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 ¥113.00 to $1, the prevailing exchange rate on December 31, 2017. Financial disclosures by the Bridgestone Corporation are in accordance with accounting principles generally accepted in Japan.

RESULTS OF OPERATIONS

Business environment

In fiscal 2017, the Companies' operating environment showed signs of gradual recovery in the domestic economy. However, due to the rising uncertainty of overseas economies, the future outlook is difficult to predict. The U.S. economy continued on a solid recovery path. The European economy continued to show gradual recovery but remained unstable as a result of the United Kingdom's decision to withdraw from the European Union (EU) and related issues. In Asia, the Chinese economic growth showed signs of recovery. Overall, many overseas economies showed gradual recovery in the midst of continued political and economic instability. In addition, tire demand in the mining industry increased along with rising commodity prices.

Net sales

Net sales increased by 9%, or ¥306.4 billion ($2,712 million), to ¥3,643.4 billion ($32.2 billion), primarily due to yen depreciation. As a result, year-on-year gains in sales were recorded in both the tire segment and the diversified products segment.

The average yen/dollar exchange rate in fiscal 2017 was ¥112, compared with ¥109 in the previous fiscal year, while the average yen/euro exchange rate in fiscal 2017 was ¥127, compared with ¥120 in the previous fiscal year.

Operating income

Due in large part to an increase in raw material costs, operating income decreased by 7%, or ¥30.5 billion ($270 million), to ¥419.0 billion ($3,708 million). As a result, the operating income margin edged down by 2.0 percentage points, from 13.5% to 11.5%.

Operating Income Margin

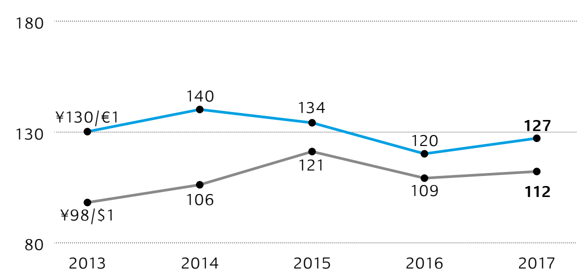
2017	2016	2015	2014	2013
				% of net sales
11.5	13.5	13.6	13.0	12.3

Net Sales

¥ billion

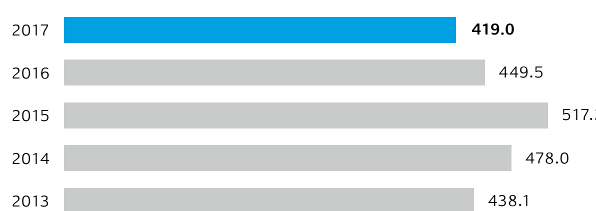
Currency Exchange Rates

Annual average rates



Operating Income

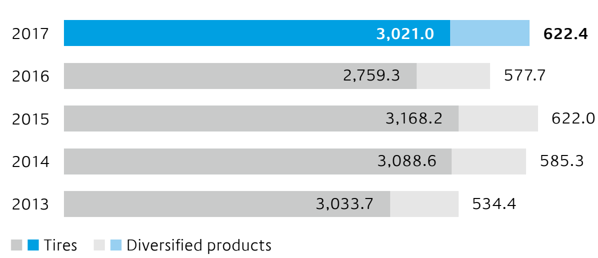
¥ billion



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 2017 increased by 10% from the previous fiscal year, to ¥3,031.2 billion ($26.8 billion). Operating income decreased by 7%, to ¥387.2 billion ($3,426 million).

In the tire segment, the Companies introduced appealing new products and services 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 fell year on year in North America, unit sales of tires for trucks and buses grew favorably year on year.

In Europe, unit sales of tires for passenger cars and light trucks, as well as unit sales of tires for trucks and buses, increased steadily year on 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 significantly 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 grew significantly 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 ¥627.8 billion ($5,556 million), an increase of 7% from the previous fiscal year. Operating income declined by 8% from the previous fiscal year, to ¥31.9 billion ($282 million), due to lower earnings from the domestic business.

Composition of Sales by Business Segment

Net of inter-segment transactions

	2017	2016
		% of net sales
Tires	82.9	82.7
Diversified products	17.1	17.3
	100.0	100.0

Performance by market

In Japan, net sales totaled ¥684.4 billion ($6,056 million), an increase of 5% from the previous fiscal year. In the Americas, net sales totaled ¥1,755.1 billion ($15.5 billion), an increase of 8% from the previous fiscal year. In Europe, Russia, the Middle East and Africa, net sales totaled ¥603.8 billion ($5,343 million), an increase of 13% from the previous fiscal year. In China, the rest of Asia and Oceania, net sales totaled ¥600.2 billion ($5,311 million), an increase of 14% from the previous fiscal year.

Composition of Sales by Market

Net of inter-segment transactions

	2017	2016
		% of net sales
Japan	18.7	19.6
The Americas	48.2	48.7
Europe, Russia, the Middle East and Africa	16.6	16.0
China, the rest of Asia and Oceania	16.5	15.7
	100.0	100.0

Other income and expenses

The total of other income and other expenses equaled a gain of ¥1.4 billion ($12 million), compared with a corresponding loss of ¥28.0 billion in the previous fiscal year.

Net interest-related expenses decreased by ¥961 million ($9 million), to ¥2,036 million ($18 million). In the previous fiscal year, gain on sales of investment securities was ¥11.1 billion. However, impairment loss was ¥4.4 billion, and loss related to reorganization of R&D and manufacturing base was ¥17.6 billion. In fiscal 2017, gain on sales of investment securities was ¥28.6 billion ($253 million) and gain on sales of shares of subsidiaries and associates was ¥10.6 billion ($94 million), while impairment loss was ¥10.1 billion ($90 million), expenses related to relocation of head office of Americas Operations was ¥4.7 billion ($42 million), and loss related to civil litigation in the Americas was ¥4.5 billion ($40 million).

Income before income taxes and non-controlling interests decreased by ¥1.2 billion ($10 million), to ¥420.4 billion ($3,721 million).

Profit attributable to owners of parent

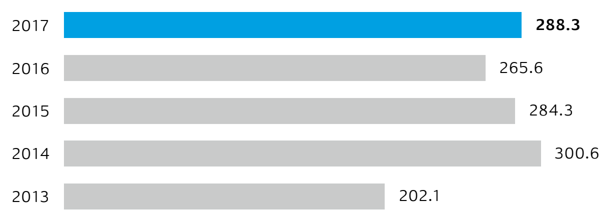
Profit attributable to owners of parent increased by ¥22.7 billion ($201 million), to ¥288.3 billion ($2,551 million), from ¥265.6 billion in the previous fiscal year. Profit attributable to non-controlling interests decreased to ¥9.1 billion ($81 million). As a result, the net return on sales decreased from 8.0% in the previous fiscal year to 7.9%.

Net Return on Sales

2017	2016	2015	2014	2013
				% of net sales
7.9	8.0	7.5	8.2	5.7

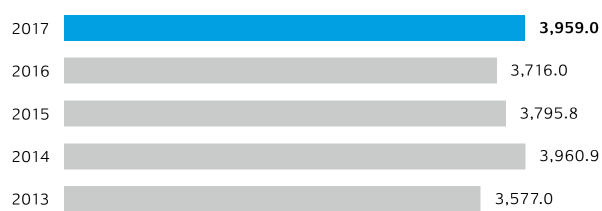
Profit Attributable to Owners of Parent

¥ billion



Total Assets

¥ billion



Note: BRIDGESTONE EUROPE NV/SA, a consolidated overseas subsidiary of the Company, has adopted International Financial Reporting Standards (IFRS) in its consolidated financial statements from fiscal 2017. The changes in accounting policy resulting from the adoption of IFRS are applied retrospectively, and therefore, total assets and other items for fiscal 2016 have been adjusted retrospectively.

FINANCIAL CONDITION

Assets

Total current assets increased by 9%, or ¥164.9 billion ($1,459 million), compared with the previous fiscal year-end, to ¥1,987.0 billion ($17.6 billion).

This was mainly attributable to increases in raw materials and supplies of ¥11.6 billion ($103 million), finished products of ¥19.8 billion ($176 million), notes and accounts receivable of ¥48.2 billion ($426 million), and cash and cash equivalents of ¥30.1 billion ($266 million), despite a decrease in deferred tax assets of ¥9.8 billion ($87 million).

In property, plant and equipment and investments and other assets, capital expenditures of ¥234.9 billion ($2,078 million) surpassed depreciation and amortization of ¥200.4 billion ($1,773 million), and investments in securities and investments in and advances to affiliated companies increased ¥15.2 billion ($134 million).

Consequently, the total of property, plant and equipment and investments and other assets increased by 4%, or ¥78.1 billion ($691 million), compared with the previous fiscal year-end, to ¥1,972.0 billion ($17.5 billion).

Total assets increased by 7%, or ¥243.0 billion ($2,151 million), compared with the previous fiscal year-end, to ¥3,959.0 billion ($35.0 billion).

Liabilities

In current liabilities, despite decreases of ¥17.0 billion ($150 million) in short-term borrowings and other interest-bearing debt, increases of ¥37.1 billion ($328 million) in notes and accounts payable and ¥43.7 billion ($387 million) in income taxes payable contributed to an increase in total current liabilities by 7%, or ¥60.7 billion ($537 million), to ¥910.5 billion ($8,058 million).

In long-term liabilities, increases of ¥133.2 billion ($1,179 million) in bonds and other interest-bearing debt contributed to total long-term liabilities increasing by 24%, or ¥125.5 billion ($1,110 million), to ¥645.8 billion ($5,715 million).

Total interest-bearing debt, which is recorded in current liabilities and long-term liabilities, increased by 34%, or ¥116.3 billion ($1,029 million), compared with the previous fiscal year-end, to ¥459.0 billion ($4,062 million).

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

Equity

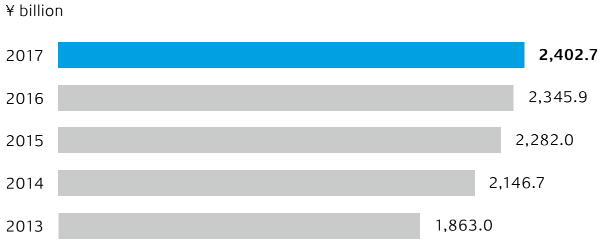
Total equity at December 31, 2017, amounted to ¥2,402.7 billion ($21.3 billion). This was 2%, or ¥56.8 billion ($503 million), higher than the previous fiscal year-end.

Cash dividends paid were ¥108.7 billion ($962 million) and purchase of treasury stock was ¥150.0 billion ($1,328 million)—both decreases. However, profit attributable to owners of parent increased to ¥288.3 billion ($2,551 million).

Consequently, total assets at the end of fiscal 2017 stood at ¥3,959.0 billion ($35.0 billion), increased by 7%, or ¥243.0 billion ($2,151 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 2017 was 59.2%, a decrease of 2.2 percentage points from the previous fiscal year-end. The ratio of total debt to debt and shareholders' equity was 16.4% at December 31, 2017, compared with a ratio of 13.0% at the previous fiscal year-end.

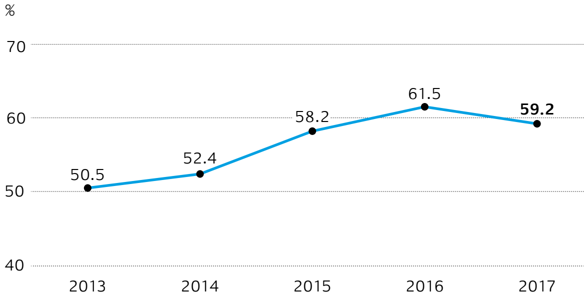
Net return on shareholders' equity (ROE) was 12.5%, an increase of 0.7 percentage point compared with the previous fiscal year. Net return on total assets (ROA) was 7.5%, an increase of 0.4 percentage point compared with the previous fiscal year.

Total Equity



Note: BRIDGESTONE EUROPE NV/SA, a consolidated overseas subsidiary of the Company, has adopted International Financial Reporting Standards (IFRS) in its consolidated financial statements from fiscal 2017. The changes in accounting policy resulting from the adoption of IFRS are applied retrospectively, and therefore, total assets and other items for fiscal 2016 have been adjusted retrospectively.

Ratio of Shareholders' Equity to Total Assets



ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries
Years ended December 31

	2017	2016	2015	2014
		Millions of yen, except per share data and financial ratios		
Net sales	3,643,428	¥ 3,337,017	¥ 3,790,251	¥ 3,673,965
Overseas sales	2,959,067	2,683,488	3,128,343	2,979,922
Tires (net sales of inter-segment transactions)	3,021,000	2,759,275	3,168,219	3,088,627
Diversified products (net sales of inter-segment transactions)	622,428	577,742	622,032	585,338
Operating income	419,047	449,549	517,248	478,038
Profit attributable to owners of parent	288,276	265,551	284,294	300,589
Total equity	2,402,739	2,345,900	2,282,012	2,146,658
Total assets	3,959,039	3,716,030	3,795,847	3,960,908
Ratio of shareholders' equity to total assets	59.2	61.5	58.2	52.4
Per share in yen:				
Net income				
Basic	375.67	339.04	362.99	383.84
Diluted	375.01	338.52	362.52	383.39
Shareholders' equity	3,115.69	2,915.85	2,820.48	2,650.47
Cash dividends	150.00	140.00	130.00	100.00
Capital expenditure	234,850	194,111	253,581	296,396
Depreciation and amortization	200,377	188,062	202,334	188,333
Research and development costs	99,792	95,403	94,978	94,147

Notes: 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 ¥113.00 to $1, the approximate year-end rate.
2. 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 fiscal 2012 reflects the retrospective application.

Net Return on Shareholders' Equity

2017	2016	2015	2014	2013
% of simple average of year-end shareholders' equity				
12.5	11.8	13.3	15.5	12.7

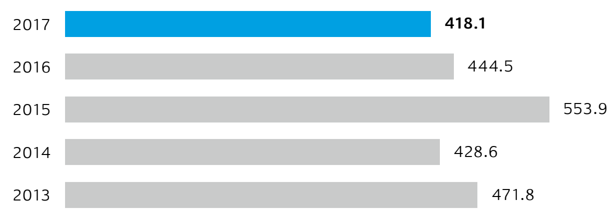
Net Return on Total Assets

2017	2016	2015	2014	2013
% of simple average of year-end total assets				
7.5	7.1	7.3	8.0	6.1

Cash Flow

Net cash provided by operating activities

¥ billion



Cash flow

Consolidated cash and cash equivalents increased by ¥30.1 billion ($266 million), to ¥501.8 billion ($4,441 million), compared with an increase of ¥45.0 billion during the previous fiscal year.

Net cash provided by operating activities was ¥418.1 billion ($3,700 million), a decrease of ¥26.4 billion ($234 million) from the previous fiscal year. Income taxes paid were ¥67.3 billion ($595 million), compared with ¥128.7 billion in the previous fiscal year. However, income before income taxes and non-controlling interests was ¥420.4 billion ($3,721 million), compared with ¥421.6 billion in the previous fiscal year, and depreciation and amortization totaled ¥200.4 billion ($1,773 million), compared with ¥188.1 billion in the previous fiscal year.

Net cash used in investing activities increased by ¥22.5 billion ($199 million), compared with the previous fiscal year, to ¥200.8 billion ($1,777 million). This was due to proceeds from sales of investments in securities of ¥31.8 billion ($282 million), compared with ¥14.4 billion in the previous fiscal year, despite payments for purchase of property, plant and equipment of ¥198.3 billion ($1,755 million), compared with ¥186.8 billion during the previous fiscal year.

Net cash used in financing activities decreased by ¥26.3 billion ($233 million), compared with the previous fiscal year, to

2013	2012	2011	2010	2009	2008	2007
						Millions of yen, except per share data and financial ratios
¥ 3,568,091	¥ 3,039,738	¥ 3,024,356	¥ 2,861,615	¥ 2,597,002	¥ 3,234,406	¥ 3,390,219
2,893,251	2,343,546	2,330,154	2,189,765	1,982,192	2,448,300	2,589,006
3,033,660	2,554,126	2,536,731	2,377,305	2,151,314	2,622,890	2,750,374
534,431	485,612	487,625	484,310	445,687	611,516	639,845
438,132	285,995	191,322	166,450	75,712	131,551	249,962
202,054	171,606	102,970	98,914	1,044	10,412	131,630
1,862,964	1,417,348	1,165,672	1,176,147	1,120,797	1,019,996	1,410,225
3,577,045	3,039,799	2,677,344	2,706,640	2,808,439	2,768,470	3,359,255
50.5	45.2	42.2	42.2	38.7	35.8	40.8
258.10	219.26	131.56	126.19	1.33	13.33	168.69
257.81	219.10	131.50	126.16	1.33	13.33	168.65
2,305.64	1,754.30	1,444.53	1,458.01	1,385.43	1,263.30	1,757.23
57.00	32.00	22.00	20.00	16.00	24.00	26.00
274,862	245,644	201,390	182,648	178,204	275,301	272,381
176,180	155,066	158,044	170,663	180,547	187,420	173,585
89,098	82,801	83,982	85,154	85,766	93,252	86,748

¥190.1 billion ($1,682 million). This was due to repayments of long-term borrowings of ¥131.8 billion ($1,167 million), compared with ¥68.4 billion in the previous fiscal year; ¥150.0 billion ($1,328 million) in purchase of treasury stock, compared with ¥4.0 million in the previous fiscal year; ¥108.7 billion ($962 million) in cash dividends paid, compared with ¥109.4 billion in the previous fiscal year; and ¥11.0 billion ($97 million) in cash dividends paid to non-controlling interests, compared with ¥19.3 billion in the previous fiscal year, despite a total of ¥25.6 billion ($227 million) net increase in short-term borrowings and commercial paper, compared with ¥8.2 billion decrease in the previous fiscal year; ¥37.2 billion ($329 million) in proceeds from long-term borrowings, compared with ¥19.5 billion in the previous fiscal year; and ¥150.0 billion ($1,327 million) in proceeds from issuance of bonds, compared with no proceeds from the previous fiscal year.

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 dividend of ¥70.0 ($0.62) and year-end dividend of ¥80.0 ($0.71) per share, the annual dividends for fiscal 2017 totaled ¥150.0 ($1.33) per share.

PROJECTION FOR FISCAL 2018

In fiscal 2018, 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 2018 of ¥3,800.0 billion, an increase of 4% from fiscal 2017. Management expects operating income to increase by 10%, to ¥463.0 billion, with profit attributable to owners of parent rising to ¥308.0 billion. Projected annual dividends in fiscal 2018 is ¥160 per share.

These performance forecasts are based on assumed average exchange rates of ¥108 against the dollar and ¥132 against the euro, compared with the full-year average rates recorded in fiscal 2017 of ¥112 and ¥127, respectively.

Capital Expenditure

¥ billion