SUMITOMO RUBBER GROUP

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SUMITOMO RUBBER GROUP

Fact Book 2023

SUMITOMO RUBBER INDUSTRIES, LTD.

Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Statement of Financial Position

Millions of yen

	Note	As of Dec. 31, 2022	As of Dec. 31, 2023
Assets			
Current assets			
Cash and cash equivalents	6, 19	¥73,846	**¥90,251**
Trade and other receivables	7, 19	209,009	**215,970**
Other financial assets	19	6,950	**2,896**
Inventories	8	283,501	**262,456**
Other current assets		50,593	**51,368**
Subtotal		623,899	**622,941**
Assets for disposal groups classified as held for sale	35	—	**1,778**
Total current assets		623,899	**624,719**
Non-current assets			
Property, plant and equipment	9, 11	436,307	**451,621**
Goodwill	10, 11	26,412	**29,704**
Intangible assets	10, 11	45,919	**50,332**
Investments accounted for using equity method	13	4,462	**4,486**
Other financial assets	19	34,303	**33,056**
Net defined benefit assets	17	38,899	**53,474**
Deferred tax assets	18	12,953	**17,357**
Other non-current assets		2,048	**1,983**
Total non-current assets		601,303	**642,013**
Total assets		¥1,225,202	**¥1,266,732**

Millions of yen

	Note	As of Dec. 31, 2022	As of Dec. 31, 2023
Liabilities and Equity			
Liabilities			
Current liabilities			
Bonds and loans payable	15, 19	¥100,895	**¥61,209**
Trade and other payables	14, 19	176,151	**175,844**
Other financial liabilities	12, 19	14,431	**16,542**
Income tax payable		7,980	**17,450**
Provisions	16	1,299	**2,235**
Other current liabilities		52,152	**56,271**
Subtotal		352,908	**329,551**
Liabilities for disposal groups classified as held for sale	35	—	**1,538**
Total current liabilities		352,908	**331,089**
Non-current liabilities			
Bonds and loans payable	15, 19	210,907	**184,166**
Other financial liabilities	12, 19	48,191	**52,139**
Net defined benefit liabilities	17	21,333	**23,027**
Provisions	16	1,654	**1,431**
Deferred tax liabilities	18	4,690	**12,219**
Other non-current liabilities		21,656	**21,231**
Total non-current liabilities		308,431	**294,213**
Total liabilities		661,339	**625,302**
Equity			
Capital stock	20	42,658	**42,658**
Capital surplus	20	39,705	**39,702**
Retained earnings	20	478,379	**522,716**
Treasury stock	20	(61)	**(43)**
Other components of equity	20	(14,481)	**19,081**
Total equity attributable to owners of the parent		546,200	**624,114**
Non-controlling interests	29	17,663	**17,316**
Total equity		563,863	**641,430**
Total liabilities and equity		¥1,225,202	**¥1,266,732**

(ii) Consolidated Statement of Income

Millions of yen

	Note	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Sales revenue	5, 22	¥1,098,664	**¥1,177,399**
Cost of sales		(845,442)	**(850,898)**
Gross profit		253,222	**326,501**
Selling, general and administrative expenses	23	(231,259)	**(248,831)**
Business profit		21,963	**77,670**
Other income	24	3,093	**2,609**
Other expenses	11, 24	(10,068)	**(15,789)**
Operating profit		14,988	**64,490**
Financial income	25	11,519	**11,933**
Financial expenses	25	(4,041)	**(13,705)**
Share of (profit) loss of entities accounted for using equity method	13	73	**27**
Profit before tax		22,539	**62,745**
Income tax expenses	18	(10,083)	**(24,239)**
Profit for the year		¥12,456	**¥38,506**
Profit attributable to:			
Owners of the parent company		9,415	**37,048**
Non-controlling interests	29	3,041	**1,458**
Profit for the year		¥12,456	**¥38,506**
Earnings per share			
Basic earnings per share (yen)	26	¥35.80	**¥140.86**

(iii) Consolidated Statement of Comprehensive Income

Millions of yen

	Note	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Profit for the year		¥12,456	**¥38,506**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	21	(1,239)	**3,941**
Remeasurements of defined benefit plan	21	(1,253)	**8,600**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges	21	154	**(31)**
Currency translation differences of foreign operations	21	44,836	**34,549**
Other comprehensive income, net of tax		42,498	**47,059**
Total comprehensive income for the year		¥54,954	**¥85,565**
Total comprehensive income for the year attributable to:			
Owners of the parent company		49,752	**83,038**
Non-controlling interests	29	5,202	**2,527**
Total comprehensive income for the year		¥54,954	**¥85,565**

(iv) Consolidated Statement of Changes in Equity

January 1 to December 31, 2022 — 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, 2022		¥42,658	¥39,715	¥481,455	¥(85)	¥(74,238)	¥(126)
Hyperinflation adjustment	33			1,811		6,328	
Restated balance		42,658	39,715	483,266	(85)	(67,910)	(126)
Profit for the year				9,415			
Other comprehensive income	21					42,766	153
Total comprehensive income		—	—	9,415	—	42,766	153
Purchase of treasury stock	20				(3)		
Disposal of treasury stock	20		(0)		0		
Dividends	28			(13,150)			
Share-based payment transactions	34		(10)		27		
Transfer to retained earnings				(1,057)			
Transfer to capital surplus			10	(10)			
Other			(10)	(85)			
Total transactions with owners		—	(10)	(14,302)	24	—	—
Balance as of December 31, 2022		**¥42,658**	**¥39,705**	**¥478,379**	**¥(61)**	**¥(25,144)**	**27**

	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 equity
Balance as of January 1, 2022		¥12,161	¥—	¥(62,203)	¥501,540	¥12,003	¥513,543
Hyperinflation adjustment	33			6,328	8,139	2,035	10,174
Restated balance		12,161	—	(55,875)	509,679	14,038	523,717
Profit for the year				—	9,415	3,041	12,456
Other comprehensive income	21	(1,240)	(1,342)	40,337	40,337	2,161	42,498
Total comprehensive income		(1,240)	(1,342)	40,337	49,752	5,202	54,954
Purchase of treasury stock	20			—	(3)		(3)
Disposal of treasury stock	20			—	0		0
Dividends	28			—	(13,150)	(1,577)	(14,727)
Share-based payment transactions	34			—	17		17
Transfer to retained earnings		(285)	1,342	1,057	—		—
Transfer to capital surplus				—	—		—
Other				—	(95)		(95)
Total transactions with owners		(285)	1,342	1,057	(13,231)	(1,577)	(14,808)
Balance as of December 31, 2022		**¥10,636**	**¥—**	**¥(14,481)**	**¥546,200**	**¥17,663**	**¥563,863**

January 1 to December 31, 2023 — 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, 2023		¥42,658	¥39,705	¥478,379	¥(61)	¥(25,144)	¥27
Profit for the year				37,048			
Other comprehensive income	21					33,445	(31)
Total comprehensive income		—	—	37,048	—	33,445	(31)
Purchase of treasury stock	20				(3)		
Disposal of treasury stock	20		(0)		0		
Dividends	28			(5,260)			
Share-based payment transactions	34		(7)		21		
Transfer to retained earnings				12,428			
Transfer to capital surplus			7	(7)			
Transfer to other components of equity for disposal groups classified as held for sale	35					1,900	
Other			(3)	128			
Total transactions with owners		—	(3)	7,289	18	1,900	—
Balance as of December 31, 2023		**¥42,658**	**¥39,702**	**¥522,716**	**¥(43)**	**¥10,201**	**¥(4)**

	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	Other components of equity for disposal groups classified as held for sale	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2023		¥10,636	¥—	¥—	¥(14,481)	¥546,200	¥17,663	¥563,863
Profit for the year					—	37,048	1,458	38,506
Other comprehensive income	21	3,942	8,634		45,990	45,990	1,069	47,059
Total comprehensive income		3,942	8,634	—	45,990	83,038	2,527	85,565
Purchase of treasury stock	20				—	(3)		(3)
Disposal of treasury stock	20				—	0		0
Dividends	28				—	(5,260)	(2,870)	(8,130)
Share-based payment transactions	34				—	14		14
Transfer to retained earnings		(3,794)	(8,634)		(12,428)	—		—
Transfer to capital surplus					—	—		—
Transfer to other components of equity for disposal groups classified as held for sale	35			(1,900)	—	—	—	—
Other					—	125	(4)	121
Total transactions with owners		(3,794)	(8,634)	(1,900)	(12,428)	(5,124)	(2,874)	(7,998)
Balance as of December 31, 2023		**¥10,784**	**¥—**	**(1,900)**	**¥19,081**	**¥624,114**	**¥17,316**	**¥641,430**

(v) Consolidated Statement of Cash Flows

Millions of yen

	Note	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Cash flows from operating activities			
Profit before tax		¥22,539	**¥62,745**
Depreciation and amortization		75,348	**78,559**
Impairment loss	11	4,137	**11,399**
Interest and dividend income		(2,907)	**(3,538)**
Interest expenses		3,637	**6,417**
Share of (profit) loss of entities accounted for using equity method		(73)	**(27)**
Loss (gain) on sales and retirement of non-current assets		1,714	**841**
Decrease (increase) in inventories		(51,758)	**26,586**
Decrease (increase) in trade and other receivables		(875)	**545**
Increase (decrease) in trade and other payables		10,205	**(2,938)**
Other, net		(16,955)	**12,583**
Subtotal		45,012	**193,172**
Interest received		1,944	**2,774**
Dividend income received		850	**851**
Interest expense paid		(3,454)	**(6,274)**
Income taxes paid		(16,483)	**(20,723)**
Net cash provided by (used in) operating activities		27,869	**169,800**
Cash flows from investing activities			
Purchase of property, plant and equipment		(67,324)	**(63,295)**
Proceeds from sales of property, plant and equipment		555	**1,126**
Purchase of intangible assets		(7,591)	**(8,997)**
Purchase of investment securities		(245)	**(244)**
Proceeds from sales of investment securities		483	**7,060**
Payment for transfer of business		(2,330)	**—**
Net decrease (increase) in short-term loans receivable		10	**6**
Other, net		(2,255)	**2,114**
Net cash provided by (used in) investing activities		(78,697)	**(62,230)**
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	27	17,584	**(42,516)**
Proceeds from long-term debt and newly issued bonds	27	75,234	**6,237**
Repayments of long-term debt and redemption of bonds	27	(23,096)	**(34,305)**
Repayments of lease liabilities	27	(13,438)	**(16,847)**
Cash dividends paid	28	(13,148)	**(5,264)**
Cash dividends paid to non-controlling interests		(1,577)	**(2,870)**
Other, net		(3)	**(3)**
Net cash provided by (used in) financing activities		41,556	**(95,568)**
Effect of exchange rate changes on cash and cash equivalents		8,025	**5,336**
Net increase (decrease) in cash and cash equivalents		(1,247)	**17,338**
Cash and cash equivalents at the beginning of current period	6	75,093	**73,846**
Cash and cash equivalents included in assets for disposal groups classified as held for sale	35	—	**(933)**
Cash and cash equivalents at the end of current period	6	¥73,846	**¥90,251**

Notes to Consolidated Financial Statements

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, 2023 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 5. “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 28, 2024.

(2) Basis for Measurements

As stated in Note 3. “Material Accounting Policies,” the consolidated financial statements have been prepared based on historical cost, except for specific financial instruments that are measured at fair value and financial statements prepared by a subsidiary in Turkey and consolidated via the adoption of hyperinflationary economy accounting.

(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

(Application of amendments to IAS 12 Income Taxes)

The Group has applied the amendments to IAS 12 Income Taxes published in May 2023 from the fiscal year under review. The amendments clarify that IAS 12 applies to corporate income taxes arising from tax law enacted or substantively enacted to implement the OECD's BEPS Pillar Two GloBE (global minimum taxation) rules, and establishes a temporary exception that requires companies not to recognize or disclose deferred income tax assets and liabilities arising from the global minimum taxation rules. Given that the amendments have been required to be applied retrospectively immediately after their announcement, the Group has applied the exceptions retrospectively from the fiscal year under review, not recognizing or disclosing deferred tax assets and liabilities related to corporate income taxes arising from the global minimum taxation rules.

Additionally, from the fiscal year under review, the Group has applied the amendments to IAS 12 Income Taxes (Deferred Tax related to Assets and Liabilities arising from a Single Transaction).

The application of this standard has no significant impact on the Company's consolidated financial statements.

3. Material 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 the 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.

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 in which significant exchange rate movements occurred during the fiscal year or cases in which hyperinflation in given economic territories affected local currencies subject to said translation. 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.

Financial statements prepared by a subsidiary operating under a hyperinflationary economy are included in consolidated financial statements after being translated into Japanese yen based on the spot exchange rate at the fiscal year-end.

(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. The value of operating receivables that do not include significant financing components reflects initial measurements based on the transaction price.

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 fixtures:	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

The Group decides whether a contract is a lease or includes a lease based on the definition of leases in IFRS 16. With regard to all leases except for those for periods of 12 months or less and those with low-value underlying assets, the Group recognizes right-of-use assets that grant rights to underlying assets and lease liabilities that include the obligation to pay the lease fees.

At the start of a lease, the Group recognizes the right-of-use assets at the discounted present value of the total lease payments adjusted for direct acquisition costs and recognizes lease liabilities at the discounted present value of the total lease payments. Ordinarily, the Group uses the incremental borrowing rate as the discount rate. Right-of-use assets are depreciated using the straight-line method over the lease term.

Lease payments exclude the interest rates related to lease liabilities and are treated as a decrease in lease liabilities. Financial expenses are presented separately from depreciation related to right-of-use assets in the consolidated statement of income. Moreover, lease payments for leases with periods of 12 months or less and those with low-value underlying assets are recognized as expenses in the consolidated statement of income using the straight-line method over the lease term.

(10) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are 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.

The recoverable amount is calculated using assumptions formulated with reference to such important factors as future cash flows based on a management-approved business plan and the weighted average cost of capital.

Although these assumptions have been determined based on management's best estimation and judgment, the above factors may possibly be affected by, for example, future economic uncertainties. If the revision of these assumptions becomes necessary, the resulting impact on consolidated financial statements may be significant.

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 a reasonable estimate of loss to be incurred in subsequent fiscal years as a direct result of product recalls and related expenses.

(ii) 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.

The Sumitomo Rubber Group is engaged in the manufacture and sale of various products for the Tire Business, Sports Business and Industrial and Other Products Business. Standards for revenue recognition for these main businesses are as follows. In addition, as the Sumitomo Rubber Group receives payment within one year of completing delivery of products or services to customers, the agreed upon price does not include significant financing components.

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.

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.

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.

(16) Share-Based Payment Transactions

The Company has adopted a share-based compensation system, a form of equity-settled compensation that grants restricted shares to directors (excluding outside directors).

The value of said compensation to be paid by the Company in exchange for services provided by recipients is measured using the fair value of Company share as of the date of payment and, upon this measurement, is recognized as expenses and included in profit or loss. The same amount is also recognized as an increase in capital stock.

(17) 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. With regard to grants for other business expenses, the amount of these grants is subtracted from relevant expenses for each fiscal year in which said business expenses are recognized.

(18) 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.

Like deductible temporary differences and tax loss carryforwards, deferred tax assets that can be utilized to reduce future tax burden are recognized to the extent said assets are recoverable based on highly probable taxable income. Deferred tax liabilities, on the other hand, are recognized for taxable temporary differences.

However, 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.

(19) Dividends Paid

Dividends paid to owners of the parent comprise year-end and interim dividends, each of which requires the 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.

(20) Earnings per Share

Basic earnings 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.

(21) 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

The preparation of the consolidated financial statements of the Group requires the establishment of accounting estimates and assumptions in order to disclose the amount of assets and liabilities as well as contingent liabilities as of the date of the closure of the fiscal year, and to record revenues and expenses as of the same date. The Group establishes accounting estimates based on assumptions deemed most reasonable in light of historical records or each circumstance it is facing. However, actual results may differ from such estimates and assumptions as they involve uncertainties.

On a regular basis, the Group reviews its accounting estimates as well as the assumptions that provide a basis for such estimates. The impact of a revision to accounting estimates is recognized as part of operating results for the fiscal year in which such revision takes place and subsequent fiscal years.

Of the items subject to the estimates, judgments and assumptions, 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 10. “Goodwill and Other Intangible Assets” and Note 11. “Impairment Loss”)
- 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. 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, rubber parts for office equipment, rubber parts for medical applications, 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. “Material Accounting Policies (21) Segment Information.”

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, 2022 to December 31, 2022

Millions of yen

	Reportable segments: Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	¥939,941	¥116,597	¥42,126	¥1,098,664	¥—	¥1,098,664
Intersegment sales and transfers	1,384	149	1,190	2,723	(2,723)	—
Total	¥941,325	¥116,746	¥43,316	¥1,101,387	¥(2,723)	¥1,098,664
Segment income (business profit) (Note 1)	¥12,311	¥8,943	¥680	¥21,934	¥29	¥21,963
Other income and expenses						(6,975)
Operating profit						14,988
Other important items						
Depreciation and amortization	66,880	5,662	2,806	75,348	—	75,348
Impairment loss	3,435	154	548	4,137	—	4,137
Capital expenditures	70,028	2,921	1,780	74,729	—	74,729

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, 2023 to December 31, 2023

Millions of yen

	Reportable segments: Tires	Sports	Industrial and Other products	Total	Adjustments (Note 2)	Consolidated financial statements
Sales to external customers	**¥1,006,381**	**¥126,647**	**¥44,371**	**¥1,177,399**	**¥—**	**¥1,177,399**
Intersegment sales and transfers	**1,449**	**152**	**1,288**	**2,889**	**(2,889)**	**—**
Total	**¥1,007,830**	**¥126,799**	**¥45,659**	**¥1,180,288**	**¥(2,889)**	**¥1,177,399**
Segment income (business profit) (Note 1)	**¥63,572**	**¥12,482**	**¥1,603**	**¥77,657**	**¥13**	**¥77,670**
Other income and expenses						**(13,180)**
Operating profit						**64,490**
Other important items						
Depreciation and amortization	**70,273**	**5,691**	**2,595**	**78,559**	**—**	**78,559**
Impairment loss	**96**	**—**	**11,303**	**11,399**	**—**	**11,399**
Capital expenditures	**66,660**	**2,479**	**1,312**	**70,451**	**—**	**70,451**

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, 2022	**Jan. 1 to Dec. 31, 2023**
Japan	¥313,300	**¥347,394**
North America	247,142	**263,463**
Europe	183,921	**204,942**
Asia	194,027	**200,550**
Other	160,274	**161,050**
Total	¥1,098,664	**¥1,177,399**

Note: Breakdown is based on product destination.

(ii) Non-Current Assets

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Japan	¥215,196	**¥218,618**
North America	47,948	**56,858**
Europe	59,714	**56,776**
Asia	117,450	**121,908**
Other	70,378	**79,480**
Total	¥510,686	**¥533,640**

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 transactions with a single external customer amounting to 10% or more of total external revenue.

6. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows.

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Cash and deposits	¥77,446	**¥91,754**
Time deposits with a maturity of over three months	(3,600)	**(1,503)**
Total	¥73,846	**¥90,251**

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

7. Trade and Other Receivables

The breakdown of trade and other receivables is as follows.

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Trade notes	¥7,955	**¥6,476**
Electronically recorded monetary claims	17,214	**18,693**
Accounts receivable	177,440	**182,901**
Accrued accounts receivable	6,400	**7,900**
Total	¥209,009	**¥215,970**

8. Inventories

The breakdown of inventories is as follows.

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Finished products	¥182,588	**¥178,721**
Work-in-progress	11,177	**11,053**
Raw materials and supplies	89,736	**72,682**
Total	¥283,501	**¥262,456**

Note: The write-down of inventories recognized as expenses totaled 1,122 million yen and 2,358 million yen as of December 31, 2022 and December 31, 2023, respectively.

9. 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	Right-of-use assets	Total
Balance as of January 1, 2022	¥41,822	¥254,784	¥652,113	¥143,208	¥29,410	¥118,408	¥1,239,745
Hyperinflation adjustment	—	7,588	19,027	2,206	—	—	28,821
Individual acquisitions	—	858	497	973	64,802	14,383	81,513
Acquisition through business combination	1,226	—	—	—	—	—	1,226
Transfer from construction in progress	—	5,706	27,653	11,752	(45,111)	—	—
Disposal	(133)	(2,272)	(10,630)	(7,340)	(91)	(15,666)	(36,132)
Foreign currency translation adjustments	983	10,098	30,450	7,468	1,908	3,959	54,866
Other	(76)	(263)	(113)	(85)	109	(3,705)	(4,133)
Balance as of December 31, 2022	¥43,822	¥276,499	¥718,997	¥158,182	¥51,027	¥117,379	¥1,365,906
Hyperinflation adjustment	**—**	**4,951**	**13,376**	**1,616**	**—**	**—**	**19,943**
Individual acquisitions	**36**	**629**	**422**	**1,014**	**58,898**	**17,075**	**78,074**
Transfer from construction in progress	**—**	**8,503**	**45,562**	**12,232**	**(66,297)**	**—**	**—**
Transfer to assets for disposal groups classified as held for sale	**(559)**	**(6,848)**	**(7,987)**	**(513)**	**(395)**	**(611)**	**(16,913)**
Disposal	**(1,158)**	**(3,895)**	**(12,091)**	**(9,298)**	**(422)**	**(7,423)**	**(34,287)**
Foreign currency translation adjustments	**795**	**5,129**	**16,079**	**5,429**	**2,709**	**5,518**	**35,659**
Other	**(1,342)**	**13**	**140**	**(32)**	**(968)**	**(2,187)**	**(4,376)**
Balance as of December 31, 2023	**¥41,594**	**¥284,981**	**¥774,498**	**¥168,630**	**¥44,552**	**¥129,751**	**¥1,444,006**

(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	Right-of-use assets	Total
Balance as of January 1, 2022	¥(4,710)	¥(158,862)	¥(515,060)	¥(112,917)	¥(665)	¥(57,736)	¥(849,950)
Hyperinflation adjustment	—	(754)	(8,567)	(824)	—	—	(10,145)
Depreciation	—	(7,532)	(35,108)	(11,856)	—	(14,924)	(69,420)
Impairment loss	(972)	(720)	(398)	(64)	(64)	(23)	(2,241)
Disposal	28	1,970	9,921	6,740	5	14,077	32,741
Foreign currency translation adjustments	(68)	(5,325)	(22,587)	(5,985)	(55)	(2,425)	(36,445)
Other	—	236	(357)	75	—	5,907	5,861
Balance as of December 31, 2022	¥(5,722)	¥(170,987)	¥(572,156)	¥(124,831)	¥(779)	¥(55,124)	¥(929,599)
Hyperinflation adjustment	**—**	**(602)**	**(7,149)**	**(709)**	**—**	**—**	**(8,460)**
Depreciation	**—**	**(7,829)**	**(36,049)**	**(12,213)**	**—**	**(15,921)**	**(72,012)**
Impairment loss	**(539)**	**(4,666)**	**(2,489)**	**(121)**	**(380)**	**(25)**	**(8,220)**
Transfer to assets for disposal groups classified as held for sale	**559**	**6,848**	**7,987**	**513**	**395**	**611**	**16,913**
Disposal	**773**	**3,778**	**11,156**	**8,699**	**337**	**7,276**	**32,019**
Foreign currency translation adjustments	**(134)**	**(3,915)**	**(14,603)**	**(4,634)**	**(55)**	**(3,129)**	**(26,470)**
Other	**—**	**(11)**	**(205)**	**34**	**—**	**3,626**	**3,444**
Balance as of December 31, 2023	**¥(5,063)**	**¥(177,384)**	**¥(613,508)**	**¥(133,262)**	**¥(482)**	**¥(62,686)**	**¥(992,385)**

(iii) Carrying Amount

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Right-of-use assets	Total
Balance as of January 1, 2022	¥37,112	¥95,922	¥137,053	¥30,291	¥28,745	¥60,672	¥389,795
Balance as of December 31, 2022	¥38,100	¥105,512	¥146,841	¥33,351	¥50,248	¥62,255	¥436,307
Balance as of December 31, 2023	**¥36,531**	**¥107,597**	**¥160,990**	**¥35,368**	**¥44,070**	**¥67,065**	**¥451,621**

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) Right-of-Use Assets

The breakdown of right-of-use assets is as follows.

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Buildings and structures	¥50,510	**¥54,785**
Machinery, equipment and vehicles	4,822	**5,243**
Tools, furniture and fixtures	1,088	**957**
Land	5,835	**6,080**
Total	¥62,255	**¥67,065**

(3) Impairment Loss

Based on management accounting categories, the Group's assets subject to review for impairment are generally grouped into minimum units in which individual cash flows can be identified.

However, important assets in the following categories are grouped by property when the Group schedules the disposal of rental assets, idle assets that are not expected to be used, and assets earmarked for disposal or subject to business termination based upon decisions made by such bodies as the Board of Directors or Management Committee. The breakdown of impairment loss recorded in the fiscal years ended December 31, 2022 and December 31, 2023 is as follows.

Millions of yen

Use	Segment	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Idle assets	Tire business	¥111	**¥0**
Assets earmarked for disposal	Tire business	1,325	**—**
	Industrial and Other Products	—	**8,124**
Business assets	Tire business	651	**96**
	Sports Business	154	**—**
Total		¥2,241	**¥8,220**

10. 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	Right-of-use assets	Total
Balance as of January 1, 2022	¥42,399	¥19,942	¥19,772	¥26,618	¥2,293	¥494	¥111,518
Hyperinflation adjustment	—	—	—	198	—	—	198
Individual acquisitions	1,081	485	3	7,561	27	141	9,298
Disposal	—	—	(105)	(4,575)	(77)	(236)	(4,993)
Foreign currency translation adjustments	2,348	1,049	93	792	97	1	4,380
Other	—	—	—	238	(105)	—	133
Balance as of December 31, 2022	¥45,828	¥21,476	¥19,763	¥30,832	¥2,235	¥400	¥120,534
Hyperinflation adjustment	**—**	**—**	**—**	**143**	**—**	**—**	**143**
Individual acquisitions	**77**	**45**	**—**	**9,311**	**97**	**3**	**9,533**
Transfer to assets for disposal groups classified as held for sale	**—**	**—**	**—**	**(168)**	**—**	**—**	**(168)**
Disposal	**—**	**—**	**(9)**	**(2,892)**	**(28)**	**(60)**	**(2,989)**
Foreign currency translation adjustments	**4,643**	**2,589**	**397**	**565**	**56**	**1**	**8,251**
Other	**—**	**—**	**—**	**16**	**(1)**	**(44)**	**(29)**
Balance as of December 31, 2023	**¥50,548**	**¥24,110**	**¥20,151**	**¥37,807**	**¥2,359**	**¥300**	**¥135,275**

(ii) Accumulated Amortization and Accumulated Impairment Loss

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Right-of-use assets	Total
Balance as of January 1, 2022	¥(16,112)	¥(8,309)	¥(1,527)	¥(14,563)	¥(1,564)	¥(362)	¥(42,437)
Hyperinflation adjustment	—	—	—	(144)	—	—	(144)
Amortization	—	(1,115)	(268)	(4,385)	(86)	(74)	(5,928)
Impairment loss	(1,709)	(187)	—	—	0	—	(1,896)
Disposal	—	—	105	4,572	41	236	4,954
Foreign currency translation adjustments	(1,595)	(453)	(2)	(576)	(71)	(1)	(2,698)
Other	—	—	—	(140)	86	—	(54)
Balance as of December 31, 2022	¥(19,416)	¥(10,064)	¥(1,692)	¥(15,236)	¥(1,594)	¥(201)	¥(48,203)
Hyperinflation adjustment	**—**	**—**	**—**	**(99)**	**—**	**—**	**(99)**
Amortization	**—**	**(1,231)**	**—**	**(5,143)**	**(37)**	**(63)**	**(6,474)**
Impairment loss	**—**	**—**	**—**	**(38)**	**—**	**—**	**(38)**
Transfer to assets for disposal groups classified as held for sale	**—**	**—**	**—**	**168**	**—**	**—**	**168**
Disposal	**—**	**—**	**9**	**2,798**	**18**	**60**	**2,885**
Foreign currency translation adjustments	**(1,428)**	**(1,465)**	**(2)**	**(448)**	**(48)**	**(1)**	**(3,392)**
Other	**—**	**—**	**—**	**(96)**	**9**	**1**	**(86)**
Balance as of December 31, 2023	**¥(20,844)**	**¥(12,760)**	**¥(1,685)**	**¥(18,094)**	**¥(1,652)**	**¥(204)**	**¥(55,239)**

(iii) Carrying Amount

Millions of yen

	Goodwill	Customer-related assets	Trademark rights	Software	Others	Right-of-use assets	Total
Balance as of January 1, 2022	¥26,287	¥11,633	¥18,245	¥12,055	¥729	¥132	¥69,081
Balance as of December 31, 2022	¥26,412	¥11,412	¥18,071	¥15,596	¥641	¥199	¥72,331
Balance as of December 31, 2023	**¥29,704**	**¥11,350**	**¥18,466**	**¥19,713**	**¥707**	**¥96**	**¥80,036**

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, 2022 and 2023, totaled 27,259 million yen and 27,340 million yen, respectively.

(2) Right-of-Use Assets

The breakdown of right-of-use assets is as follows.

Millions of yen

	As of Dec. 31, 2022	As of Dec. 31, 2023
Software	¥199	**¥96**

(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, 2022 and 2023 totaled 18,227 million yen and 18,622 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, 2022		**As of Dec. 31, 2023**	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Tires	¥23,501	¥18,227	**¥26,793**	**¥18,622**
Sports	2,911	—	**2,911**	**—**
Industrial and Other Products	—	—	**—**	**—**
Total	¥26,412	¥18,227	**¥29,704**	**¥18,622**

Material amounts of the cash-generating unit or group containing 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, 2022		**As of Dec. 31, 2023**	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Micheldever Group Ltd.	¥20,052	¥3,056	**¥22,875**	**¥3,451**
Dunlop (the entire group of cash-generating units in the tire segment)	2,905	13,862	**3,280**	**13,862**

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 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 weighted average cost of capital (WACC). This is classified as "Level 3" within the fair value hierarchy.

In the fiscal year ended December 31, 2023, the pre-tax WACC was 11.5% (11.8% in the previous fiscal year). For the growth rate used in estimates of the continued value beyond the period of the plan, the Group uses 2.0% (2.0% in the previous fiscal year) in consideration of the United Kingdom's long-term growth rate forecasts.

In the fiscal year ended December 31, 2023, the recoverable amount exceeded the carrying amount of Micheldever Group Ltd. and its subsidiaries by 4,361 million yen, but if the pre-tax WACC were to increase by 0.8% or the growth rate decrease by 1.0%, the recoverable amount and carrying amount would be equal. Impairment losses may be recorded if there are changes in key assumptions used to calculate the recoverable amount (fair value less selling cost), such as the outcomes of sales promotion activities, store facility acquisitions, and other future undertakings aimed at sales expansion, as well as WACC. While future cash flows used to measure fair value are estimated based on business plans approved by management, key assumptions such as the outcomes of sales promotion activities, store facility acquisitions, and other future undertakings aimed at sales expansion involve uncertainties. Accordingly, estimates of future cash flows may be materially affected by management judgment.

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, 2023, the pre-tax WACC was 11.4% (10.1% in the previous fiscal year). For the growth rate used in estimates of the continued value beyond the period of the plan, the Group uses 2.1% (1.9% in the previous fiscal year) in consideration of each country's long-term growth rate forecasts.

The value in use is 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.

(5) Impairment Loss

In the fiscal year ended December 31, 2022, the Group recorded impairment losses associated with goodwill from the operations of Micheldever Group Ltd. and the medical-grade rubber products business of LAG. More details on impairment losses are provided in Note 11. "Impairment Loss."

In the fiscal year ended December 31, 2023, the Group did not recognize an impairment loss of goodwill or intangible assets with indefinite useful lives.

11. Impairment Loss

Fiscal Year Ended December 31, 2022

In the fiscal year ended December 31, 2022, the Group recorded an impairment loss of 4,137 million yen in other expenses in the consolidated statement of income. The main content of the impairment loss classified by asset type is as follows.

Millions of yen

Segment	Cash-Generating Unit	Type	Amount
Tire Business	Micheldever Group Ltd.	Goodwill	¥1,348
	Assets earmarked for disposal (Akashi City, Hyogo Prefecture)	Property, plant and equipment	1,270
Industrial and Other Businesses	LAG	Goodwill Intangible assets	361 187
		Total	¥548

With regard to Micheldever Group Ltd., the Group wrote down the carrying amount of assets listed above to the recoverable value as the latter fell short of the former due to a rise in the WACC, the revision of the business plan and other factors. The amount of the decrease was recorded as other expenses in the consolidated statement of income. The recoverable value is 49,162 million yen and is calculated using the fair value (classified as "Level 3" within the fair value hierarchy). In this calculation, the Group uses a pre-tax WACC of 11.8% and a growth rate of 2.0% to estimate the continuing value beyond the period of the plan.

As part of assets earmarked for disposal in accordance with decisions made by the Board of Directors, the Management Meeting or other bodies, the carrying amount of the assets (Akashi City, Hyogo Prefecture) listed above was written down to the recoverable value in light of the recent decline in the market value of such asset groups. The recoverable value is calculated using the fair value (classified as “Level 3” within the fair value hierarchy) based on planned sales price and other factors. The amount of the decrease was recorded as other expenses in the consolidated statement of income.

As for LAG’s medical-grade rubber products business, the Group revised its business plan due to a delay in attaining profitability in tandem with a delay in the marketing plan. As a result, the Group determined that a longer period was required to recover the entire investment and wrote down the carrying amount of relevant assets to the recoverable value. The amount of the decrease was recorded as other expenses in the consolidated statement of income. The recoverable value is 11,122 million yen and is calculated using value in use. In this calculation, the Group uses a pre-tax WACC of 13.2% and a growth rate of 1.0% to estimate the continuing value beyond the period of the plan.

Fiscal Year Ended December 31, 2023

In the fiscal year ended December 31, 2023, the Group recorded an impairment loss of 11,399 million yen in other expenses in the consolidated statement of income. The main content of the impairment loss classified by asset type is as follows.

Millions of yen

Segment	Cash-Generating Unit	Type	Amount
Industrial and Other Businesses	LAG/LSI	Property, plant and equipment	¥8,124
		Other	3,179
		Total	¥11,303

As part of business restructuring, the Company transferred all shares it holds in subsidiary LAG to NCM Investments VII B.V., a subsidiary of private equity fund Nimbus Investment Fund V Coöperatief U.A. operated by Nimbus, an investment fund company headquartered in the Netherlands. The transfer was completed on January 31, 2024 after the resolution and conclusion of a share transfer agreement for the share transfer at the Board of Directors meeting held on December 20, 2023. As a result of this share transfer, LSI, a wholly owned subsidiary of LAG that manufactures medical rubber products in Slovenia, will also no longer be a subsidiary of the Company.

Accordingly, the carrying amount of the manufacturing equipment, etc. of LAG and LSI was written down to the recoverable value calculated using the fair value (classified as “Level 3” within the fair value hierarchy) based on the planned sale price and other factors. An impairment loss of 11,303 million yen was recorded in “Other expenses.”

12. Leases

(1) Profit and Loss Related to Right-of-Use Assets

Profit and loss related to right-of-use assets are as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Depreciation of right-of-use assets		
Land	¥490	**¥488**
Buildings and structures	11,586	**12,578**
Machinery, equipment and vehicles	2,334	**2,382**
Tools, furniture and fixtures	514	**473**
Software	74	**63**
Total depreciation	¥14,998	**¥15,984**
Interest paid related to lease liabilities	¥1,191	**¥1,599**
Expenses related to short-term leases	2,981	**2,560**
Expenses related to low-value-asset leases	456	**453**
Total lease expenses	¥19,626	**¥20,596**
Cash outflow related to leases	¥18,066	**¥21,459**

Please note that the Group does not have lease contracts with variable lease payments.

(2) Extension and Termination Options

Because each Group company bears responsibility for managing its own leases, the conditions of leases are negotiated separately and can differ greatly.

Extension and termination options are often included in leases related to the Group's real estate and facilities. These conditions are used to maximize flexibility in operation from the perspective of contract management.

Most options are extension options that span one year or the same period as the underlying contract or options for early termination following advanced written notification from one party of six months to one year.

These options are used as needed for the lease contract party to utilize real estate and facilities for business.

(3) Change in Right-of-Use Assets

Change in right-of-use assets is detailed in Note 9. “Property, Plant and Equipment” and Note 10. “Goodwill and Other Intangible Assets.”

(4) Breakdown of Carrying Amount of Right-of-Use Assets

A breakdown of the carrying amount of right-of-use assets is detailed in Note 9. “Property, Plant and Equipment” and Note 10. “Goodwill and Other Intangible Assets.”

(5) Analysis of Lease Liability Maturation Periods

An analysis of lease liability maturation periods is detailed in Note 19. “Financial Instruments (2) Financial Risk Management (ii) Liquidity Risk.”

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, 2022	As of Dec. 31, 2023
Carrying amount	¥4,462	**¥4,486**

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

Millions of yen

	Jan. 1 to Dec. 31, 2022	Jan. 1 to Dec. 31, 2023
The Group's share of profit	¥73	**¥27**
The Group's share of other comprehensive income	—	**—**
The Group's share of comprehensive income	¥73	**¥27**

14. Trade and Other Payables

The breakdown of trade and other payables is as follows.

Millions of yen

	As of Dec. 31, 2022	As of Dec. 31, 2023
Notes payable—trade	¥995	**¥796**
Electronically recorded monetary obligations	6,792	**8,188**
Accounts payable—trade	103,331	**101,169**
Accounts payable—other	49,386	**48,623**
Refund liabilities	15,647	**17,068**
Total	¥176,151	**¥175,844**

15. Bonds and Loans Payable

The breakdown of bonds and loans payable is as follows.

Millions of yen

	As of Dec. 31, 2022	As of Dec. 31, 2023	Average interest rate (%)	Maturity
Current liabilities				
Short-term loans payable	¥64,099	**¥26,212**	7.06	—
Bonds payable (maturities of 1 year or less)	—	**9,997**	—	
Long-term debt (maturities of 1 year or less)	36,796	**25,000**	0.23	—
Subtotal	100,895	**61,209**	—	—
Non-current liabilities				
Bonds payable (maturities of over 1 year)	34,868	**24,891**	—	2027–2032
Long-term debt (maturities of over 1 year)	176,039	**159,275**	0.47	2025–2032
Subtotal	210,907	**184,166**	—	—
Total	¥311,802	**¥245,375**	—	—

Notes: 1. Average interest rates are stated at the weighted average interest rates as of December 31, 2021, for the balance of loans outstanding.
2. The summary of issuance conditions for bonds payable is as follows.

Millions of yen

Company name	Series	Issuance	As of Dec. 31, 2022	As of Dec. 31, 2023	Interest rate (%)	Collateral	Maturity
Sumitomo Rubber Industries, Ltd.	24th series of unsecured bonds	Jun. 25, 2014	¥9,992	**¥9,997**	0.76	None	Jun. 25, 2024
Sumitomo Rubber Industries, Ltd.	25th series of unsecured bonds	Jun. 20, 2017	9,979	**9,983**	0.34	None	Jun. 18, 2027
Sumitomo Rubber Industries, Ltd.	26th series of unsecured bonds	Sep. 30, 2022	14,897	**14,908**	0.65	None	Sep. 30, 2032
Total			¥34,868	**¥34,888**	—		
Bonds payable with maturities of 1 year or less			¥—	**¥9,997**	—		
Bonds payable with maturities over 1 year			34,868	**24,891**	—		

16. Provisions

(1) Breakdown of Provisions

The breakdown of provisions is as follows.

Millions of yen

	As of Dec. 31, 2022	As of Dec. 31, 2023
Current liabilities		
Provision for loss on voluntary recall of products	¥866	**¥818**
Other	433	**1,417**
Total	¥1,299	**¥2,235**
Non-current liabilities		
Provision for loss on voluntary recall of products	¥231	**—**
Asset retirement obligation	1,418	**1,423**
Other	5	**8**
Total	¥1,654	**¥1,431**

(2) Changes in Provisions

The changes in provisions are as follows.

Millions of yen

Jan. 1 to Dec. 31, 2023

	Provision for loss on voluntary recall of products	Asset retirement obligation	Others	Total
Beginning balance	¥1,097	¥1,418	¥438	¥2,953
Increase during the year	345	27	1,194	1,566
Decrease resulting from settlement	(582)	(35)	(160)	(777)
Decrease due to reversal	(42)	—	(80)	(122)
Increase due to passage of time	—	10	—	10
Currency translation differences of foreign operations	—	3	33	36
Ending balance	¥818	¥1,423	¥1,425	¥3,666

Note: Descriptions of each item are presented in Note 3. "Material Accounting Policies" (13) "Provisions."

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 defined contribution plans. 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 a 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, 2022	As of Dec. 31, 2023
Present value of defined benefit obligation	¥113,803	**¥115,537**
Fair value of plan assets	(131,369)	**(145,984)**
Total	¥(17,566)	**¥(30,447)**
Value of assets and liabilities presented in consolidated statement of financial position		
Net defined benefit liabilities	¥21,333	**¥23,027**
Net defined benefit assets	38,899	**53,474**

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

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Service costs for the year	¥2,626	**¥3,530**
Net interest expense	(588)	**57**
Total	¥2,038	**¥3,587**

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

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Beginning balance	¥132,654	**¥113,803**
Service costs for the year	2,626	**3,530**
Interest expense	1,433	**3,723**
Remeasurements due to:		
Actuarial differences attributable to changes in demographic assumptions	(600)	**(24)**
Actuarial differences attributable to changes in financial assumptions	(21,268)	**1,135**
Actuarial differences attributable to adjustment of investment performance	(1,027)	**(179)**
Wages paid	(9,338)	**(8,259)**
Others	9,323	**1,808**
Ending balance	¥113,803	**¥115,537**

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

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Beginning balance	¥150,695	**¥131,369**
Interest income	2,021	**3,666**
Remeasurements due to:		
Income from plan assets (excluding interest income)	(24,685)	**13,758**
Contributions by employer	2,196	**2,157**
Benefits paid	(7,706)	**(6,523)**
Others	8,848	**1,557**
Ending balance	¥131,369	**¥145,984**

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

Millions of yen

	As of Dec. 31, 2022		**As of Dec. 31, 2023**	
	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	¥27,458	¥—	**¥37,993**	**¥—**
Overseas stocks	11,298	—	**13,446**	**—**
Domestic bonds	11,581	—	**11,535**	**—**
Overseas bonds	59,303	—	**60,200**	**—**
General account of life insurance	—	11,832	**—**	**11,908**
Others	8,545	1,352	**8,896**	**2,006**
Total	¥118,185	¥13,184	**¥132,070**	**¥13,914**

(vi) Primary actuarial assumptions are as follows.

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Discount rate	3.42%	**3.40%**

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.

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
0.25% increase in discount rate	¥(2,614)	**¥(2,602)**
0.25% decrease in discount rate	¥2,750	**¥2,716**

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 plans 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. Contributions in the fiscal year ending December 31, 2024 is estimated to be 1,970 million yen.

iii. The weighted-average duration of defined benefit obligation is 10.0 years and 9.8 years, respectively, for the fiscal years ended December 31, 2022 and 2023.

(3) Defined Contribution Plans

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

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Retirement benefit costs	¥1,840	**¥1,945**

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.

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Employee benefit costs	¥184,286	**¥192,979**

18. Income Taxes

(1) Deferred Taxes

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

Millions of yen

	As of Jan. 1, 2022	Adjustment due to application of IAS 12	As of Jan. 1, 2022 after adjustment	Recognized through profit or loss (Note)	Recognized through other comprehensive income	As of Dec. 31, 2022
Deferred tax assets						
Tax loss carryforwards	¥2,350	¥—	¥2,350	¥7,517	¥—	¥9,867
Financial liabilities measured at fair value through profit or loss	4,716	—	4,716	368	—	5,084
Financial liabilities measured at fair value through other comprehensive income	3	—	3	—	(3)	0
Inventories	5,811	—	5,811	2,254	—	8,065
Property, plant and equipment	5,883	11,825	17,708	1,686	—	19,394
Intangible assets	995	149	1,144	(257)	—	887
Net defined benefit liability	3,901	—	3,901	214	(515)	3,600
Accrued expenses, provisions and repaid liabilities	8,831	—	8,831	509	—	9,340
Other	3,216	—	3,216	(432)	116	2,900
Total deferred tax assets	¥35,706	¥11,974	¥47,680	¥11,859	¥(402)	¥59,137
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	¥(5,237)	¥—	¥(5,237)	¥—	¥200	¥(5,037)
Property, plant and equipment	(7,004)	(11,825)	(18,829)	(2,725)	—	(21,554)
Inventories	(880)	—	(880)	(661)	—	(1,541)
Intangible assets	(4,048)	(149)	(4,197)	(316)	—	(4,513)
Undistributed profit of overseas subsidiaries	(10,517)	—	(10,517)	574	—	(9,943)
Net defined benefit assets	(8,851)	—	(8,851)	(150)	1,132	(7,869)
Other	(621)	—	(621)	204	—	(417)
Total deferred tax liabilities	¥(37,158)	¥(11,974)	¥(49,132)	¥(3,074)	¥1,332	¥(50,874)
Net deferred tax assets (liabilities)	¥(1,452)	—	¥(1,452)	¥8,785	¥930	¥8,263

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

Millions of yen

	As of Jan. 1, 2023	Recognized through profit or loss (Note)	Recognized through other comprehensive income	As of Dec. 31, 2023
Deferred tax assets				
Tax loss carryforwards	**¥9,867**	**¥(4,037)**	**¥—**	**¥5,830**
Financial liabilities measured at fair value through profit or loss	**5,084**	**2,044**	**—**	**7,128**
Financial liabilities measured at fair value through other comprehensive income	**0**	**—**	**0**	**0**
Inventories	**8,065**	**5,318**	**—**	**13,383**
Property, plant and equipment	**19,394**	**1,483**	**—**	**20,877**
Intangible assets	**887**	**138**	**—**	**1,025**
Net defined benefit liability	**3,600**	**102**	**173**	**3,875**
Accrued expenses, provisions and repaid liabilities	**9,340**	**966**	**—**	**10,306**
Other	**2,900**	**872**	**(169)**	**3,603**
Total deferred tax assets	**¥59,137**	**¥6,886**	**¥4**	**¥66,027**
Deferred tax liabilities				
Financial assets measured at fair value through other comprehensive income	**¥(5,037)**	**¥—**	**¥129**	**¥(4,908)**
Property, plant and equipment	**(21,554)**	**(4,256)**	**—**	**(25,810)**
Inventories	**(1,541)**	**1,162**	**—**	**(379)**
Intangible assets	**(4,513)**	**(709)**	**—**	**(5,222)**
Undistributed profit of overseas subsidiaries	**(9,943)**	**(1,655)**	**—**	**(11,598)**
Net defined benefit assets	**(7,869)**	**80**	**(4,303)**	**(12,092)**
Other	**(417)**	**(446)**	**(17)**	**(880)**
Total deferred tax liabilities	**¥(50,874)**	**¥(5,824)**	**¥(4,191)**	**¥(60,889)**
Net deferred tax assets (liabilities)	**¥8,263**	**¥1,062**	**¥(4,187)**	**¥5,138**

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, 2022	**As of Dec. 31, 2023**
Tax loss carryforwards (Note)	¥38,603	**¥50,300**
Deductible temporary differences	14,737	**12,783**
Total	¥53,340	**¥63,083**

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, 2022	**As of Dec. 31, 2023**
1st year	¥960	**¥59**
2nd year	542	**1,214**
3rd year	1,898	**2,642**
4th year	3,910	**3,368**
5th year onwards	31,293	**43,017**
Total	¥38,603	**¥50,300**

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 66,912 million yen and 92,652 million yen as of December 31, 2022 and December 31, 2023, respectively.

(2) Income Tax Expenses

The breakdown of income tax expenses is as follows.

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Current tax expenses	¥17,767	**¥26,965**
Deferred tax expenses	(7,684)	**(2,726)**
Total	¥10,083	**¥24,239**

Current tax expenses include the benefits arising from previously unrecognized tax loss, tax credits and temporary differences of prior periods. The resulting declines in current tax expenses in the fiscal years ended December 31, 2022 and 2023 were 217 million yen and 683 million yen, respectively.

Deferred tax expenses include the benefits arising from previously unrecognized tax loss, tax credits and temporary differences of prior periods. In the fiscal years ended December 31, 2022 and December 31, 2023, these factors caused no such reduction in the amount of deferred tax expenses.

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

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Applicable tax rate	30.6%	**30.6%**
Adjustments		
Changes in unrecognized deferred tax assets	10.6%	**6.5%**
Foreign withholding taxes	12.4%	**3.1%**
Undistributed profit of overseas subsidiaries	(2.5%)	**2.6%**
Dividend income	2.1%	**1.4%**
Non-deductible expenses for tax purposes	1.5%	**0.5%**
Foreign taxes	4.4%	**—%**
Impairment loss on goodwill	1.4%	**—%**
Differences in tax rates applied to consolidated subsidiaries	(12.2%)	**(1.3%)**
Tax credits for research and development costs	—%	**(2.3%)**
Tax exemption for overseas subsidiaries	(4.0%)	**(3.4%)**
Other	0.4%	**0.9%**
Average effective tax rate	44.7%	**38.6%**

In Japan, a corporation tax corresponding to the global minimum tax was created under the fiscal year 2023 tax reform, and the tax reform act (“Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 3 of 2023) (hereinafter referred to as the “revised corporation tax act”) which includes related provisions, was enacted on March 28, 2023. The revised corporation tax act introduces the Income Inclusion Rule (IIR) among the BEPS global minimum tax rules, and from business years starting on or after January 1, 2025, the tax burden of subsidiaries of parent companies located in Japan will be levied as additional tax on the parent companies located in Japan up to the minimum tax rate (15%).

Our Group will be subject to additional taxation in the United Arab Emirates and other countries, but this will not have a significant impact on our consolidated financial statements.

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 a stable financial position as its basic capital 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”). For operating receivables and other receivables, the Group has a system in place to assess the ability of each counterpart to fulfill their payments on time and to promptly detect whether the financial position of a counterpart is deteriorating. The Group also mitigates credit risk from operating receivables by having marketing departments at each business division monitor the status of their key business partners on a regular basis, in line with in-house rules on credit management.

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, 2022

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	¥5,756	¥—	¥165,582	¥171,338
Due within 30 days	—	—	29,112	29,112
Due after 30 days but within 60 days	—	—	5,429	5,429
Due after 60 days but within 90 days	—	—	1,170	1,170
More than 90 days	—	—	4,765	4,765
Total	¥5,756	¥—	¥206,058	¥211,814

As of December 31, 2023

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	**¥7,762**	**¥—**	**¥185,865**	**¥193,627**
Due within 30 days	**—**	**—**	**17,566**	**17,566**
Due after 30 days but within 60 days	**—**	**—**	**2,044**	**2,044**
Due after 60 days but within 90 days	**—**	**—**	**1,510**	**1,510**
More than 90 days	**—**	**—**	**4,709**	**4,709**
Total	**¥7,762**	**¥—**	**¥211,694**	**¥219,456**

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, 2022

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	¥—	¥—	¥(2,466)	¥(2,466)
Increase	—	—	(724)	(724)
Decrease resulting from settlement	—	—	87	87
Decrease due to reversal	—	—	498	498
Other	—	—	(200)	(200)
Ending balance	¥—	¥—	¥(2,805)	¥(2,805)

January 1 to December 31, 2023

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	**¥—**	**¥—**	**¥(2,805)**	**¥(2,805)**
Increase	**—**	**—**	**(1,252)**	**(1,252)**
Decrease resulting from settlement	**—**	**—**	**76**	**76**
Decrease due to reversal	**—**	**—**	**540**	**540**
Other	**—**	**—**	**(45)**	**(45)**
Ending balance	**¥—**	**¥—**	**¥(3,486)**	**¥(3,486)**

(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 payable, 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 liabilities and derivative liabilities is as follows.

As of December 31, 2022

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	¥311,802	¥316,885	¥102,894	¥35,613	¥23,049	¥26,445	¥22,376	¥106,508
Lease obligations	60,958	65,220	14,869	10,787	8,535	6,478	5,094	19,457
Derivative liabilities	1,664	2,211	1,051	1,160	—	—	—	—
Total	¥374,424	¥384,316	¥118,814	¥47,560	¥31,584	¥32,923	¥27,470	¥125,965

As of December 31, 2023

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	**¥245,375**	**¥248,382**	**¥63,239**	**¥22,063**	**¥33,987**	**¥23,119**	**¥24,102**	**¥81,872**
Lease obligations	**65,557**	**71,561**	**15,504**	**11,952**	**9,280**	**7,124**	**5,408**	**22,293**
Derivative liabilities	**3,118**	**3,270**	**3,270**	**—**	**—**	**—**	**—**	**—**
Total	**¥314,050**	**¥323,213**	**¥82,013**	**¥34,015**	**¥43,267**	**¥30,243**	**¥29,510**	**¥104,165**

(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, foreign currency-denominated 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, 2022	**Jan. 1 to Dec. 31, 2023**
Income, net of tax		
U.S. dollar	¥36	**¥67**
Euro	94	**179**

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 any 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, 2022	**Jan. 1 to Dec. 31, 2023**
Income, net of tax	¥(688)	**¥(425)**

(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.

Furthermore, the fair value of unlisted stocks, etc. is primarily evaluated using the book value per share method, etc., and is classified as "Level 3" 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, 2022		**As of Dec. 31, 2023**	
	Carrying amount	Fairb value	**Carrying amount**	**Fair value**
Financial assets measured at fair value through profit or loss				
Derivatives	¥635	¥635	**¥445**	**¥445**
Loans	1,041	1,041	**1,041**	**1,041**
Other financial assets	—	—	**142**	**142**
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	24,685	24,685	**23,238**	**23,238**
Financial assets measured at amortized cost				
Cash and cash equivalents	73,846	73,846	**90,251**	**90,251**
Trade and other receivables	209,009	209,009	**215,970**	**215,970**
Other financial assets	13,131	13,131	**11,086**	**11,086**
Financial assets classified as hedging instruments				
Derivatives	1,761	1,761	**—**	**—**
Financial liabilities measured at fair value through profit or loss				
Derivatives	1,585	1,585	**3,105**	**3,105**
Financial liabilities measured at amortized cost				
Trade and other payables	176,151	176,151	**175,844**	**175,844**
Bonds and debts	311,802	307,595	**245,375**	**239,385**
Financial liabilities classified as hedging instruments				
Derivatives	¥79	¥79	**¥13**	**¥13**

Financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, and financial assets classified as hedging instruments are included in “Other financial assets” in the consolidated statement of financial position.

Financial liabilities measured at fair value through profit or loss and financial liabilities classified as hedging instruments are included in “Other financial liabilities” in the consolidated statement of financial position.

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.

i. Breakdown of stockholdings measured at fair value through other comprehensive income and their fair value

Millions of yen

	As of Dec. 31, 2022	**As of Dec. 31, 2023**
Marketable (Note 1)	¥22,450	**¥20,985**
Non-marketable (Note 2)	2,235	**2,253**

Note 1: Marketable stockholdings measured at fair value through other comprehensive income
The Group's main marketable stockholdings measured at fair value through other comprehensive income for each fiscal year are as follows:

As of December 31, 2022

Millions of yen

Name of stock	Fair value
Toyota Motor Corporation	¥5,793
Suzuki Motor Corporation	1,954
Hwa Fong Rubber Ind. Co., Ltd.	1,785
Autobacs Seven Co., Ltd.	1,372
Yellow Hat Ltd.	1,119

As of December 31, 2023

Millions of yen

Name of stock	Fair value
Toyota Motor Corporation	**¥8,280**
Hwa Fong Rubber Ind. Co., Ltd.	**1,931**
Autobacs Seven Co., Ltd.	**1,482**
Yellow Hat Ltd.	**1,101**
The Sumitomo Warehouse Co., Ltd.	**1,020**

Note 2: Non-marketable stockholdings measured at fair value through other comprehensive income
Non-marketable stockholdings are mainly venture companies that the Group has partnered with as part of the commercialization of sensing cores, and transportation companies that the Group has transactions with for transporting tires and selling tires for repair.

ii. Dividend income recognized from financial assets measured at fair value through other comprehensive income

Millions of yen

As of Dec. 31, 2022		**As of Dec. 31, 2023**	
Investments derecognized during the period	Investments held at the end of the reporting period	Investments derecognized during the period	Investments held at the end of the reporting period
¥16	¥834	**¥172**	**¥679**

iii. Financial assets measured at fair value through other comprehensive income disposed of during the period
The fair value at the time of sale, the cumulative amount of gain or loss, and the amount transferred to retained earnings of the financial assets measured at fair value through other comprehensive income that were disposed of during the period are as follows.

Millions of yen

As of Dec. 31, 2022		**As of Dec. 31, 2023**	
Fair value at time of sale	Cumulative gain (parentheses denotes loss)	Fair value at time of sale	Cumulative gain (parentheses denotes loss)
¥502	¥407	**¥7,118**	**¥5,461**

In addition, accumulated gains (losses) (after tax) transferred from other components of equity to retained earnings totaled 285 million yen and 3,794 million yen as of December 31, 2022 and 2023, 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: Quoted prices available for the same assets or liabilities in active markets
Level 2: Prices available for assets or liabilities based on directly or indirectly observable input, excluding quoted prices for those classified as Level 1
Level 3: Other input available for assets or liabilities without observable market data

As of December 31, 2022

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives	¥—	¥635	¥—	¥635
Loans	—	1,041	—	1,041
Other financial assets	—	—	—	—
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	22,450	—	2,235	24,685
Financial assets classified as hedging instruments				
Derivatives	—	1,761	—	1,761
Total assets	¥22,450	¥3,437	¥2,235	¥28,122
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	¥—	¥1,585	¥—	¥1,585
Financial liabilities classified as hedging instruments				
Derivatives	—	79	—	79
Total liabilities	¥—	¥1,664	¥—	¥1,664

As of December 31, 2023

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Derivatives	**¥—**	**¥445**	**¥—**	**¥445**
Loans	**—**	**1,041**	**—**	**1,041**
Other financial assets	**—**	**—**	**142**	**142**
Financial assets measured at fair value through other comprehensive income				
Equity equivalents	**20,985**	**—**	**2,253**	**23,238**
Financial assets classified as hedging instruments				
Derivatives	**—**	**—**	**—**	**—**
Total assets	**¥20,985**	**¥1,486**	**¥2,395**	**¥24,866**
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	**¥—**	**¥3,105**	**¥—**	**¥3,105**
Financial liabilities classified as hedging instruments				
Derivatives	**—**	**13**	**—**	**13**
Total liabilities	**¥—**	**¥3,118**	**¥—**	**¥3,118**

As of December 31, 2022 and December 31, 2023, the Group did not record significant changes arising from the purchase, sale, issuance or settlement of financial instruments classified as Level 3. No financial instruments have been transferred between levels during these periods. The fair value of financial instruments classified as Level 3 is measured by the specific department charged with determining valuation methods in accordance with valuation policies and procedures established for fair value measurements and authorized by personnel bearing proper responsibilities. Moreover, results of fair value measurements are reviewed by personnel in higher positions.

As for the measurement of the fair value of stock classified as Level 3, the Group may adopt alternative assumptions that can be considered rational instead of unobservable input. In such case, resulting changes in the fair value of such items are deemed insignificant.

(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, 2022 and December 31, 2023, derivatives designated as hedging instruments are as follows.

As of December 31, 2022

Millions of yen

	Notional amount of hedging instruments	Carrying amount of hedging instruments: Assets	Carrying amount of hedging instruments: Liabilities	Hedging instruments included in the consolidated statement of financial position as:
Cash flow hedges				
Foreign exchange and interest rate risks				
Interest rate and currency swaps	¥9,978	¥1,761	¥—	Other financial assets
Interest rate risk				
Interest rate swaps	¥16,000	¥—	¥79	Other financial liabilities

As of December 31, 2023

Millions of yen

	Notional amount of hedging instruments	Carrying amount of hedging instruments: Assets	Carrying amount of hedging instruments: Liabilities	Hedging instruments included in the consolidated statement of financial position as:
Cash flow hedges				
Interest rate risk				
Interest rate swaps	**¥6,000**	**¥—**	**¥13**	**Other financial liabilities**

(ii) Derivatives to Which Hedging Is Not Applied

As of December 31, 2022 and December 31, 2023, derivatives that have not been designated as hedging instruments are as follows.

Millions of yen

	As of Dec. 31, 2022		**As of Dec. 31, 2023**	
	Contract value (notional amount)	Fair value	Contract value (notional amount)	Fair value
Forward exchange contracts				
Sold				
USD	¥5,573	¥156	**¥6,737**	**¥195**
GBP	10,841	168	**13,561**	**74**
AUD	1,738	43	**2,259**	**(19)**
EUR	9,851	165	**4,965**	**7**
TRY	247	2	**173**	**4**
ZAR	3,397	22	**2,758**	**25**
CHF	1,749	21	**—**	**—**
CNY	1,968	41	**3,267**	**110**
Bought				
USD	9,688	(614)	**7,141**	**(264)**
CNY	14,290	(309)	**21,923**	**(165)**
Currency swaps				
JPY receipts/GBP payments	6,400	(45)	**7,227**	**(1,095)**
JPY receipts/CHF payments	2,875	(469)	**3,365**	**(1,006)**
JPY receipts/Euro payments	2,829	(131)	**3,142**	**(526)**
Total	¥71,446	¥(950)	**¥76,518**	**¥(2,660)**

20. Capital Stock and Other Equity Items

(1) Capital Stock—Authorized and Issued

	Authorized (Shares)	Issued (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
As of Jan. 1, 2022	800,000,000	263,043,057	¥42,658	¥39,715
Changes during the year	—	—	—	(10)
As of Dec. 31, 2022	800,000,000	263,043,057	¥42,658	¥39,705
Changes during the year	—	—	—	(3)
As of Dec. 31, 2023	**800,000,000**	**263,043,057**	**¥42,658**	**¥39,702**

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, 2022	47,604	¥85
Changes during the year (Note 1)	(12,763)	(24)
As of Dec. 31, 2022	34,841	¥61
Changes during the year (Note 2)	(9,576)	(18)
As of Dec. 31, 2023	**25,265**	**¥43**

Notes: 1. Changes during the year as of December 31, 2022 are attributable to an increase of 2,390 shares from the purchase of shareholdings of less than one unit, a decrease of 15,000 shares in treasury stock (disposed of in a form of restricted shares granted to directors as part of share-based compensation), and a decrease of 153 shares from the transfer of shareholdings of less than one unit.
2. Changes during the year as of December 31, 2023 are attributable to an increase of 2,468 shares from the purchase of shareholdings of less than one unit, a decrease of 12,000 shares in treasury stock (disposed of in a form of restricted shares granted to directors as part of share-based compensation), and a decrease of 44 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 meetings 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 said reserves reach 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.

(v) Other Components of Equity for Disposal Groups Classified as Held for Sale

Cumulative amount of income or expenses recognized in other comprehensive income for assets or disposal groups classified as held for sale in accordance with IFRS 5.

21. Other Comprehensive Income

A breakdown of other comprehensive income recognized in each fiscal year, including related adjustments resulting in reclassification to profit or loss and the tax effects of each component (including non-controlling interests), is as follows.

January 1 to December 31, 2022

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	¥(1,436)	¥—	¥(1,436)	¥197	¥(1,239)
Remeasurements of defined benefit plans	(1,870)	—	(1,870)	617	(1,253)
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	217	4	221	(67)	154
Currency translation differences of foreign operations	44,653	—	44,653	183	44,836
Other comprehensive income	¥41,564	¥4	¥41,568	¥930	¥42,498

January 1 to December 31, 2023

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	**¥3,812**	**¥—**	**¥3,812**	**¥129**	**¥3,941**
Remeasurements of defined benefit plans	**12,730**	**—**	**12,730**	**(4,130)**	**8,600**
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	**18**	**¥(62)**	**(44)**	**13**	**(31)**
Currency translation differences of foreign operations	**34,748**	**—**	**34,748**	**(199)**	**34,549**
Other comprehensive income	**¥51,308**	**¥(62)**	**¥51,246**	**¥(4,187)**	**¥47,059**

22. Sales Revenue

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

January 1 to December 31, 2022

Millions of yen

	Reportable segment			
	Tires	Sports	Industrial and Other Products	Total
Japan	¥246,647	¥40,818	¥25,835	¥313,300
North America	214,638	32,290	214	247,142
Europe	160,229	17,389	6,303	183,921
Asia	163,760	21,346	8,921	194,027
Others	154,667	4,754	853	160,274
Total	¥939,941	¥116,597	¥42,126	¥1,098,664

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

January 1 to December 31, 2023

Millions of yen

				Reportable segment
	Tires	Sports	Industrial and Other Products	Total
Japan	**¥275,837**	**¥43,354**	**¥28,203**	**¥347,394**
North America	**228,157**	**35,189**	**117**	**263,463**
Europe	**178,925**	**18,556**	**7,461**	**204,942**
Asia	**168,689**	**24,045**	**7,816**	**200,550**
Others	**154,773**	**5,503**	**774**	**161,050**
Total	**¥1,006,381**	**¥126,647**	**¥44,371**	**¥1,177,399**

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 (“Trade notes,” “Electronically recorded monetary claims” and “Accounts receivable”) originating mainly from contracts with customers. The value of outstanding contracts is included in Note 7. “Trade and Other Receivables.”
During the fiscal year ended December 31, 2021, the amount of profit recognized in connection with contracts classified as liabilities at the beginning of the fiscal year was insignificant. Also, the Company has not 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 engage in 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, 2022	**Jan. 1 to Dec. 31, 2023**
Advertising and sales promotion costs	¥29,202	**¥31,226**
Transportation, storage and packaging costs	49,099	**48,360**
Personnel costs	78,114	**82,198**
Others	74,844	**87,047**
Total	¥231,259	**¥248,831**

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, 2022	**Jan. 1 to Dec. 31, 2023**
Gain on sales of goods	¥1,058	**¥1,235**
Insurance income	470	**300**
Gains on sales of non-current assets	227	**437**
Others	1,338	**637**
Total	¥3,093	**¥2,609**

(2) Other Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Impairment loss	¥4,137	**¥11,399**
Loss on sales and retirement of non-current assets	1,941	**1,278**
Loss on voluntary recall of products	440	**345**
Others	3,550	**2,767**
Total	¥10,068	**¥15,789**

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, 2022	**Jan. 1 to Dec. 31, 2023**
Interest income		
Financial assets measured at amortized cost	¥2,057	**¥2,687**
Dividend income		
Financial assets measured at fair value through other comprehensive income	850	**851**
Foreign exchange gains	4,842	**—**
Gains on net monetary position	3,770	**8,395**
Total	¥11,519	**¥11,933**

(2) Financial Expenses

Millions of yen

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Interest expense		
Financial liabilities measured at amortized cost	¥1,929	**¥3,931**
Lease liabilities	1,191	**1,599**
Other	517	**887**
Foreign exchange losses	—	**4,962**
Losses on valuation of derivatives	404	**2,326**
Total	¥4,041	**¥13,705**

26. Earnings per Share

(1) Basic Earnings per Share

Basic earnings per share is as follows.

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Basic earnings per share (yen)	¥35.80	**¥140.86**

(2) Calculating Basic Earnings per Share

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

	Jan. 1 to Dec. 31, 2022	**Jan. 1 to Dec. 31, 2023**
Profit for the period attributable to owners of the parent (millions of yen)	¥9,415	**¥37,048**
Weighted average number of common shares outstanding during the period (thousands of shares)	263,005	**263,015**

Diluted earnings 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, 2022

Millions of yen

	Jan. 1, 2022	Fluctuations resulting in cash flows	Fluctuations not resulting in cash flows				Dec. 31, 2022
			New leases	Currency translation differences of foreign operations	Fluctuations from foreign exchange rates	Other	
Short-term borrowings	¥44,808	¥17,584	¥—	¥(1,416)	¥3,123	¥—	¥64,099
Long-term borrowings	173,876	37,138	—	(2,546)	3,037	1,330	212,835
Corporate bonds	19,961	15,000	—	—	—	(93)	34,868
Lease liabilities	58,139	(13,438)	14,524	1,764	—	(31)	60,958
Total	¥296,784	¥56,284	¥14,524	¥(2,198)	¥6,160	¥1,206	¥372,760

January 1 to December 31, 2023

Millions of yen

	Jan. 1, 2023	Fluctuations resulting in cash flows	Fluctuations not resulting in cash flows				**Dec. 31, 2023**
			New leases	Currency translation differences of foreign operations	Fluctuations from foreign exchange rates	Other	
Short-term borrowings	**¥64,099**	**¥(42,516)**	**¥—**	**¥(4,513)**	**¥9,142**	**¥—**	**¥26,212**
Long-term borrowings	**212,835**	**(28,068)**	**—**	**(3,409)**	**4,569**	**(1,652)**	**184,275**
Corporate bonds	**34,868**	**—**	**—**	**—**	**—**	**20**	**34,888**
Lease liabilities	**60,958**	**(16,847)**	**17,078**	**1,869**	**—**	**2,499**	**65,557**
Total	**¥372,760**	**¥(87,431)**	**¥17,078**	**¥(6,053)**	**¥13,711**	**¥867**	**¥310,932**

28. Dividends

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

January 1 to December 31, 2022

(1) Dividends paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 24, 2022 (GMOS)*	Common stock	7,890	Retained earnings	30.00	Dec. 31, 2021	Mar. 25, 2022
Aug. 8, 2022 (BOD)**	Common stock	5,260	Retained earnings	20.00	Jun. 30, 2022	Sep. 6, 2022

(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. 28, 2023 (GMOS)*	Common stock	3,945	Retained earnings	15.00	Dec. 31, 2022	Mar. 29, 2023

* General Meeting of Shareholders
**Board of Directors

January 1 to December 31, 2023

(1) Dividends paid

Resolution date	Type of stock	Total dividends paid (Millions of yen)	Resource	Dividends per share (Yen)	Record date	Effective from:
Mar. 28, 2023 (GMOS)*	Common stock	3,945	Retained earnings	15.00	Dec. 31, 2022	Mar. 29, 2023
Aug. 7, 2023 (BOD)**	Common stock	1,315	Retained earnings	5.00	Jun. 30, 2023	Sep. 5, 2023

(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. 28, 2024 (GMOS)*	Common stock	13,940	Retained earnings	53.00	Dec. 31, 2023	Mar. 29, 2024

* General Meeting of Shareholders
**Board of Directors

29. Main Subsidiaries

Information on Main Subsidiaries

The Group's main subsidiaries are as follows.

			As of Dec. 31, 2022		**As of Dec. 31, 2023**	
Name	Location	Main businesses	Voting right ratio (%)	Equity right ratio (%)	Voting right ratio (%)	Equity right ratio (%)
Dunlop Tire Hokkaido Ltd. (Note 2)	Japan	Tires	100.0	100.0	**100.0**	**100.0**
Dunlop Motorcycle Corporation (Note 2)	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 Marketing Co. Ltd.	Japan	Sports	100.0	100.0	**100.0**	**100.0**
Dunlop Golf Club Corp.	Japan	Sports	100.0	100.0	**100.0**	**100.0**
Sumigomu Sangyo Co., Ltd.	Japan	Industrial products	100.0	100.0	**100.0**	**100.0**
Dunlop Home Products Co., Ltd.	Japan	Industrial products	100.0	100.0	**100.0**	**100.0**
PT 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	100.0	100.0	**100.0**	**100.0**
Micheldever Group Ltd.	U.K.	Tires	100.0	100.0	**100.0**	**100.0**
SUMITOMO RUBBER SINGAPORE PTE. LTD.	Singapore	Tires	100.0	100.0	**100.0**	**100.0**
Srixon Sports Europe Ltd.	U.K.	Sports	100.0	100.0	**100.0**	**100.0**
Cleveland Golf Canada Corp.	Canada	Sports	100.0	100.0	**100.0**	**100.0**
Roger Cleveland Golf Company, Inc.	U.S.A.	Sports	100.0	100.0	**100.0**	**100.0**
Dunlop Srixon Sports Manufacturing (Thailand) Co., Ltd.	Thailand	Sports	100.0	100.0	**100.0**	**100.0**
Dunlop Sports Korea Co., Ltd.	South Korea	Sports	50.0	50.0	**50.0**	**50.0**
Dunlop International 1902 Limited	U.K.	Sports	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 (Note 3)	Switzerland	Industrial products	100.0	100.0	**100.0**	**100.0**
Lonstroff Medical Elastomer d.o.o. (Note 3)	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. From January 1, 2024, some functions of Dunlop Tire Hokkaido Ltd. and 10 other domestic tire sales subsidiaries, as well as Sumitomo Rubber Industries, Ltd.'s Domestic Replace Tire Sales HQ, have been integrated into Dunlop Tyre Japan, Ltd. through company reorganization.
3. As the Group will lose control of LAG and LSI, a wholly owned subsidiary of LAG, in the next fiscal year, the assets and liabilities of LAG and LSI were classified as disposal groups classified as held for sale as of December 31, 2023. The transfer of LAG's shares was completed on January 31, 2024, and as a result, LSI will no longer be a subsidiary of the Company. For details, please refer to Note 35 of the consolidated financial statements.

30. Related Parties

(1) Related Party Transactions

January 1 to December 31, 2022
Omitted. No significant transaction was undertaken, excepting transactions that were offset in the consolidated financial statements.

January 1 to December 31, 2023
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, 2022	**Jan. 1 to Dec. 31, 2023**
Fixed remuneration	¥458	**¥436**
Performance-based remuneration	93	**39**
Medium- to long-term incentives	17	**14**
Total	¥568	**¥489**

31. Contingent Liabilities

Improper Inspections of Marine Fenders
January 1 to December 31, 2022

It was discovered in the 130th business term that product inspection methods used for a portion of the Group's marine fenders (shock-absorbing rubber materials designed to protect vessels and piers from damage arising from collision at berthing) had deviated from industry guidelines. Also, data gleaned in the course of inspections was found to have been improperly modified. The Group established an emergency response committee to address these issues and confirmed the safety of similar products that were already shipped while providing customers and other stakeholders with briefings. Moreover, a special investigation committee, which includes external lawyers, was set up to carry out in-house investigations. A report was then submitted by the latter committee on November 5, 2021 regarding the root causes of the issues and measures aimed at preventing recurrences, with the Group publicizing this report on November 9, 2021. Depending on future developments in these issues, the Group's financial position and business results could be affected by, for example, the recording of compensation to be paid to customers and other losses. However, as the Group finds it difficult to reasonably estimate the monetary impact of these issues, its assessment of such impact has not been incorporated into the consolidated financial statements.

January 1 to December 31, 2023

It was discovered in the 130th business term that product inspection methods used for a portion of the Group's marine fenders (shock-absorbing rubber materials designed to protect vessels and piers from damage arising from collision at berthing) had deviated from industry guidelines. Also, data gleaned in the course of inspections was found to have been improperly modified. The Group established an emergency response committee to address these issues and confirmed the safety of similar products that were already shipped while providing customers and other stakeholders with briefings. Moreover, a special investigation committee, which includes external lawyers, was set up to carry out in-house investigations. A report was then submitted by the latter committee on November 5, 2021 regarding the root causes of the issues and measures aimed at preventing recurrences, with the Group publicizing this report on November 9, 2021. We are currently working on safety verification for the case and negotiating compensation methods with customers and other relevant parties. The estimated amount of compensation costs for some cases that meet the requirements of provisions has been included as provisions (provision for losses related to voluntary recall of products) in the fiscal year ended December 31, 2023, but depending on future developments, the Group's financial position and business results could be affected by, for example, the recording of additional losses such as those from compensation to be paid to customers and other relevant parties.

32. Commitment

Regarding the acquisition of property, plant and equipment, the Group's commitment for outlays amounted to 9,388 million yen and 7,948 million yen as of December 31, 2022 and December 31, 2023, respectively. Regarding the acquisition of intangible assets, the Group's commitment for outlays amounted to 1,349 million yen and 1,464 million yen as of December 31, 2022 and December 31, 2023, respectively.

33. Adjustment for Hyperinflation

Over the three years of the period ended December 31, 2022, the accumulated inflation ratio surpassed 100% in Turkey. Because of this, the Group has judged that its subsidiary based in the country, which uses Turkish lira as its functional currency, is now operating under a hyperinflationary economy. Accordingly, the Group has adjusted the financial statements prepared by said subsidiary for inclusion in the consolidated financial statements using a measurement unit deemed appropriate as of the end of the reporting period. This accounting treatment was implemented in accordance with requirements stipulated by IAS 29 "Financial

Reporting in Hyperinflationary Economies."

In the course of the aforementioned adjustment, the Group used a conversion coefficient calculated based on the national consumer price index announced by the Turkish Statistical Institute.

The consumer price index and conversion coefficient determined for the closure date of each fiscal period are as below.

Date	Consumer price index	Conversion coefficient
December 31,2013	229	812
December 31,2014	248	750
December 31,2015	270	690
December 31,2016	293	635
December 31,2017	327	568
December 31,2018	394	472
December 31,2019	441	422
December 31,2020	505	368
December 31,2021	687	271
December 31,2022	1,128	165
December 31,2023	1,859	100

For said subsidiary operating under a hyperinflationary economy, the Group adjusted property, plant and equipment and other non-currency items whose value is stated at the acquisition price, applying a conversion coefficient based on the acquisition date. On the other hand, the Group did not adjust currency and non-currency items whose value is stated at the present price as the value of these items are considered to be stated at the measurement unit as of the end of the reporting period.

The financial statements of the subsidiary are translated into Japanese yen based on the spot exchange rate at the fiscal year-end and included into consolidated financial statements.

As a result, the Group's business profit for the fiscal year ended December 31, 2023 decreased 2,145 million yen due to increases in depreciation and other items. At the same time, profit for the period attributable to owners of the parent increased 1,856 million yen thanks mainly to gains on net monetary position, while total assets as of December 31, 2023 grew 20,120 million yen.

34. Share-Based Compensation

(1) Overview of the share-based compensation system

In the fiscal year ended December 31, 2022, the Company introduced a share-based compensation that involves the granting of restricted shares, with the objective of providing directors (excluding outside directors) with incentives for sustainable improvement in corporate value. This move is also aimed at ensuring that directors and shareholders share the same value to a greater degree.

This compensation system provides recipients with monetary receivables and have them pay all such receivables as contributed assets so that the Company may issue or dispose of its common stock.

Under this system, restricted stock allotment agreements have been signed between the Company and recipients to enable the issuance or disposal of its common stock. Provisions stipulated by these agreements include the following clauses: (1) Recipients shall not transfer, arrange security interests for, or otherwise dispose of said stock until they finish their term of office or step aside from their positions for justifiable reasons, such as reaching retirement age. (2) If certain events occur, the Company shall acquire allotted common stock free of charge.

(2) Number of shares allotted during the period and their fair value

	Jan. 1 to Dec. 31, 2022	Jan. 1 to Dec. 31, 2023
Date of allotment	April 22, 2022	April 28, 2023
Number of shares allotted	15,000 shares	12,000 shares
Fair value per share as of the date of allotment	¥1,100	¥1,139

Note: The fair value of the allotted stock is calculated based on the closing price of Company stock announced at the Tokyo Stock Exchange a business day prior to the date of the relevant resolution being passed by the Board of Directors.

(3) The amount recognized as expenses in the consolidated financial statements

The amount of stock compensation expenses recognized by the Group totaled 17 million yen and 14 million yen as of December 31, 2022 and December 31, 2023, respectively. This amount is included in "Selling, general and administrative expenses."

35. Disposal Groups Classified as Held for Sale

As part of business restructuring, the Company transferred all shares it holds in subsidiary LAG to NCM Investments VII B.V., a subsidiary of private equity fund Nimbus Investment Fund V Coöperatief U.A. operated by Nimbus, an investment fund company headquartered in the Netherlands. The transfer was completed on January 31, 2024 after the resolution and conclusion of a share transfer agreement for the share transfer at the Board of Directors meeting held on December 20, 2023. As a result of this share transfer, LSI, a wholly owned subsidiary of LAG that manufactures medical rubber products in Slovenia, will also no longer be a subsidiary of the Company.

As the Group will lose control of LAG and LSI in the fiscal year ending December 31, 2024, the assets and liabilities of LAG and LSI were classified as disposal groups classified as held for sale as of December 31, 2023. The reportable segment to which the disposal groups classified as held for sale belongs is "Industrial and Other Products."

The breakdown of the disposal groups classified as held for sale is as follows.

Millions of yen

	As of Dec. 31, 2022	As of Dec. 31, 2023
Assets for disposal groups classified as held for sale		
Cash and cash equivalents	¥—	**¥933**
Trade and other receivables	—	**171**
Inventories	—	**589**
Other	—	**85**
Total assets	¥—	**¥1,778**
Liabilities for disposal groups classified as held for sale		
Trade and other payables	¥—	**¥633**
Deferred tax liabilities	—	**243**
Net defined benefit liabilities	—	**138**
Other	—	**524**
Total liabilities	¥—	**¥1,538**

The disposal groups classified as held for sale are measured using the fair value after the deduction of selling costs, given that the fair value after the deduction of selling costs is lower than the carrying amount. Furthermore, the fair value is determined based on the scheduled sale price in the stock transfer agreement. This fair value measurement is classified as "Level 3" fair value.

Accordingly, in the fiscal year ended December 31, 2023, a carrying amount of 11,303 million yen in manufacturing equipment owned by LAG and LSI was recorded as an impairment loss under "Other expenses" in the consolidated statement of income.

36. Subsequent Events

None.

(2) Other

Quarterly Information for the Fiscal Year under Review

Millions of yen

Cumulative Period	Q1	Q2	Q3	As of Dec. 31, 2023
Sales revenue	**¥276,761**	**¥561,161**	**¥850,702**	**¥1,177,399**
Quarterly income before tax adjustment	**8,899**	**18,918**	**46,458**	**62,745**
Quarterly income attributable to owners of the parent	**4,006**	**8,196**	**27,205**	**37,048**
Quarterly income per share (yen)	**¥15.23**	**¥31.16**	**¥103.43**	**¥140.86**

Accounting Period	Q1	Q2	Q3	Q4
Quarterly income per share (yen)	**¥15.23**	**¥15.93**	**¥72.27**	**¥37.43**