the Group strives to control an increase in future interest payments that may result from interest rate hikes and, to this end, raises funds through the issuance of corporate bonds with fixed interest rates. In principle, long-term debt with floating interest rates is coupled with interest rate swap contracts with financial institutions so that interest rates associated with fundraising can be virtually fixed through the receipt of interest in floating rates and the payment of interest at fixed rates. In this way, the Group maintains stable cash flows.

Sensitivity analysis of borrowings with floating interest rates

The Group's exposure to interest rate risk is periodically subjected to a sensitivity analysis conducted as follows. Assuming that all other variables remain unchanged, the impact of a 1% increase in the interest rate is estimated on profit (net of tax) as presented in the consolidated statement of income. The sensitivity analysis excludes borrowings coupled with interest rate swaps or interest rate currency swaps aimed at virtually fixing interest rates.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Income, net of tax	¥(700)	**¥(818)**

(3) Fair Value of Financial Instruments

(i) Methods for Measuring Fair Value

The Group determines the fair value of financial assets and liabilities using the methods described below. As for financial instruments, the Group estimates their fair value based on market prices when market prices are available. As for financial instruments whose market prices are not available, the Group estimates their value using appropriate valuation methods.

Corporate bonds and debt

To determine the fair value of corporate bonds and debt, the Group discounts the total principal and interest utilizing expected interest rates for similar bonds or debt. This is classified as "Level 2" within the fair value hierarchy.

Derivatives

The Group calculates the fair value of derivatives based on prices provided by financial institutions with which the Group has signed derivative contracts. This is classified as "Level 2" within the fair value hierarchy.

Other financial assets, etc.

Liquid assets that can be settled in a short period are presented at their carrying amounts, which reasonably approximate fair value. In addition, the Group calculates the fair value of marketable securities based on market prices. This is classified as "Level 1" within the fair value hierarchy.

To determine the fair value of financial instruments other than those mentioned above, the Group uses appropriate methods such as discounted cash flow analysis. This is classified as "Level 2" within the fair value hierarchy.

For details on the fair value hierarchy, please see (iii) fair value hierarchy.

(ii) Carrying Amount and Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments are as follows.

Millions of yen

	As of Dec. 31, 2017		**As of Dec. 31, 2018**	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss				
Derivatives	¥ 1,669	¥ 1,669	**¥ 161**	**¥ 161**
Loans	1,041	1,041	**1,041**	**1,041**
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	27,031	27,031	**22,807**	**22,807**
Financial assets measured at amortized cost				
Cash and cash equivalents	64,528	64,528	**74,526**	**74,526**
Trade and other receivables	209,308	209,308	**202,638**	**202,638**
Other financial assets	16,113	16,113	**10,052**	**10,052**
Financial assets classified as hedging instruments				
Derivatives	439	439	**203**	**203**
Financial liabilities measured at fair value through profit or loss				
Derivatives	190	190	**375**	**375**
Financial liabilities measured at amortized cost				
Trade and other payables	136,100	136,100	**141,838**	**141,838**
Bonds and debts	268,901	270,455	**279,638**	**281,657**
Financial liabilities classified as hedging instruments				
Derivatives	645	645	**614**	**614**
Lease obligations	4,585	4,732	**3,844**	**3,990**

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Group designates its long-term stockholdings aimed at securing a greater earnings base through the maintenance and expansion of transactions with investees, as financial assets measured at fair value through other comprehensive income.

In addition, the breakdown of equity equivalents measured at fair value through other comprehensive income that have been disposed of during each fiscal year, is as follows.

Millions of yen

As of December 31, 2017			**As of December 31, 2018**		
Fair value at the time of sale	Accumulated gains (losses)	Dividend income	Fair value at the time of sale	Accumulated gains (losses)	Dividend income
¥262	¥115	¥0	**¥8**	**¥2**	**¥0**

In addition, accumulated gains transferred from other components of equity to retained earnings totaled 115 million yen and 2 million yen as of December 31, 2017 and 2018, respectively.

(iii) Fair Value Hierarchy

The following analysis of fair value measurements is applied periodically to financial assets and liabilities recognized in the consolidated statement of financial position.

The inputs used to measure fair value are categorized into three different levels of the fair value hierarchy, defined as follows.

Level 1: Fair value measured directly at quoted prices in active markets

Level 2: Fair value calculated, either directly or indirectly, by using observable prices other than Level 1

Level 3: Fair value calculated using valuation methods based on unobservable indicators

As of December 31, 2017

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives	¥ —	¥1,669	¥ —	¥ 1,669
Loans	—	1,041	—	1,041
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	25,162	—	1,869	27,031
Financial assets classified as hedging instruments				
Derivatives	—	439	—	439
Total assets	¥25,162	¥3,149	¥1,869	¥30,180
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	190	—	190
Financial liabilities classified as hedging instruments				
Derivatives	—	645	—	645
Total liabilities	¥ —	¥ 835	¥ —	¥ 835

As of December 31, 2018

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives	**¥ —**	**¥ 161**	**¥ —**	**¥ 161**
Loans	**—**	**1,041**	**—**	**1,041**
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	**20,892**	**—**	**1,915**	**22,807**
Financial assets classified as hedging instruments				
Derivatives	**—**	**203**	**—**	**203**
Total assets	**¥20,892**	**¥1,405**	**¥1,915**	**¥24,212**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	**—**	**375**	**—**	**375**
Financial liabilities classified as hedging instruments				
Derivatives	**—**	**614**	**—**	**614**
Total liabilities	**¥ —**	**¥ 989**	**¥ —**	**¥ 989**

No financial instruments have been transferred between Levels as of December 31, 2017 and December 31, 2018.

(4) Derivatives

The Group designates such derivatives as forward exchange contracts and interest rate swaps as hedges against foreign exchange risk and interest rate risk.

When a derivative transaction is initiated, the Group documents the relationship between hedging instruments and hedged items as well as its risk management goals and strategies for various hedging transactions, with the aim of evaluating whether its hedge relationship meets hedge accounting requirements. Moreover, since the inception of hedging, the performance of derivatives used for hedge transactions to offset changes in the fair value of or cash flows from hedged items, is constantly evaluated and documented to determine whether they meet all the applicable hedge effectiveness requirements. The evaluation of hedge effectiveness is undertaken at the earlier of the closing date of each fiscal year or whenever a significant change in circumstances may affect hedge effectiveness requirements.

(i) Derivatives to Which Hedging Is Applied

As of December 31, 2017 and December 31, 2018, derivatives designated as hedging instruments are as follows.

As of December 31, 2017

Millions of yen

	Notional amount of hedging instruments	Carrying amount of hedging instruments		Hedging instruments included in the consolidated statement of financial position as:
		Assets	Liabilities	
Cash flow hedges				
Foreign exchange risk				
Forward exchange contracts	¥ 8,540	¥ —	¥ 8	Other financial liabilities
Foreign exchange and interest rate risks				
Interest rate and currency swaps	15,232	439	—	Other financial assets
Interest rate risk				
Interest rate swaps	17,000	—	637	Other financial liabilities

As of December 31, 2018

Millions of yen

	Notional amount of hedging instruments	Carrying amount of hedging instruments		Hedging instruments included in the consolidated statement of financial position as:
		Assets	Liabilities	
Cash flow hedges				
Foreign exchange and interest rate risks				
Interest rate and currency swaps	**¥14,963**	**¥203**	**¥ —**	Other financial assets
Interest rate risk				
Interest rate swaps	**17,000**	**—**	**614**	Other financial liabilities

(ii) Derivatives to Which Hedging Is Not Applied

As of December 31, 2017 and December 31, 2018, derivatives that have not been designated as hedging instruments are as follows.

Millions of yen

	As of Dec. 31, 2017		**As of Dec. 31, 2018**	
	Contract value (notional amount)	Fair value	Contract value (notional amount)	Fair value
Forward exchange contracts				
Sold				
USD	¥ 6,471	¥ 18	**¥10,960**	**¥ 18**
GBP	377	(7)	**537**	**14**
AUD	867	(15)	**899**	**30**
Euro	3,594	(50)	**4,039**	**71**
RUB	390	(11)	**392**	**19**
TRY	38	(2)	**215**	**(2)**
ZAR	506	(49)	**387**	**8**
CHF	3,752	(29)	**5,008**	**(17)**
CNY	108	(2)	**39**	**0**
JPY	200	0	**86**	**0**
Bought				
USD	13,546	(16)	**6,343**	**(105)**
CNY	12,967	225	**12,120**	**(250)**
Currency swaps				
USD receipts/JPY payments	10,769	1,417	**—**	**—**
Total	¥53,585	¥1,479	**¥41,025**	**¥(214)**

20. Capital Stock and Other Equity Items

(1) Capital Stock—Amortized and Issued

	Authorized (Shares)	Issued (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
As of Jan. 1, 2017	800,000,000	263,043,057	¥42,658	¥37,937
Changes during the year	—	—	—	(72)
As of Dec. 31, 2017	800,000,000	263,043,057	¥42,658	¥37,865
Changes during the year	—	—	—	1,622
As of Dec. 31, 2018	**800,000,000**	**263,043,057**	**¥42,658**	**¥39,487**

Note: All shares issued by the Company carry no par value and contain no restrictions on shareholder rights. Purchasers paid full price for such shares.

(2) Treasury Stock

	Treasury stock (Shares)	Value (Millions of yen)
As of Jan. 1, 2017	726,168	¥ 570
Changes during the year	8,303,276	17,061
As of Dec. 31, 2017	9,029,444	¥17,631
Changes during the year	(8,994,554)	(17,562)
As of Dec. 31, 2018	**34,890**	**¥ 69**

Notes: 1. Changes during the year as of December 31, 2017 are attributable to an increase of 8,300,000 shares from share buybacks based on a resolution of the Board of Directors, an increase of 3,392 shares from the purchase of shareholdings of less than one unit, and a decrease of 116 shares from the transfer of shareholdings of less than one unit.

2. Changes during the year as of December 31, 2018 are attributable to an increase of 15,427 shares from the purchase of shareholdings of less than one unit, a decrease of 9,008,294 shares from the allotment of shares accompanying a merger, and a decrease of 1,687 shares from the transfer of shareholdings of less than one unit.

(3) Capital Stock and Capital Surplus

In accordance with Japan's Corporation Law, stock companies are obliged to set aside at least 50% of proceeds from or contributions associated with the issuance of shares as capital stock, with the residual amount being allocated to additional paid-in capital as part of capital surplus. Said law also allows companies to include additional paid-in capital in capital stock upon obtaining the approval of their general meeting of shareholders.

(4) Retained Earnings

In accordance with the Corporation Law, stock companies are obliged to set aside 10% of any appropriation to shareholders from retained earnings as additional paid-in capital or legal reserve, until the reserve reaches 25% of stated capital. The legal reserve can be appropriated to eliminate a deficit. The reversal of such reserve requires a resolution of the general meeting of shareholders.

In accordance with the Corporation Law, distributable surplus is calculated based on retained earnings as presented in the Company's statutory financial statements prepared in accordance with Japanese GAAP.

In addition, the Company distributes its retained earnings in compliance with restrictions imposed by said law on determining the amounts available for distribution.

(5) Other Components of Equity

(i) Remeasurements of Defined Benefit Plans

A reassessment of the defined benefit obligation that identifies the differences between actuarial assumptions at the beginning of the fiscal year and actual returns, in addition to an assessment of gain on plan assets at fair value (excluding interest income)

(ii) Net Gain or Loss on Financial Assets Measured at Fair Value through Other Comprehensive Income

Differences between the fair value and the acquisition prices of financial assets, whose value is measured at fair value through other comprehensive income, included in other components of equity until derecognition

(iii) Currency Translation Differences of Foreign Operations

Translation differences attributable to the consolidation of the results of foreign operations whose financial statements are prepared using foreign currencies

(iv) Cash Flow Hedges

Changes in gain or loss on the valuation of derivatives designated as eligible hedging instruments recorded in the statement of comprehensive income before the date on which hedge accounting was closed

21. Other Comprehensive Income

A breakdown of other comprehensive income that has been recognized in each fiscal year, adjustments associated with reclassification to profit or loss and tax effects for each component (including non-controlling interests) is as follows.

January 1 to December 31, 2017

Millions of yen

	Amount arising during the year	Reclassification adjustments	Before taxes	Tax effects	After taxes
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥ 4,748	¥ —	¥ 4,748	¥(1,294)	¥ 3,454
Remeasurements of defined benefit plans	6,718	—	6,718	(1,615)	5,103
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	(684)	(81)	(765)	234	(531)
Exchange differences on translation of foreign operations	5,304	—	5,304	—	5,304
Other comprehensive income	¥16,086	¥(81)	¥16,005	¥(2,675)	¥13,330

January 1 to December 31, 2018

Millions of yen

	Amount arising during the year	Reclassification adjustments	Before taxes	Tax effects	After taxes
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	**¥ (4,032)**	**¥ —**	**¥ (4,032)**	**¥1,125**	**¥ (2,907)**
Remeasurements of defined benefit plans	**(5,062)**	**—**	**(5,062)**	**1,719**	**(3,343)**
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	**368**	**(263)**	**105**	**(19)**	**86**
Exchange differences on translation of foreign operations	**(32,321)**	**—**	**(32,321)**	**—**	**(32,321)**
Other comprehensive income	**¥(41,047)**	**¥(263)**	**¥(41,310)**	**¥2,825**	**¥(38,485)**

22. Sales Revenue

In its application of IFRS 15, the Group has chosen to recognize the cumulative impact of applying these standards on the initial date of application, which is permitted under transitional measures. Line items for the fiscal year ended December 31, 2017 have therefore not been restated.

(1) Breakdown of Revenue by Main Regional Markets and Reporting Segments

January 1 to December 31, 2017

Millions of yen

	Reportable segment			
	Tires	Sports	Industrial and Other Products	Total
Japan	¥250,366	¥47,503	¥25,909	¥323,778
North America	143,217	10,295	201	153,713
Europe	92,878	9,054	4,274	106,206
Asia	156,694	12,326	8,524	177,544
Others	113,421	2,556	648	116,625
Total	¥756,576	¥81,734	¥39,556	¥877,866

Note: The above sales revenue amounts are based on the location of the customer and exclude transactions between segments.

January 1 to December 31, 2018

Millions of yen

	Reportable segment			
	Tires	Sports	Industrial and Other Products	Total
Japan	**¥268,100**	**¥36,021**	**¥27,543**	**¥331,664**
North America	**137,371**	**10,993**	**164**	**148,528**
Europe	**107,499**	**19,637**	**4,417**	**131,553**
Asia	**153,348**	**14,705**	**9,059**	**177,112**
Others	**101,694**	**3,121**	**571**	**105,386**
Total	**¥768,012**	**¥84,477**	**¥41,754**	**¥894,243**

Note: The above sales revenue amounts are based on the location of the customer and exclude transactions between segments.

Tire Business

The Tire Business provides customers in Japan and overseas with various tires for passenger cars, trucks, buses, motorcycles and more. The main brands are Dunlop and Falken. When the products are transferred to the customers, the Group acknowledges that it has fulfilled its contractual obligations and recognizes the revenue.

Because payment is received within one year of completing delivery to customers, the agreed upon price does not include significant financing components.

Sports Business

The Sports Business sells sports goods to customers in Japan and overseas and provides services related to golf tournaments, golf and tennis schools, fitness clubs, and other similar businesses.

Regarding the sale of sports goods, the Group recognizes revenue when products are transferred to the customer, at which point the Group has fulfilled its performance obligations.

Regarding golf tournament operations, the Group bears responsibility for providing tournament operation services to the tournament sponsors for the contracted period. Because these performance obligations are fulfilled when the services are provided, the Group recognizes revenue at that time.

Regarding golf and tennis schools, the Group bears responsibility for providing lesson-related services to the members for the contracted period. Because these performance obligations are fulfilled when the services are provided, the Group recognizes revenue at that time. Regarding fitness clubs, the Group bears responsibility for providing services related to the use of its facilities to its members for the contracted period. Because these performance obligations are fulfilled when the services are provided, the Group recognizes revenue at that time.

Because payment is received within one year of completing delivery to customers, the agreed upon price does not include significant financing components.

Industrial and Other Products Business

The Industrial and Other Products Business provides customers in Japan and overseas with highly functional rubber products, household goods, infrastructure-related products, and so on. When the products are transferred to customers, the Group acknowledges that it has fulfilled its performance obligations and recognizes the revenue.

Because payment is received within one year of completing delivery to customers, the agreed upon price does not include significant financing components.

In each of the Tire, Sports, and Industrial and Other Products businesses, the Group decides on the sales price of products and services at the start of the transaction with each customer. The Group pays incentive bonuses and commission fees related to the number of sales made over a certain duration from a few months to one year. This variable cost affects the estimated sales price based on the conditions of the contract. The liabilities related to this adjustment are included in "Trade and other payables."

In each of the Tire, Sports and Industrial and Other Products businesses, the Group does not provide product warranties beyond repairing defects that existed in the product at the time of sale. Product warranties are therefore not treated as an independent performance obligation and part of the sales price is not allocated to product warranties.

In the Tire Business, because the Group expects product returns of winter tires, which are mainly sold in Japan, the Group estimates the proportion that will be returned in the near future and revises its revenue downward.

(2) Outstanding Contracts

The Group's outstanding contracts are receivables ("Notes and accounts receivable") originating mainly from contracts with customers. The value of outstanding contracts is included in Note 8. "Trade and Other Receivables."

During the fiscal year ended December 31, 2018, the Company has not recognized any profit associated with contracts classified as liabilities at the beginning of the fiscal year. Nor has the Company recognized any profit originating from its performance obligations that had been partially or entirely fulfilled in the past fiscal years.

(3) Trade Prices Allocated to Remaining Performance Obligations

The Group does not have material trade in which the period of the individual contract exceeds one year.

In addition, no material amounts are excluded from sales prices originating in contracts with customers.

Furthermore, the Group applies the practical expedient outlined in Article 121 of IFRS 15 and does not disclose information related to remaining performance obligations with an original estimated remaining duration of one year or less.

(4) Assets Recognized from the Cost of Acquiring or Fulfilling Contracts with Customers

The Group does not have costs related to fulfilling contracts or additional costs needed to acquire contracts that must be recognized as assets.

23. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Advertising and sales expansion costs	¥ 30,105	**¥ 30,886**
Transportation, storage and packaging costs	38,206	**37,897**
Personnel costs	63,202	**65,851**
Others	68,193	**66,172**
Total	¥199,706	**¥200,806**

24. Other Income and Expenses

The breakdown of other income and expenses is as follows.

(1) Other Income

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Government grants	¥1,729	**¥ 652**
Gain on sales of goods	694	**406**
Insurance income	—	**565**
Others	1,602	**1,277**
Total	¥4,025	**¥2,900**

(2) Other Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Loss on sales and retirement of non-current assets	¥1,547	**¥1,129**
Loss on disaster	—	**781**
Impairment loss	—	**2,407**
Others	2,004	**2,109**
Total	¥3,551	**¥6,426**

25. Financial Income and Expenses

The breakdown of financial income and expenses is as follows.

(1) Financial Income

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Interest income		
Financial assets measured at amortized cost	¥1,893	**¥2,235**
Dividend income		
Financial assets measured at fair value through other comprehensive income	615	**551**
Foreign exchange gains	112	**—**
Gains on valuation of derivatives	308	**—**
Total	¥2,928	**¥2,786**

(2) Financial Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Interest expense		
Financial liabilities measured at amortized cost	¥3,903	**¥3,762**
Other	845	**897**
Foreign exchange losses	—	**4,371**
Losses on valuation of derivatives	—	**610**
Total	¥4,748	**¥9,640**

26. Earnings per Share

(1) Basic Profit per Share

Basic profit per share is as follows.

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Basic profit per share (yen)	¥180.45	**¥137.81**

(2) Calculating Basic Profit per Share

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

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Profit for the period attributable to owners of parent (millions of yen)	¥ 46,979	**¥ 36,246**
Weighted average number of common shares outstanding during the period (thousands of shares)	260,337	**263,011**

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

27. Cash Flows

Fluctuations in Liabilities Related to Financing Activities

Fluctuations in liabilities related to financing activities are as follows.

January 1 to December 31, 2017

Millions of yen

			Fluctuations not resulting in cash flows				
	Jan. 1, 2017	Fluctuations resulting in cash flows	Fluctuations from business combinations	Currency translation differences of foreign operations	Fluctuations from foreign exchange rates	Other	Dec. 31, 2017
Short-term borrowings	¥ 52,870	¥23,979	¥13,076	¥ 659	¥1,043	¥ —	¥ 91,627
Long-term borrowings	90,855	26,778	1	790	(1,022)	—	117,402
Corporate bonds	54,887	5,000	—	—	—	(15)	59,872
Lease obligations	5,699	(2,242)	6	(0)	—	1,122	4,585
Total	¥204,311	¥53,515	¥13,083	¥1,449	¥ 21	¥1,107	¥273,486

January 1 to December 31, 2018

Millions of yen

			Fluctuations not resulting in cash flows				
	Jan. 1, 2018	Fluctuations resulting in cash flows	Fluctuations from business combinations	Currency translation differences of foreign operations	Fluctuations from foreign exchange rates	Other	**Dec. 31, 2018**
Short-term borrowings	**¥ 91,627**	**¥22,748**	**¥94**	**¥(4,449)**	**¥632**	**¥ —**	**¥110,652**
Long-term borrowings	**117,402**	**3,911**	**5**	**(1,817)**	**(418)**	**—**	**119,083**
Corporate bonds	**59,872**	**(10,000)**	**—**	**—**	**—**	**31**	**49,903**
Lease obligations	**4,585**	**(2,042)**	**—**	**(2)**	**—**	**1,303**	**3,844**
Total	**¥273,486**	**¥14,617**	**¥99**	**¥(6,268)**	**¥214**	**¥1,334**	**¥283,482**

28. Dividends

Interim and year-end dividends paid to common shareholders are as follows.

January 1 to December 31, 2017

(1) Dividends Paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 29, 2017 (GMOS)*	Common stock	6,558	Retained earnings	25.00	Dec. 31, 2016	Mar. 30, 2017
Aug. 8, 2017 (BOD)**	Common stock	6,558	Retained earnings	25.00	Jun. 30, 2017	Sep. 6, 2017

(2) Dividends That Have Become Effective from the Fiscal Year Subsequent to Their Record Date

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 29, 2018 (GMOS*)	Common stock	7,620	Retained earnings	30.00	Dec. 31, 2017	Mar. 30, 2018

January 1 to December 31, 2018

(1) Dividends paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 29, 2018 (GMOS)*	Common stock	7,620	Retained earnings	30.00	Dec. 31, 2017	Mar. 30, 2018
Aug. 7, 2018 (BOD)**	Common stock	7,890	Retained earnings	30.00	Jun. 30, 2018	Sep. 5, 2018

(2) Dividends That Have Become Effective from the Fiscal Year Subsequent to Their Record Date

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 26, 2018 (GMOS)*	Common stock	6,575	Retained earnings	25.00	Dec. 31, 2018	Mar. 27, 2019

* General Meeting of Shareholders
** Board of Directors

29. Business Combinations

January 1 to December 31, 2017

Business Combination by Means of Acquisition
Business combination of Micheldever Group Ltd. and its subsidiaries

(1) Overview of Business Combination
(i) Name and business of acquired company
Name of acquired company: Micheldever Group Ltd. and its subsidiaries
Main business: Wholesale and retail sale of tires for automobiles, motorcycles, and agricultural machinery as well as other automobile-related goods

(ii) Purpose of business combination
Raising the presence of the Falken brand in the U.K. market as part of efforts to actively promote sales expansion measures and boost production in the European market.

(iii) Date of business combination
February 10, 2017

(iv) Legal form of business combination
Acquisition of shares in exchange for cash payment

(v) Name of acquired company after business combination
No change

(vi) Ratio of voting rights acquired
Voting right ratio before acquisition: 0%
Voting right ratio after acquisition: 100%

(vii) Consideration for acquisition
The Company acquired 100% of the voting rights of the parent company through the acquisition of shares in exchange for cash payment.

(2) Acquisition Price and Breakdown of the Fair Value of Assets Acquired and Liabilities Assumed on the Acquisition Date

	Millions of yen
Acquisition price (Note 1)	¥22,424
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	2,793
Trade and other receivables	6,111
Inventories	6,896
Property, plant and equipment	2,130
Intangible assets	13,882
Other assets	646
Liabilities	(26,173)
Goodwill (Note 2)	16,139
Total	¥22,424

Notes: 1. There was no contingent consideration.
2. Goodwill reflects the expected profitability from future business activities in excess of fair value.

The Company recorded 835 million yen in acquisition costs associated with this business combination. These are included in selling, general and administrative expenses. Acquisition costs were 365 million yen in the fiscal year ended December 31, 2016 and 470 million yen in the fiscal year ended December 31, 2017.

(3) Impact of Business Combination on Cash Flows

	Millions of yen
Payment of acquisition cost	¥(22,424)
Cash and cash equivalents	2,793
Purchase of shares of subsidiaries	¥(19,631)

(4) Business Performance since the Business Combination
The impact of the business combination on the consolidated statement of income for the fiscal year ended December 31, 2017 was 43,676 million yen in sales revenue and 189 million yen in profit attributable to owners of the parent.

Business Combination by Means of Acquisition and Business Transfer
Acquisition of Dunlop International 1902 Limited and its subsidiaries and transfer of its North American sport goods business and licensing business

(1) Overview of Business Combination
(i) Name of acquiring and transfer-recipient company/ Name and business of acquired company
Name of counterpart company: Sports Direct International plc
Name of acquiring company: Dunlop International Co., Ltd. (a consolidated subsidiary of the Company)
Name of acquired company: Dunlop International 1902 Limited and its subsidiaries
Main business: Management of Dunlop trademarks, Dunlop-brand sport goods business and licensing business
Name of transfer-recipient company: Roger Cleveland Golf Company (a consolidated subsidiary of the Company)
Transferred business: Sport goods business and licensing business in North America

(ii) Purpose of business combination
Enhancing global value of the Dunlop brands and leveraging that enhanced value to further develop and expand the sport goods business and licensing business

(iii) Date of business combination
April 3, 2017

(iv) Legal form of business combination
Acquisition of shares and transfer-recipient in exchange for cash payment

(v) Name of acquired company after business combination
No change

(vi) Ratio of voting rights acquired
Voting right ratio before acquisition: 0%
Voting right ratio after acquisition: 100%

(vii) Consideration for acquisition
Dunlop International Co., Ltd. acquired 100% of the voting rights through the acquisition of shares in exchange for cash payment.

In addition, Roger Cleveland Golf Company, Inc. acquired the North American sport goods business and licensing business in exchange for cash payment.

(2) Acquisition Price and Breakdown of the Fair Value of Assets Acquired and Liabilities Assumed on the Acquisition Date

	Millions of yen
Acquisition price (Note 1)	¥16,124
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	844
Trade and other receivables	2,431
Inventories	1,732
Property, plant and equipment	282
Intangible assets	14,977
Other assets	1,763
Liabilities	(8,437)
Goodwill (Note 2)	2,532
Total	¥16,124

Notes: 1. There was no contingent consideration.
The fair value of the acquisition price includes the price paid to the counterpart company and the repayment of liabilities that the counterpart company placed on the transfer-recipient company.
2. Goodwill reflects the expected profitability from future business activities in excess of fair value.

The Company recorded 1,084 million yen in acquisition costs associated with this business combination. These are included in selling, general and administrative expenses. Acquisition costs were 810 million yen in the fiscal year ended December 31, 2016 and 274 million yen in the fiscal year ended December 31, 2017.

(3) Impact of Business Combination on Cash Flows

	Millions of yen
Payment of acquisition cost	¥(16,124)
Cash and cash equivalents	844
Purchase of shares of subsidiaries	(13,034)
Payments for transfer of business	(341)
Repayments of debt	(1,905)

(4) Business Performance since the Business Combination

The impact of the business combination on the consolidated statement of income for the fiscal year ended December 31, 2017 was 5,218 million yen in sales revenue and 198 million yen in loss attributable to owners of the parent.

Pro Forma Information (Not Audited)

If the aforementioned business combination (the acquisition of Micheldever Group Ltd. and its subsidiaries, the acquisition of Dunlop International 1902 Limited and its subsidiaries and the transfer of the North American sports goods business and licensing business) had been executed at the beginning of the fiscal year on January 1, 2017, the increase attributable to the combination on sales revenue and profit attributable to owners of parent would have totaled at ¥886.9 billion yen and ¥47.0 billion yen, respectively. As the impact of said business combination on the consolidated financial statements for the fiscal year ended December 31, 2018 was insignificant, pro forma information is omitted.

This pro forma information is based on the sales revenue and profit recognized at the acquired companies during the period immediately preceding the date of acquisition.

January 1 to December 31, 2018

Omitted due to the absence of significant events.

30. Main Subsidiaries

(1) Information on Main Subsidiaries

The Group's main subsidiaries are as follows.

			As of Dec. 31, 2017		As of Dec. 31, 2018	
Name	Location	Main businesses	Voting right ratio (%)	Equity interest ratio (%)	Voting right ratio (%)	Equity interest ratio (%)
DUNLOP TYRE HOKKAIDO Co. Ltd.	Japan	Tires	100.0	100.0	100.0	100.0
DUNLOP MOTORCYCLE CORPORATION	Japan	Tires	100.0	100.0	100.0	100.0
Dunlop Retread Service Co., Ltd.	Japan	Tires	100.0	100.0	100.0	100.0
Dunlop Sports Co. Ltd. (Note 2)	Japan	Sports	60.4	60.4	—	—
Dunlop Sports Marketing Co. Ltd.	Japan	Sports	100.0 (100.0)	60.4	100.0	100.0
Dunlop Golf Club Corp.	Japan	Sports	100.0 (100.0)	60.4	100.0	100.0
Dunlop International Co., Ltd. (Note 3)	Japan	Sports	100.0	100.0	—	—
Sumigomu Sangyou Ltd.	Japan	Industrial products	100.0	100.0	100.0	100.0
Dunlop Home Products, Ltd	Japan	Industrial products	100.0	100.0	100.0	100.0
P.T. Sumi Rubber Indonesia	Indonesia	Tires and sports	72.5	72.5	72.5	72.5
Sumitomo Rubber (Changshu) Co., Ltd.	China	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Sumitomo Rubber (Hunan) Co., Ltd.	China	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Sumitomo Rubber (China) Co., Ltd.	China	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber (Thailand) Co., Ltd.	Thailand	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber do Brasil Ltda.	Brazil	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber South Africa (Pty) Limited	South Africa	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber AKO Lastik Sanayi ve Ticaret A.Ş.	Turkey	Tires	80.0	80.0	80.0	80.0
Sumitomo Rubber USA, LLC	U.S.A.	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Sumitomo Rubber North America, Inc.	U.S.A.	Tires	100.0 (100.0)	100.0	100.0 (100.0)	100.0
Falken Tyre Europe GmbH	Germany	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber Middle East FZE	U.A.E.	Tires	100.0	100.0	100.0	100.0
Sumitomo Rubber Australia Pty Ltd.	Australia	Tires	75.0	75.0	75.0	75.0
Micheldever Group Ltd.	U.K.	Tires	100.0	100.0	100.0	100.0
Srixon Sports Europe Ltd.	U.K.	Sports	100.0 (100.0)	60.4	100.0	100.0
Cleveland Golf Canada Corp.	Canada	Sports	100.0 (100.0)	60.4	100.0	100.0
Roger Cleveland Golf Company, Inc.	U.S.A.	Sports	100.0 (100.0)	60.4	100.0	100.0
Srixon Sports Manufacturing (Thailand) Co., Ltd.	Thailand	Sports	100.0 (100.0)	60.4	100.0	100.0
Dunlop Sports Korea Co., Ltd.	South Korea	Sports	50.0 (50.0)	30.2	50.0	50.0
Dunlop International 1902 Limited	U.K.	Sports	100.0 (100.0)	100.0	100.0	100.0
Hong Kong Sumirubber, Ltd.	Hong Kong	Industrial products	100.0	100.0	100.0	100.0
Sumirubber Malaysia Sdn. Bhd.	Malaysia	Industrial products	100.0	100.0	100.0	100.0
Zhongshan Sumirubber Precision Rubber Ltd.	China	Industrial products	100.0	100.0	100.0	100.0
Sumirubber Vietnam, Ltd.	Vietnam	Industrial products	100.0	100.0	100.0	100.0
Lonstroff AG	Switzerland	Industrial products	100.0	100.0	100.0	100.0
Lonstroff Medical Elastomer d.o.o.	Slovenia	Industrial products	100.0 (100.0)	100.0	100.0 (100.0)	100.0

Notes: 1. Voting right ratio in parentheses signifies the percentage of indirect holdings.
2. Dunlop Sports Co., Ltd. was acquired through an absorption-type merger on January 1, 2018.
3. Dunlop International Co., Ltd. was acquired through an absorption-type merger on January 1, 2018.

31. Related Parties

(1) Related Party Transactions

January 1 to December 31, 2017

Omitted. No significant transaction was undertaken, excepting transactions that were offset in the consolidated financial statements.

January 1 to December 31, 2018

Omitted. No significant transaction was undertaken, excepting transactions that were offset in the consolidated financial statements.

(2) Remuneration of Key Managerial Personnel

Millions of yen

	Jan. 1 to Dec. 31, 2017	**Jan. 1 to Dec. 31, 2018**
Basic remuneration	¥441	**¥456**
Bonuses	99	**94**
Total	¥540	**¥550**

32. Subsequent Events

None.

(2) Other

Quarterly Information for the Fiscal Year under Review

Millions of yen, except as noted

Cumulative Period	Q1	Q2	Q3	As of Dec. 31, 2018
Sales revenue	**¥212,658**	**¥425,352**	**¥635,974**	**¥894,243**
Quarterly income before tax adjustment	**12,076**	**23,455**	**27,788**	**50,349**
Quarterly income attributable to owners of parent	**7,665**	**14,222**	**17,141**	**36,246**
Quarterly income per share (yen)	**¥ 29.39**	**¥ 54.34**	**¥ 65.39**	**¥ 137.81**

Accounting Period	Q1	Q2	Q3	Q4
Quarterly income per share (yen)	**¥29.39**	**¥24.93**	**¥11.10**	**¥72.64**