MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise noted, all figures are taken from the consolidated financial statements and notes. U.S. dollar figures have been translated solely for the convenience of readers outside Japan at the rate of ¥116.49 to $1, the prevailing exchange rate on December 31, 2016. Financial disclosures by the Bridgestone Corporation are in accordance with accounting principles generally accepted in Japan.

RESULTS OF OPERATIONS

Business environment

In fiscal 2016, the operating environment surrounding the Companies was as follows: the Japanese yen had been strong and an unclear situation continued due to the upsurge of uncertainty of the global economy while the Japanese domestic economy continued its gradual recovery. The U.S. economy continued its recovery supported by an increase in consumer spending. The outlook of the European economy has increased uncertainty. In Asia, the Chinese economic growth remained slow. Overall, overseas economies were gradually recovering but still weak while the political and economic situation remained unstable because of issues such as the United Kingdom leaving the European Union. In addition, tire demand for mining vehicles decreased due to lower commodity prices.

Net sales

Net sales decreased by 12%, or ¥453.2 billion ($3,891 million), to ¥3,337.0 billion ($28.6 billion), primarily due to yen appreciation. As a result, year-on-year declines in sales were recorded in both the tire segment and the diversified products segment.

The average yen/dollar exchange rate in fiscal 2016 was ¥109, compared with ¥121 in the previous fiscal year, while the average yen/euro exchange rate in fiscal 2016 was ¥120, compared with ¥134 in the previous fiscal year.

Operating income

Due in large part to yen appreciation, operating income decreased by 13%, or ¥67.7 billion ($581 million), to ¥449.5 billion ($3,859 million). As a result, the operating income margin edged down by 0.1 percentage point, from 13.6% to 13.5%.

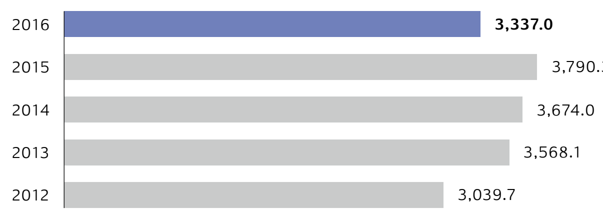
Operating Income Margin

2016	2015	2014	2013	2012
13.5	13.6	13.0	12.3	9.4

% of net sales

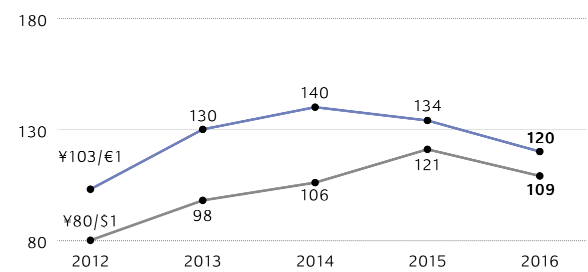
Net Sales

¥ billion



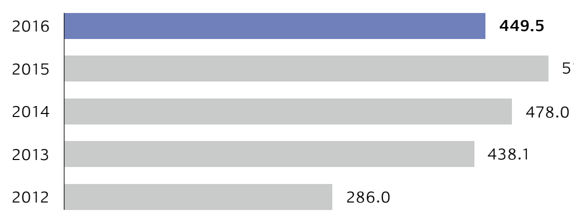
Currency Exchange Rates

Annual average rates



Operating Income

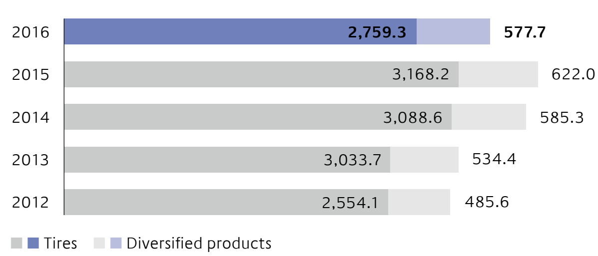
¥ billion



Sales of Tires and Diversified Products

Net of inter-segment transactions

¥ billion



Performance by business segment

The tire segment includes tires for passenger cars, trucks and buses, construction and mining vehicles, aircraft, and motorcycles, as well as tubes, wheels, related accessories, the retreading business, and automotive maintenance services. Including inter-segment transactions, the tire segment's sales in fiscal 2016 decreased by 13% from the previous fiscal year, to ¥2,765.8 billion ($23.7 billion). Operating income also decreased by 12%, to ¥414.7 billion ($3,560 million).

In the tire segment, the Companies introduced appealing new products globally and reinforced fundamental competencies while responding promptly to demand fluctuation in each region.

In Japan, tires for passenger cars and light trucks as well as tires for trucks and buses saw steady year-on-year growth in unit sales.

In the Americas, although unit sales of tires for passenger cars and light trucks grew steadily year on year in North America, unit sales of tires for trucks and buses declined year on year, reflecting lower sales of original equipment tires.

In Europe, unit sales of tires for passenger cars and light trucks grew favorably year on year, while unit sales of tires for trucks and buses increased steadily from the previous fiscal year.

In China and the Asia Pacific region, unit sales of tires for passenger cars and light trucks grew briskly year on year, and unit sales of tires for trucks and buses increased steadily from the previous fiscal year.

In the specialty tire business, sales of large and ultra-large off-the-road radial tires for construction and mining vehicles were approximately unchanged year on year.

The diversified products segment includes functional chemical products, a wide range of industrial items, sporting goods, and bicycles. Many of these products are made from rubber or rubber-derived materials.

In the diversified products segment, net sales totaled ¥585.7 billion ($5,028 million), a decrease of 8% from the previous fiscal year. Operating income declined by 22% from the previous fiscal year, to ¥34.8 billion ($299 million), due to lower earnings from the domestic business.

Composition of Sales by Business Segment

Net of inter-segment transactions

	2016	2015
		% of net sales
Tires	**82.7**	83.6
Diversified products	**17.3**	16.4
	100.0	100.0

Performance by market

In Japan, net sales totaled ¥653.5 billion ($5,610 million), a decrease of 1% from the previous fiscal year. In the Americas, net sales totaled ¥1,625.7 billion ($14.0 billion), a decrease of 15% from the previous fiscal year. In Europe, the Middle East and Africa, net sales totaled ¥494.3 billion ($4,244 million), a decrease of 12% from the previous fiscal year. In other regions, net sales totaled ¥563.4 billion ($4,837 million), a decline of 13% from the previous fiscal year.

Composition of Sales by Market

Net of inter-segment transactions

	2016	2015
		% of net sales
Japan	**19.6**	17.5
The Americas	**48.7**	50.6
Europe, the Middle East and Africa	**14.8**	14.8
Other	**16.9**	17.1
	100.0	100.0

Other income and expenses

The total of other income and other expenses equaled a loss of ¥28.0 billion ($240 million), compared with the corresponding loss of ¥39.1 billion in the previous fiscal year.

Net interest-related expenses increased by ¥866 million ($7 million), to ¥2,997 million ($26 million). In the previous fiscal year, gain on sales of investment securities and gain on sales of property, plant and equipment amounted to ¥20.8 billion, and loss on deconsolidation of subsidiaries and loss on disposals of property, plant and equipment amounted to ¥49.9 billion. In fiscal 2016, gain on sales of investment securities was ¥11.1 billion ($95 million). However, impairment loss was ¥4.4 billion ($38 million), and loss related to reorganization of R&D and manufacturing base was ¥17.6 billion ($152 million).

Income before income taxes and non-controlling interests decreased by ¥56.6 billion ($486 million), to ¥421.6 billion ($3,619 million).

Profit attributable to owners of parent

Profit attributable to owners of parent decreased by ¥18.7 billion ($161 million), to ¥265.6 billion ($2,280 million) from ¥284.3 billion in the previous fiscal year. Profit attributable to non-controlling interests decreased to ¥9.9 billion ($85 million). As a result, the net return on sales increased from 7.5% in the previous fiscal year to 8.0%.

Net Return on Sales

2016	2015	2014	2013	2012
				% of net sales
8.0	7.5	8.2	5.7	5.7

FINANCIAL CONDITION

Assets

Total current assets increased by 1%, or ¥11.4 billion ($98 million), compared with the previous fiscal year-end, to ¥1,820.0 billion ($15.6 billion).

This was mainly attributable to a net increase in cash and cash equivalents of ¥45.0 billion ($386 million) and a ¥17.2 billion ($147 million) contribution to total current assets arising from a reversal of allowance for doubtful accounts, which offset decreases of ¥33.6 billion ($289 million) in notes and accounts receivable, ¥9.0 billion ($77 million) in raw materials and supplies, and ¥10.0 billion ($86 million) in deferred tax assets.

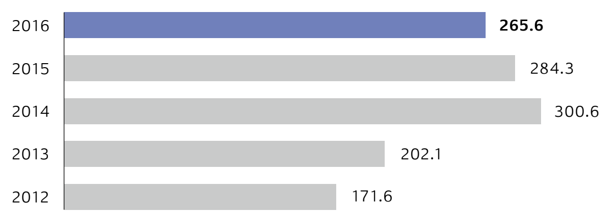
In property, plant and equipment and investments and other assets, although capital expenditure of ¥194.1 billion ($1,666 million) surpassed depreciation and amortization of ¥188.1 billion ($1,614 million), there were decreases of ¥43.4 billion ($373 million) in tangible and intangible fixed assets due to the influence of yen appreciation (compared with the spot rate on the final day of the previous fiscal year) on the conversion of foreign currency amounts into yen, and ¥35.6 billion ($305 million) in investments in securities and investments in and advances to affiliated companies.

Consequently, the total of property, plant and equipment and investments and other assets decreased by 4%, or ¥87.1 billion ($747 million), compared with the previous fiscal year-end, to ¥1,900.2 billion ($16.3 billion).

Total assets decreased by 2%, or ¥75.6 billion ($649 million), compared with the previous fiscal year-end, to ¥3,720.2 billion ($31.9 billion).

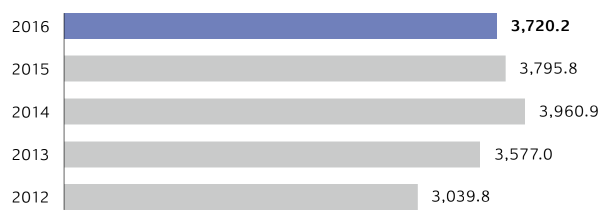
Profit Attributable to Owners of Parent

¥ billion



Total Assets

¥ billion



Note: Certain overseas subsidiaries applied IAS 19 "Employee Benefits" (amended on June 16, 2011). As this change in accounting policy is applied retrospectively, the amount of total assets for 2012 reflects the retrospective application.

Liabilities

In current liabilities, income taxes payable decreased by ¥27.8 billion ($239 million). However, there were increases of ¥18.7 billion ($160 million) in short-term borrowings and other interest-bearing debt, ¥13.6 billion ($117 million) in notes and accounts payable, and ¥4.2 billion ($36 million) in accounts payable–other. Consequently, total current liabilities increased by 2%, or ¥15.3 billion ($132 million), to ¥850.4 billion ($7,301 million).

In long-term liabilities, provision for reorganization of R&D and manufacturing base increased by ¥14.0 billion ($120 million). However, there were decreases of ¥117.5 billion ($1,008 million) in long-term borrowings and other interest-bearing debt and ¥45.1 billion ($387 million) in net defined benefit liability. Consequently, total long-term liabilities decreased by 23%, or ¥154.4 billion ($1,325 million), to ¥524.3 billion ($4,501 million).

Total interest-bearing debt, which is recorded in current liabilities and long-term liabilities, decreased by 22%, or ¥98.8 billion ($848 million), compared with the previous fiscal year-end, to ¥342.8 billion ($2,942 million).

Note: Interest-bearing debt includes short-term debt, commercial paper, bonds, long-term debt, and obligations under finance leases.

Equity

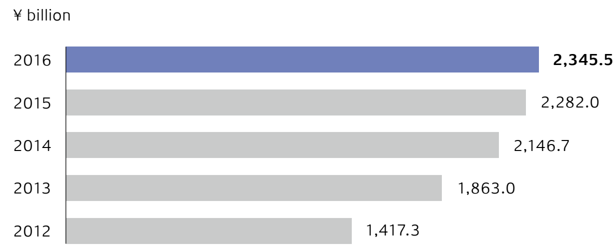
Total equity at December 31, 2016, amounted to ¥2,345.5 billion ($20.1 billion). This was 3%, or ¥63.4 billion ($545 million), higher than the previous fiscal year-end.

Cash dividends paid were ¥109.7 billion ($941 million), net unrealized gain on available-for-sale securities decreased by ¥18.1 billion ($156 million), and foreign currency translation adjustments decreased by ¥59.5 billion ($511 million). However, profit attributable to owners of parent was ¥265.6 billion ($2,280 million).

Consequently, total assets at the end of fiscal 2016 stood at ¥3,720.2 billion ($31.9 billion), decreased by 2%, or ¥75.6 billion ($649 million), from the previous fiscal year-end. Further, the ratio of shareholders' equity, excluding stock acquisition rights and non-controlling interests, to total assets at the end of fiscal 2016 was 61.4%, an increase of 3.2 percentage points from the previous fiscal year-end. The ratio of total debt to debt and shareholders' equity was 13.1% at December 31, 2016, compared with a ratio of 16.6% at the previous fiscal year-end.

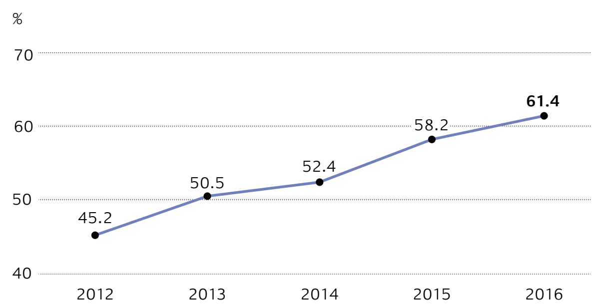
Net return on shareholders' equity (ROE) was 11.8%, a decrease of 1.5 percentage points compared with the previous fiscal year. Net return on total assets (ROA) was 7.1%, a decrease of 0.2 percentage point compared with the previous fiscal year.

Total Equity



Note: Certain overseas subsidiaries applied IAS 19 "Employee Benefits" (amended on June 16, 2011). As this change in accounting policy is applied retrospectively, the amount of total equity for 2012 reflects the retrospective application.

Ratio of Shareholders' Equity to Total Assets



ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries
Years ended December 31

	2016	2015	2014	2013
			Millions of yen, except per share data and financial ratios	
Net sales	**¥ 3,337,017**	¥ 3,790,251	¥ 3,673,965	¥ 3,568,091
Overseas sales	**2,683,488**	3,128,343	2,979,922	2,893,251
Tires (net sales of inter-segment transactions)	**2,759,275**	3,168,219	3,088,627	3,033,660
Diversified products (net sales of inter-segment transactions)	**577,742**	622,032	585,338	534,431
Operating income	**449,549**	517,248	478,038	438,132
Profit attributable to owners of parent	**265,551**	284,294	300,589	202,054
Total equity	**2,345,457**	2,282,012	2,146,658	1,862,964
Total assets	**3,720,237**	3,795,847	3,960,908	3,577,045
Ratio of shareholders' equity to total assets	**61.4**	58.2	52.4	50.5
Per share in yen:				
Net income				
Basic	**339.04**	362.99	383.84	258.10
Diluted	**338.52**	362.52	383.39	257.81
Shareholders' equity	**2,915.28**	2,820.48	2,650.47	2,305.64
Cash dividends	**140.00**	130.00	100.00	57.00
Capital expenditure	**194,111**	253,581	296,396	274,862
Depreciation and amortization	**188,062**	202,334	188,333	176,180
Research and development costs	**95,403**	94,978	94,147	89,098

*1 Solely for the convenience of readers, the Japanese yen amounts in this annual report are translated into U.S. dollars at the rate of ¥116.49 to $1, the approximate year-end rate.
*2 Due to the adoption of the new accounting standard for presentation of equity, non-controlling interests, stock acquisition rights and deferred gain (loss) on derivative instruments are included in equity from fiscal 2006.
*3 As described in Note 3. (16) "Application of IAS 19 'Employee Benefits' (amended on June 16, 2011)," certain overseas subsidiaries applied IAS 19 "Employee Benefits" (amended on June 16, 2011). As this change in accounting policy is applied retrospectively, the amount of total equity and total assets for 2012 reflect the retrospective application.

Net Return on Shareholders' Equity

2016	2015	2014	2013	2012
% of simple average of year-end shareholders' equity				
11.8	13.3	15.5	12.7	13.7

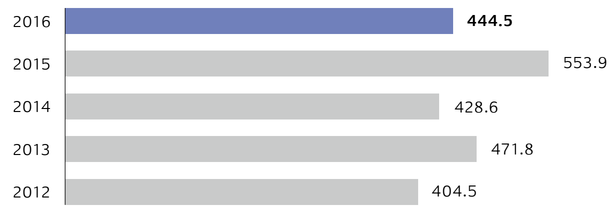
Net Return on Total Assets

2016	2015	2014	2013	2012
% of simple average of year-end total assets				
7.1	7.3	8.0	6.1	6.0

Cash Flow

Net cash provided by operating activities

¥ billion



Cash flow

Consolidated cash and cash equivalents increased by ¥45.0 billion ($386 million), to ¥471.7 billion ($4,050 million), compared with an increase of ¥36.5 billion during the previous fiscal year.

Net cash provided by operating activities was ¥444.5 billion ($3,816 million), a decrease of ¥109.4 billion ($939 million) from the previous fiscal year. Income taxes paid were ¥128.7 billion ($1,105 million), compared with ¥126.9 billion in the previous fiscal year. However, income before income taxes and non-controlling interests was ¥421.6 billion ($3,619 million), compared with ¥478.2 billion in the previous fiscal year, and depreciation and amortization totaled ¥188.1 billion ($1,614 million), compared with ¥202.3 billion in the previous fiscal year.

Net cash used in investing activities decreased by ¥55.1 billion ($473 million), compared with the previous fiscal year, to ¥178.3 billion ($1,530 million). Payments for purchase of tangible fixed assets were ¥186.8 billion ($1,604 million), compared with ¥255.2 billion during the previous fiscal year.

Net cash used in financing activities decreased by ¥22.4 billion ($192 million), compared with the previous fiscal year, to ¥216.4 billion ($1,858 million). Repayments of long-term borrowings were ¥68.4 billion ($587 million), compared with ¥97.4 billion in the previous fiscal year; payments for redemptions of bonds amounted to ¥30.0 billion ($258 million), compared with no payments for redemptions of bonds in the previous fiscal year; and cash dividends paid totaled ¥109.4 billion ($939 million), compared with ¥93.9 billion in the previous fiscal year.

2012	2011	2010	2009	2008	2007	2006
					Millions of yen, except per share data and financial ratios	
¥ 3,039,738	¥ 3,024,356	¥ 2,861,615	¥ 2,597,002	¥ 3,234,406	¥ 3,390,219	¥ 2,991,275
2,343,546	2,330,154	2,189,765	1,982,192	2,448,300	2,589,006	2,213,880
2,554,126	2,536,731	2,377,305	2,151,314	2,622,890	2,750,374	2,393,165
485,612	487,625	484,310	445,687	611,516	639,845	598,110
285,995	191,322	166,450	75,712	131,551	249,962	190,876
171,606	102,970	98,914	1,044	10,412	131,630	85,121
1,417,348	1,165,672	1,176,147	1,120,797	1,019,996	1,410,225	1,221,846
3,039,799	2,677,344	2,706,640	2,808,439	2,768,470	3,359,255	3,053,440
45.2	42.2	42.2	38.7	35.8	40.8	38.6
219.26	131.56	126.19	1.33	13.33	168.69	109.10
219.10	131.50	126.16	1.33	13.33	168.65	109.07
1,754.30	1,444.53	1,458.01	1,385.43	1,263.30	1,757.23	1,511.43
32.00	22.00	20.00	16.00	24.00	26.00	24.00
245,644	201,390	182,648	178,204	275,301	272,381	261,335
155,066	158,044	170,663	180,547	187,420	173,585	145,349
82,801	83,982	85,154	85,766	93,252	86,748	86,687

Capital financing and liquidity

In addition to borrowings from financial institutions, the Companies continue to seek to diversify sources of financing through direct financing such as domestic straight bonds, commercial paper, medium-term notes in overseas markets, and securitization of receivables and leases as well as to diversify risks and to minimize interest costs.

DIVIDEND

Comprising interim dividends of ¥70.0 ($0.60) and year-end dividends of ¥70.0 ($0.60) per share, annual dividends for fiscal 2016 totaled ¥140.0 ($1.20) per share.

PROJECTION FOR FISCAL 2017

In fiscal 2017, the Companies' operating environment will continue to require careful attention due to factors such as fluctuations in exchange rates and the prices of raw materials and feedstocks, an ongoing lack of clarity in the global economic situation, and international political conditions that remain unstable.

Amid such a challenging business environment, the Companies project the following results through the implementation of Mid-Term Management Plan initiatives.

Management forecasts consolidated net sales in fiscal 2017 of ¥3,630.0 billion, an increase of 9% from fiscal 2016. Management expects operating income to increase by 1%, to ¥452.0 billion, with profit attributable to owners of parent rising to ¥280.0 billion. Projected annual dividend in fiscal 2017 is ¥140 per share.

These performance forecasts are based on assumed average exchange rates of ¥110 against the dollar and ¥114 against the euro, compared with the full-year average rates recorded in fiscal 2016 of ¥109 and ¥120, respectively.

Capital Expenditure

¥ billion