NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Bridgestone Corporation and Subsidiaries

NOTE 1 NATURE OF OPERATIONS

Bridgestone Corporation and its subsidiaries (hereinafter referred to collectively as the "Companies") engage in developing, manufacturing and marketing tires and diversified products. The Companies market their products worldwide and operate manufacturing plants in every principal market. Development activities take place primarily in Japan, the United States of America (the "U.S.") and Europe.

Tire operations include retread business, automotive maintenance and repairs, retail business and raw material supplies, as well as tire development, manufacturing and marketing. Diversified products include industrial products, chemical products, automotive components, construction materials, electronic equipment, bicycles and sporting goods.

NOTE 2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS") and the accounting principles generally accepted in the U.S. ("U.S. GAAP").

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Bridgestone Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113.00 to $1, the approximate rate of exchange on December 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The consolidated financial statements include the accounts of the Companies in which the Company has effective control. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are also eliminated.

Investments in affiliated companies, primarily those owned 20% to 50%, are accounted for under the equity method with appropriate adjustments for intercompany profits and dividends. Share of profit of entities accounted for using the equity method is included in other income (expenses) in the consolidated statements of income.

The number of consolidated subsidiaries and affiliated companies for 2017 and 2016 is summarized below:

	2017	2016
Consolidated subsidiaries	288	294
Affiliated companies	147	148

(2) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No.18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or U.S. GAAP tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (i) amortization of goodwill; (ii) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (iii) expensing capitalized development costs of R&D; and (iv) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

(3) Unification of accounting policies applied to foreign affiliated companies for the equity method

In March 2008, the ASBJ issued ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments" which was subsequently revised in line with the revisions to PITF No. 18 above. The standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either IFRS or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (i) amortization of goodwill; (ii) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (iii) expensing capitalized development costs of R&D; and (iv) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

(4) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include highly liquid investments with original maturities of three months or less.

(5) Allowance for doubtful accounts

Allowance for doubtful accounts is established in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(6) Inventories

Inventories are substantially stated at the lower of cost, determined by the average method, or net selling value.

Meanwhile, inventories held by subsidiaries in the U.S. are substantially stated at the lower of cost, determined principally by the last-in, first-out method, or market value.

(7) Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Available–for–sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available–for–sale securities are stated at cost determined by the moving–average method. For other–than–temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(8) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment of the Company's overseas subsidiaries. Maintenance, repair and minor renewals are charged to income as incurred.

(9) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of an asset or asset group exceeds its recoverable amount, which is the higher of the discounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group, or the net selling price at disposition.

(10) Goodwill

Goodwill recorded by subsidiaries, and the excess of cost of the Company's investments in subsidiaries and affiliated companies over its equity at the respective dates of acquisition, are mainly being amortized on a straight-line basis over a reasonable economical life of up to 20 years.

(11) Provision for sales returns

Provision for sales returns is estimated and recorded principally to provide for future losses on the return of snow tires.

(12) Provision for product warranties

Provision for product warranties, included in other liabilities, is estimated and recorded at the time of sale to provide for future potential costs, such as costs related to after–sales services, in amounts considered to be appropriate based on the Companies' past experience.

(13) Provision for environmental remediation

In order to reserve for outlays legally required for removal and disposal of polychlorinated biphenyl ("PCB") and others, the estimated amount of future obligations is recorded.

(14) Provision for reorganization of R&D and manufacturing base

In order to reserve for outlays related to reorganization of R&D and manufacturing base, the estimated amount of future obligations is recorded.

(15) Retirement and pension plans

The Company and its domestic subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain of the Company's overseas subsidiaries have funded defined benefit pension plans and defined contribution pension plans.

The Company accounts for the liability of retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis or a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 3 years to 12 years, respectively, no longer than the expected average remaining service period of the employees.

Retirement allowances for directors are recorded as a liability at the amount that would be required if all directors retired at each balance sheet date.

(16) Asset retirement obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made.

Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(17) Leases

Finance (Capital) lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

(18) Income taxes

The provision for income taxes is computed based on income before income taxes included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are measured by applying currently enacted income tax rates to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets where it is considered more likely than not that they will not be realized.

The Company and its domestic subsidiaries applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended December 31, 2017.

(19) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign currency exchange gains and losses from translation are recognized in the consolidated statement of income.

(20) Foreign currency financial statements

The balance sheet accounts of the Company's overseas subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as foreign currency translation adjustments under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the Company's overseas subsidiaries are translated into Japanese yen at the average annual exchange rate.

(21) Derivatives and hedging activities

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Foreign currency forward contracts, currency swap contracts and currency option contracts are utilized by the Companies to reduce foreign currency exchange risks. Interest rate swaps are utilized by the Companies to reduce interest rate risks. Also, commodity swap contracts are utilized by the Companies to reduce commodity price risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (i) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (ii) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts which are designated as hedging exposure to variable cash flows of forecasted transactions are measured at fair value, and the unrealized gains or losses are deferred until the underlying transactions are completed. Other foreign currency forward contracts, currency swap contracts and currency option contracts employed to hedge foreign currency exchange exposures to changes in fair value and in cash flow are also measured at fair value but the unrealized gains or losses are recognized in income. Short-term and long-term debt denominated in foreign currencies for which foreign currency forward contracts and currency swap contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the foreign currency forward contracts and currency swap contracts qualify for hedge accounting. Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses. The gains or losses on commodity swap contracts used to hedge fluctuations of commodity prices are recognized currently in income.

(22) Per share of common stock

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common stock outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants and stock options.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(23) Reclassification

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

(24) Changes in presentation

Consolidated Balance Sheet

Prior to January 1, 2017, “Goodwill” was included in “Other assets” in the investments and other assets of the consolidated balance sheet. Since during this fiscal year ended December 31, 2017, the materiality of the amount increased, such amount was disclosed separately in the investments and other assets of the consolidated balance sheet. The amount included in “Other assets” for the year ended December 31, 2016 was ¥22,936 million.

Consolidated Statement of Cash Flows

Prior to January 1, 2017, “Amortization of goodwill” was included in “Other” in the cash flows from operating activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2017, the materiality of the amount increased, such amount was disclosed separately in the cash flows from operating activities section of the consolidated statement of cash flows. The amount included in “Other” for the year ended December 31, 2016 was ¥1,999 million.

Prior to January 1, 2017, “Increase (decrease) in allowance for doubtful accounts” and “Share of (profit) loss of entities accounted for using equity method” were disclosed separately in the cash flows from operating activities section of the consolidated statement. Since during this fiscal year ended December 31, 2017, the materiality of the amount decreased, such amount was included in “Other” in the cash flows from operating activities section of the consolidated statement of cash flows for the year ended December 31, 2017. The amount included in “Other” for the year ended December 31, 2016 was (¥13,613) million.

Prior to January 1, 2017, “Payments for purchase of investment in securities” was included in “Other” in the cash flows from investing activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2017, the materiality of the amount increased, such amount was disclosed separately in the cash flows from investing activities section of the consolidated statement of cash flows. The amount included in “Other” for the year ended December 31, 2016 was (¥1,289) million.

Prior to January 1, 2017, “Proceeds from collection of long-term loans receivable” was disclosed separately in the cash flows from investing activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2017, the materiality of the amount decreased, such amount was included in “Other” in the cash flows from investing activities section of the consolidated statement of cash flows for the year ended December 31, 2017. The amount included in “Other” for the year ended December 31, 2016 was ¥2,063 million.

Prior to January 1, 2017, “Purchase of treasury shares” was included in “Other” in the cash flows from financing activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2017, the materiality of the amount increased, such amount was disclosed separately in the cash flows from financing activities section of the consolidated statement of cash flows. The amount included in “Other” for the year ended December 31, 2016 was (¥4) million.

(25) Accounting Changes

Adoption of IFRS to Foreign Subsidiaries

BRIDGESTONE EUROPE NV/SA (BSEU) has adopted IFRS from fiscal 2017, formerly U.S. GAAP was used. In determining initial application of IFRS in BSEU, the Company comprehensively evaluated factors including accounting trends and the plan for voluntary application of IFRS at the Group level.

As BSEU applied IFRS retrospectively, the cumulative effect of the revision was reflected on the net assets at the beginning of fiscal 2016. The main changes were as follows: retained earnings at the beginning of the previous fiscal year decreased ¥7,281 million and foreign currency translation adjustments increased ¥7,668 million.

(26) New accounting pronouncements

Leases

On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS16 “Leases” and on February 25, 2016, the Financial Accounting Standards Board (FASB) issued ASU2016-02 “Leases” requiring recognition of substantially all lease assets and lease liabilities on the balance sheet.

Certain overseas subsidiaries which apply IFRS or U.S. GAAP expect to apply this accounting standard from the beginning of the annual period beginning on January 1, 2019, and are in the process of measuring the effects of applying the accounting standard in future applicable periods.

NOTE 4 INVENTORIES

Inventories at December 31, 2017 and 2016, consist of the following:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Finished products	¥397,253	¥377,413	$3,515,513
Work in process	36,788	35,470	325,558
Raw materials and supplies	156,143	144,527	1,381,796
Total	¥590,184	¥557,410	$5,222,867

NOTE 5 MARKETABLE AND INVESTMENT SECURITIES

Information regarding each category of available-for-sale securities at December 31, 2017 and 2016, is as follows:

	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
				2017				2016
								Millions of yen
Securities Classified as:								
Available-for-sale:								
Equity securities	¥29,998	¥228,010	¥(1)	¥258,007	¥33,098	¥214,787	¥—	¥247,885
				Thousands of U.S. dollars				
Securities Classified as:								
Available-for-sale:								
Equity securities	$265,469	$2,017,788	$(9)	$2,283,248				

In addition to the above, the Companies have available-for-sale securities classified as marketable securities under U.S. GAAP of ¥211,680 million ($1,873,275 thousand) and ¥157,697 million, respectively, for the years ended December 31, 2017 and 2016.

Available-for-sale securities whose fair values are not readily determinable at December 31, 2017 and 2016, are as follows:

	2017	2016	2017
Carrying amount		Millions of yen	Thousands of U.S. dollars
Available-for-sale:			
Equity securities	¥4,186	¥1,487	$37,044

Proceeds from sales of available-for-sale securities for the years ended December 31, 2017 and 2016, are ¥31,832 million ($281,699 thousand) and ¥14,430 million, respectively. Gross realized gains on these sales, for the years ended December 31, 2017 and 2016, computed on the moving average cost basis, are ¥28,595 million ($253,053 thousand) and ¥11,118 million, respectively.

The information of available-for-sale securities which were sold during the year ended December 31, 2017 is as follows:

	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
						2017
			Millions of yen			Thousands of U.S. dollars
Securities Classified as:						
Available-for-sale:						
Equity securities	¥31,832	¥28,595	¥—	$281,699	$253,053	$—

NOTE 6 SHORT-TERM AND LONG-TERM DEBT

Short-term debt at December 31, 2017 and 2016, consists of the following:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Short-term bank loans, weighted average interest rate of 5.0% at December 31, 2017, and 4.0% at December 31, 2016	¥82,318	¥55,086	$728,478
Total	¥82,318	¥55,086	$728,478

Long-term debt at December 31, 2017 and 2016, consists of the following:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Borrowings from banks, insurance companies and others, weighted average interest rate of 3.0% at December 31, 2017, and 1.9% at December 31, 2016, denominated mainly in Japanese yen, U.S. dollars and Euros:			
Secured	¥ —	¥ 75	$ —
Unsecured	94,017	189,976	832,009
0.3% yen unsecured straight bonds, due 2018	20,000	20,000	176,991
0.2% yen unsecured straight bonds, due 2019	70,000	70,000	619,469
0.1% yen unsecured straight bonds, due 2022	40,000	—	353,982
0.2% yen unsecured straight bonds, due 2024	50,000	—	442,478
0.3% yen unsecured straight bonds, due 2027	60,000	—	530,973
Obligations under finance leases	42,694	7,633	377,823
Total	376,711	287,684	3,333,725
Less current portion	(76,406)	(120,610)	(676,159)
Long-term Debt, Less Current Portion	¥300,305	¥ 167,074	$2,657,566

Annual maturities of long-term debt at December 31, 2017, are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 76,406	$ 676,159
2019	95,699	846,894
2020	4,234	37,469
2021	1,563	13,832
2022	64,366	569,610
2023 and thereafter	134,443	1,189,761
Total	¥376,711	$3,333,725

Notes and accounts receivable and property, plant and equipment were pledged as collateral for certain bank loans. The aggregate carrying amount of the assets pledged as collateral for short-term bank loans of ¥18 million ($159 thousand) and long-term bank loans of ¥0 ($0) at December 31, 2017, is ¥513 million ($4,540 thousand).

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

Effective January 2018, Bridgestone Americas, Inc. ("BSAM") and its major subsidiaries in the U.S. entered into separate sixteenth amended and restated revolving credit agreements with a syndicate of banks providing an aggregate borrowing commitment of $1,100 million. The revolving credit agreement consists of two tranches, each of which has an aggregate borrowing commitment of $550 million, and expire in January 2019 and January 2020, respectively. These agreements contain certain customary affirmative and negative covenants, the most restrictive of which includes (i) the maintenance by BSAM and its major subsidiaries of their consolidated tangible net worth, (ii) restrictions on entering into additional debt arrangements and (iii) restrictions related to the sale of assets. The above agreements replaced the separate fifteenth amended and restated revolving credit agreements, whose expiration dates are January 2018 and January 2019. As of December 31, 2017, BSAM's outstanding balance under the fifteenth amended and restated revolving credit agreement was $0.

NOTE 7 RETIREMENT AND PENSION PLANS

Employees serving with the Company and its domestic subsidiaries are generally entitled to a lump-sum payment at retirement and, in certain cases, annuity payments at retirement, provided by funded defined benefit pension plans based on the rate of pay at the time of termination, years of service and certain other factors. There are defined contribution pension plans available for the employees as well provided by the Company and certain of its domestic subsidiaries.

Employees serving with certain of the Company's overseas subsidiaries are entitled to either (1) funded defined benefit pension plans, corporate pension plans, lump-sum payment plans and others, or (2) defined contribution pension plans. There are escalated payment plans for voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥783,746	¥767,653	$6,935,805
Service cost	19,865	18,588	175,796
Interest cost	18,682	18,994	165,327
Actuarial (gains) losses	35,763	39,122	316,487
Benefits paid	(43,922)	(41,991)	(388,690)
Effect of foreign exchange translation	(13,345)	(18,580)	(118,097)
Others	(3,773)	(40)	(33,389)
Balance at end of year	¥797,016	¥783,746	$7,053,239

Service cost includes net periodic benefit costs of certain subsidiaries that have adopted a simplified method.

(2) The changes in plan assets for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥632,618	¥587,419	$5,598,389
Expected return on plan assets	30,379	28,905	268,841
Actuarial (losses) gains	24,332	(258)	215,327
Contributions from the employer	20,859	63,135	184,602
Benefits paid	(40,504)	(36,719)	(358,442)
Effect of foreign exchange translation	(11,958)	(9,977)	(105,823)
Others	292	113	2,575
Balance at end of year	¥656,018	¥632,618	$5,805,469

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets, is as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Funded defined benefit obligation	¥ 706,400	¥ 698,389	$ 6,251,327
Plan assets	(656,018)	(632,618)	(5,805,469)
	50,382	65,771	445,858
Unfunded defined benefit obligation	90,616	85,357	801,912
Net liability arising from defined benefit obligation	140,998	151,128	1,247,770
Net defined benefit liability	137,266	146,997	1,214,743
Net defined benefit asset	(1,346)	(2,039)	(11,912)
Others	5,078	6,170	44,939
Net liability arising from defined benefit obligation	¥ 140,998	¥ 151,128	$ 1,247,770

In addition to liability for retirement benefits noted above, a liability for post-retirement benefits of ¥65,598 million ($580,514 thousand) and ¥68,075 million is included in the consolidated balance sheet at December 31, 2017 and 2016, respectively.

(4) The components of net periodic benefit costs for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Service cost	¥ 19,865	¥ 18,588	$ 175,796
Interest cost	18,682	18,994	165,327
Expected return on plan assets	(30,379)	(28,905)	(268,841)
Amortization of prior service cost	23,143	17,282	204,807
Recognized actuarial (gains) losses	256	539	2,265
Net periodic benefit costs	¥ 31,567	¥ 26,498	$ 279,354

Service cost includes net periodic benefit costs of certain subsidiaries that have adopted a simplified method.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Prior service cost	¥ 1,142	¥ 1,157	$ 10,106
Actuarial (gains) losses	17,643	(12,512)	156,133
Others	1	1	9
Total	¥18,786	¥(11,354)	$166,248

In addition to accumulated other comprehensive income on defined retirement benefit plans noted above, accumulated other comprehensive income for post-retirement benefits of a debit of ¥2,995 million ($26,504 thousand) and a credit of ¥9,125 million at certain overseas subsidiaries in the Americas is included in the consolidated statement of comprehensive income at December 31, 2017 and 2016, respectively.

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Unrecognized prior service cost	¥ (594)	¥ (1,735)	$ (5,257)
Unrecognized actuarial (gains) losses	(194,635)	(212,279)	(1,722,433)
Others	—	(1)	—
Total	¥(195,229)	¥(214,015)	$(1,727,690)

In addition to accumulated other comprehensive income on defined retirement benefit plans noted above, accumulated other comprehensive income for post-retirement benefits of a credit of ¥2,716 million ($24,035 thousand) and a credit of ¥5,711 million at certain overseas subsidiaries in the Americas is included in the consolidated balance sheet at December 31, 2017 and 2016, respectively.

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	2017	2016
		%
Debt investments	61%	50%
Equity investments	15	23
Cash and cash equivalents	6	3
Others	18	24
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended December 31, 2017 and 2016, are set forth as follows:

	2017	2016
		%
The Company and its domestic subsidiaries		
Discount rate	0.7% to 0.9%	0.7% to 0.9%
Expected long–term rate of return on plan assets	2.5%	2.5%
Overseas subsidiaries		
Discount rate	3.3% to 3.7%	3.5% to 4.1%
Expected long–term rate of return on plan assets	4.3% to 6.0%	5.0% to 6.5%

(9) Defined contribution pension plans

The Company and certain of its domestic and overseas subsidiaries paid costs for defined contribution pension plans of ¥10,252 million ($90,726 thousand) and ¥9,318 million, respectively, for the years ended December 31, 2017 and 2016.

NOTE 8 EQUITY

Significant provisions in the Companies Act of Japan (the "Act") that affect financial and accounting matters are summarized below:

(i) Dividends:

The Act allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year–end dividend upon resolution at the shareholders' meeting. Additionally, for Japanese companies that meet certain criteria including having a Board of Directors, having independent auditors, having an Audit & Supervisory Board, and the term of service of the directors being prescribed as one year rather than the normal two–year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with board committees (including appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Act, even though such companies have an audit committee instead of an Audit & Supervisory Board. The Company is organized as a company with board committees. The Act permits Japanese companies to distribute dividends in kind (noncash assets) to shareholders subject to certain limitations and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Act continues to provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of equity after dividends must be maintained at no less than ¥3 million.

(ii) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus:

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(iii) Treasury Stock and Treasury Stock Acquisition Rights:

The Act also provides for Japanese companies to repurchase/dispose of treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Act, stock acquisition rights are presented as a separate component of equity. The Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

(iv) The cancellation of Treasury Stock pursuant:

The Company, as resolved at the Board of Directors meeting held on February 17, 2017, it completed the cancellation of Treasury Stock pursuant to Article 178 of the Companies Act on January 19, 2018.

(1) Book value if shares cancelled : ¥173,126 million ($1,532 million)
(2) Kind of shares cancelled : Common shares of the Company
(3) Total number of shares cancelled : 51,565,900 shares of Treasury Stock of the Company

NOTE 9 STOCK-BASED COMPENSATION

The stock options outstanding as of December 31, 2017 are as follows:

Date of approval	Persons granted		Number of options granted (Thousands of shares)	Date of grant	Exercise price	Exercise period
March 26, 2009 at the general shareholders meeting and the board of directors	Directors	9	110	May 1, 2009	¥1 ($0.01)	from May 1, 2009 to April 30, 2029
	Corporate officers not doubling as directors	20				
March 30, 2010 at the general shareholders meeting and the board of directors	Directors	8	118.5	May 6, 2010	¥1 ($0.01)	from May 6, 2010 to April 30, 2030
	Corporate officers not doubling as directors	25				
March 29, 2011 at the general shareholders meeting and the board of directors	Directors	9	154.5	May 2, 2011	¥1 ($0.01)	from May 2, 2011 to April 30, 2031
	Corporate officers not doubling as directors	36				
March 27, 2012 at the general shareholders meeting and the board of directors	Directors	9	202	May 1, 2012	¥1 ($0.01)	from May 1, 2012 to April 30, 2032
	Corporate officers not doubling as directors	35				
March 26, 2013 at the general shareholders meeting and the board of directors	Directors	4	196	May 1, 2013	¥1 ($0.01)	from May 1, 2013 to April 30, 2033
	Corporate officers not doubling as directors	36				
March 25, 2014 at the general shareholders meeting and the board of directors	Directors	4	131.9	May 1, 2014	¥1 ($0.01)	from May 1, 2014 to April 30, 2034
	Corporate officers not doubling as directors	46				
March 24, 2015 at the general shareholders meeting and the board of directors	Directors	3	142.5	May 1, 2015	¥1 ($ 0.01)	from May 1, 2015 to April 30, 2035
	Corporate officers not doubling as directors	48				
April 21, 2016 at the board of directors	Directors excluding directors not doubling as executive officers	2	208.8	May 6, 2016	¥1 ($ 0.01)	from May 7, 2016 to May 6, 2036
	Executive officers not doubling as directors	8				
	Corporate officers	41				
Plan A April 27, 2017 at the board of directors	Directors excluding directors not doubling as executive officers	2	206.5	May 12, 2017	¥1 ($ 0.01)	from May 13, 2017 to May 12, 2037
	Executive officers not doubling as directors	5				
	Corporate officers	45				
Plan B April 27, 2017 at the board of directors	Executive officers not doubling as directors	1	14.3	July 5, 2017	¥1 ($ 0.01)	from July 6, 2017 to July 5, 2037
	Corporate officers	2				

The stock option activity is as follows:

	March 26, 2009	March 30, 2010	March 29, 2011	March 27, 2012	March 26, 2013	March 25, 2014	March 24, 2015	April 21, 2016	Plan A April 27, 2017	Plan B April 27, 2017
Non-vested (Thousands of shares)										
Outstanding at December 31, 2016	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	206.5	14.3
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	206.5	14.3
Outstanding at December 31, 2017	—	—	—	—	—	—	—	—	—	—
Vested (Thousands of shares)										
Outstanding at December 31, 2016	57.7	99.4	147	193.8	192.3	130.3	141.2	199.1	—	—
Vested	—	—	—	—	—	—	—	—	206.5	14.3
Exercised	5	—	8.5	7.1	6	3.9	3.9	3.3	—	—
Expired	—	—	—	—	—	—	—	—	11.5	1.8
Outstanding at December 31, 2017	52.7	99.4	138.5	186.7	186.3	126.4	137.3	195.8	195	12.5
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥4,978 ($44.05)	—	¥4,726 ($41.82)	¥4,847 ($42.89)	¥4,923 ($43.57)	¥4,824 ($42.69)	¥4,923 ($43.57)	¥5,343 ($47.28)	—	—
Fair value price at grant date	¥1,264 ($11.19)	¥1,400 ($12.39)	¥1,656 ($14.65)	¥1,648 ($14.58)	¥3,313 ($29.32)	¥3,153 ($27.90)	¥4,099 ($36.27)	¥2,884 ($25.52)	¥3,577 ($31.65)	¥3,671 ($32.49)

The fair value price is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Plan A April 27, 2017	Plan B April 27, 2017
Volatility of stock price	34.066%	34.026%
Estimated remaining outstanding period	10 years	10 years
Estimated dividend per share	¥140 ($1.24)	¥140 ($1.24)
Risk-free interest rate	0.055%	0.080%

NOTE 10 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2017 and 2016, is as follows:

	Profit attributable to owners of parent	Weighted-average shares	EPS	
	For the year ended December 31, 2017			
	Millions of yen	Thousands of shares	Yen	U.S. dollars
Basic EPS				
Net income available to common shareholders	¥288,276	767,356	¥375.67	$3.32
Effect of dilutive securities				
Stock options		1,356		
Diluted EPS				
Net income for computation	¥288,276	768,712	¥375.01	$3.32

	Profit attributable to owners of parent	Weighted-average shares	EPS
	For the year ended December 31, 2016		
	Millions of yen	Thousands of shares	Yen
Basic EPS Net income available to common shareholders	¥265,551	783,241	¥339.04
Effect of dilutive securities Stock options		1,197	
Diluted EPS Net income for computation	¥265,551	784,438	¥338.52

NOTE 11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

Research and development costs are ¥99,792 million ($883,115 thousand) and ¥95,403 million for the years ended December 31, 2017 and 2016, respectively.

NOTE 12 OTHER INCOME (EXPENSES)

Impairment loss

The Companies group their assets for businesses in accordance with the classifications used for internal management. Assets to be disposed (assets that the Companies plan to dispose of through scrapping or sale) and idle assets are grouped on an individual basis.

In the current period, for assets for business whose profitability has declined, assets to be disposed through planned scrapping or sale and idle assets that are not expected to be used in the future, the carrying amounts were reduced to their recoverable amounts. As a result, the Companies recognized an impairment loss of ¥10,123 million ($89,584 thousand) as extraordinary loss. The loss consists of ¥4,626 million ($40,937 thousand) for other intangible fixed assets, ¥2,416 million ($21,381 thousand) for machinery, equipment and vehicles, ¥1,219 million ($10,786 thousand) for buildings and structures, ¥973 million ($8,613 thousand) for land, and ¥889 million ($7,867 thousand) for others.

				2017
Use	Classification	Location	Amount	Amount
			Millions of yen	Thousands of U.S. dollars
Assets for business	Machinery, equipment and vehicles, Buildings and structures, Land and others	Thailand, Japan, Mexico and others	¥3,771	$33,376
Assets to be disposed	Other tangible fixed assets, Land and others	Japan and others	6,307	55,818
Idle assets	Land	Japan	44	389

The recoverable amounts of assets for business are principally measured by value in use, which is calculated by discounting future cash flows at a discount rate of 3.5% to 9.0%. The recoverable amounts of assets to be disposed and idle assets are measured at the net selling price. Assets to be scrapped are evaluated at memorandum value, and assets to be sold and idle assets are evaluated at the estimated selling price and other.

During the year ended December 31, 2016, the Companies grouped their assets for businesses in accordance with the classifications used for internal management. Assets to be disposed (assets that the Companies plan to dispose of through scrapping or sale) and idle assets were grouped on an individual basis.

In the previous period, for assets for business whose profitability has declined, assets to be disposed through planned scrapping or sale and idle assets that are not expected to be used in the future, the carrying amounts were reduced to their recoverable amounts. As a result, the Companies recognized an impairment loss of ¥6,830 million as extraordinary loss. The loss consists of ¥4,539 million for buildings and structures, ¥2,116 million for machinery, equipment and vehicles, and ¥175 million for others.

Note that ¥2,416 million of the total impairment loss of ¥6,830 million was included in "Loss related to reorganization of R&D and manufacturing base" under the extraordinary loss.

			2016
Use	Classification	Location	Amount
			Millions of yen
Assets for business	Buildings and structures, Machinery, equipment and vehicles, and others	Indonesia, Japan and others	¥2,941
Assets to be disposed	Buildings and structures, Machinery, equipment and vehicles, and others	Japan, China and others	3,853
Idle assets	Land	Japan	36

The recoverable amounts of assets for business are principally measured by value in use, which is calculated by discounting future cash flows at a discount rate of 3.7% to 15.0%. The recoverable amounts of assets to be disposed and idle assets are measured at the net selling price. Assets to be scrapped are evaluated at memorandum value, and assets to be sold and idle assets are evaluated at the estimated selling price and other.

Expenses related to relocation of head office of Americas Operations

Relevant expenses are recognized in relation to relocation of the head office of BSAM, corporate headquarters in the Americas, and the aggregation of its operation sites in the United States.

Loss related to civil litigation in the Americas

The Company has recorded the loss related to civil litigation in the Americas regarding sales of automobile parts.

Loss related to reorganization of R&D and manufacturing base

During the year ended December 31, 2016, in order to reorganize the research and development and manufacturing base in Kodaira city in Tokyo, relevant expenses were recognized in relation to relocation and aggregation of the production of radial tires for passenger cars and small trucks in the Tokyo plant to other domestic plants and the expansion of the research and development facilities.

NOTE 13 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.8% and 32.9% for each of the years ended December 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2017 and 2016, are as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:			
Net defined benefit liability	¥ 53,821	¥ 62,522	$ 476,292
Accrued expenses	23,785	37,424	210,487
Unrealized intercompany profits	23,643	23,355	209,230
Net operating loss carryforwards for tax purposes	36,286	38,593	321,115
Other	54,842	53,893	485,326
Less valuation allowance	(38,065)	(30,994)	(336,858)
Total	154,312	184,793	1,365,592
Deferred Tax Liabilities:			
Reserve for deferred gain related fixed assets for tax purposes	(11,637)	(11,819)	(102,982)
Unrealized gain on available-for-sale securities	(51,354)	(40,608)	(454,460)
Depreciation	(31,367)	(40,365)	(277,584)
Other	(17,682)	(37,530)	(156,478)
Total	(112,040)	(130,322)	(991,504)
Net deferred tax assets	¥ 42,272	¥ 54,470	$ 374,088

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended December 31, 2017, with the corresponding figures for 2016, are as follows:

	2017	2016
		%
Normal effective statutory tax rate	30.8%	32.9%
Tax credit for research and development costs of domestic companies	(1.1)	(1.4)
Tax adjustment of overseas companies	1.9	2.7
U.S. tax reform	1.4	—
Transfer pricing adjustment in advance pricing arrangement	(3.0)	—
Other—net	(0.7)	0.5
Actual Effective Tax Rate	29.3%	34.7%

U.S. tax reform act, Tax Cuts and Jobs Act of 2017, was enacted on December 22, 2017 in the U.S. and it reduces the federal corporate income tax rate which is applied to the subsidiaries in the U.S. from 35% to 21% beginning January 1, 2018.

The effect of this change was to decrease deferred tax liabilities, net of deferred tax assets, by ¥6,599 million ($58,399 thousand) and to increase foreign currency translation adjustments by ¥49 million ($434 thousand) in the consolidated balance sheet as of December 31, 2017, and to decrease income taxes—deferred in the consolidated statement of income for the year then ended by ¥6,550 million ($57,965 thousand).

NOTE 14 FINANCIAL INSTRUMENTS

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

The Companies raise the necessary funds mainly by bank borrowings or issuance of bonds based on funding requirements of their business activities. The Companies invest temporary cash surpluses only in highly secure financial instruments. The Companies follow the policy of using derivative financial instruments not for speculative purposes, but for managing financial risks as described later.

(2) Details of financial instruments used and the exposures to risk

Receivables, such as notes and accounts receivable, are exposed to customer credit risk. Receivables in foreign currencies are exposed to foreign currency exchange fluctuation risk. Marketable securities consist primarily of the reservation of receivables liquidation that are exposed to customer credit risk or certificates of deposit regarded as marketable securities in accordance with U.S. GAAP. Investments in securities consist primarily of equity securities of business partners and are exposed to market price fluctuation risk.

Payment terms of payables, such as notes and accounts payable are approximately less than one year. Payables in foreign currencies are exposed to foreign currency exchange fluctuation risk. Borrowings, bonds and obligations under finance (capital) leases are mainly for the purpose of obtaining working capital and preparing for capital expenditures. Some of the borrowings and bonds with floating interest rates are exposed to interest rate fluctuation risk.

Derivative transactions consist of the use of foreign currency forward contracts and currency option contracts for the purpose of hedging foreign currency exchange fluctuation risk on receivables, payables and forecasted transactions in foreign currencies; currency swap contracts for the purpose of hedging foreign currency exchange fluctuation risk and interest rate fluctuation risk on loans and borrowings in foreign currencies; interest rate swap contracts for the purpose of hedging interest rate fluctuation risk on borrowings; and commodity swap contracts for the purpose of hedging commodity price fluctuation risk. Hedging instruments and hedged items, hedge policy, assessment method for hedge effectiveness and others related to hedge accounting are described in Note 3. (21) "Derivatives and hedging activities" and Note 15 "Derivatives."

(3) Risk management of financial instruments

a. Management of credit risk

The Companies regularly monitor the financial position of significant customers and manage the due dates and the receivables balance of each customer to minimize the risk of default resulting from deterioration of customers' financial position.

The Companies enter into derivative transactions only with highly rated financial institutions in order to minimize counterparty risk.

The maximum credit risk on December 31, 2017 is represented by the book value of the financial instruments exposed to credit risk on the consolidated balance sheet.

b. Management of market risk

The Company and certain of its subsidiaries principally use foreign currency forward contracts to hedge foreign currency exchange fluctuation risk identified by currency and on a monthly basis for receivables and payables in foreign currencies. Also, when receivables and payables in foreign currencies are expected from a forecasted transaction, foreign currency forward contracts and currency option contracts may be used. In addition, currency swap contracts are used to hedge foreign currency exchange fluctuation risk and interest rate fluctuation risk on loans and borrowings in foreign currencies; interest rate swap contracts are used to hedge interest rate fluctuation risk on borrowings; and commodity swap contracts are used to hedge commodity price fluctuation risk.

With respect to marketable and investment securities, the Company regularly monitors fair market values and financial positions of the issuers, with whom it has business relations, and appropriately reviews the status of these securities considering the relationships with the issuers.

Derivative transactions are carried out under internal regulations by the responsible divisions, and details of transactions are reported to the responsible corporate officers.

c. Management of liquidity risk in financing activities

The Companies practice money management effectively by recognizing the fund position beforehand based on cash flow projection. The Companies also strive to diversify sources of financing in order to reduce liquidity risk.

(4) Supplementary explanation on fair value of financial instruments

Fair values of financial instruments include market prices and values calculated reasonably when there is no market price. As variable factors are incorporated in calculating the relevant fair values, such values may change depending on the different assumptions. The contract amounts described in Note 15 "Derivatives" do not indicate the amounts of market risk related to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain (loss) of financial instruments as of December 31, 2017 and 2016, are as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table.

	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
						2017
			Millions of yen			Thousands of U.S. dollars
(1) Cash and cash equivalents	¥ 501,798	¥ 501,798	¥ —	$ 4,440,690	$ 4,440,690	$ —
(2) Notes and accounts receivable	503,413			4,454,982		
Allowance for doubtful accounts*1	(17,063)			(151,000)		
	486,350	486,350	—	4,303,982	4,303,982	—
(3) Marketable and investment securities	469,687	469,687	—	4,156,522	4,156,522	—
Total	¥1,457,835	¥1,457,835	¥ —	$12,901,194	$12,901,194	$ —
(1) Short-term debt	¥ 82,318	¥ 82,318	¥ —	$ 728,478	$ 728,478	$ —
(2) Current portion of long-term debt	76,406	76,422	(16)	676,159	676,301	(142)
(3) Notes and accounts payable	400,917	400,917	—	3,547,938	3,547,938	—
(4) Income taxes payable*2	66,454	66,454	—	588,088	588,088	—
(5) Long-term debt	300,305	300,382	(77)	2,657,566	2,658,247	(681)
Total	¥ 926,400	¥ 926,493	¥(93)	$ 8,198,229	$ 8,199,052	$(823)
Derivative transactions*3	¥ (7,140)	¥ (7,140)	¥ —	$ (63,186)	$ (63,186)	$ —

	Carrying amount	Fair value	Unrealized gain (loss)
			2016
			Millions of yen
(1) Cash and cash equivalents	¥ 471,742	¥ 471,742	¥ —
(2) Notes and accounts receivable	455,219		
Allowance for doubtful accounts*1	(16,180)		
	439,039	439,039	—
(3) Marketable and investment securities	405,582	405,582	—
Total	¥1,316,363	¥1,316,363	¥ —
(1) Short-term debt	¥ 55,086	¥ 55,086	¥ —
(2) Current portion of long-term debt	120,610	120,610	—
(3) Notes and accounts payable	363,176	363,176	—
(4) Income taxes payable*2	22,722	22,722	—
(5) Long-term debt	167,074	167,874	(800)
Total	¥ 728,668	¥ 729,468	¥(800)
Derivative transactions*3	¥ (5,313)	¥ (5,313)	¥ —

*1 This comprises the allowance for doubtful accounts with respect to notes and accounts receivable, short-term loan receivable and others.
*2 Prior to January 1, 2017, "Income taxes payable" was not presented separately. Since during this fiscal year ended December 31, 2017, the materiality of the amount increased, such amount was presented separately. Presentation of fair values of financial instruments for the previous fiscal year have been changed accordingly.
*3 Receivables and payables arising from derivative transactions are presented net. If the net amount is a liability, it is written in parentheses ( ).

Notes

1. Calculation methods of fair values of financial instruments, investments in securities, and derivative transactions are as follows:

Assets

(1) Cash and cash equivalents, and (2) Notes and accounts receivable

The fair values approximate book values because of their short-term maturities.

(3) Marketable and investment securities

The fair values of the reservation of receivables liquidation are based on values calculated reasonably, the fair values of equity securities are based on the market prices at the securities exchanges, and the fair values of bonds are based on the market prices at the securities exchanges or on the prices disclosed by financial institutions. Information on available-for-sale securities is described in Note 5 "Marketable and investment securities."

Liabilities

(1) Short-term debt, (2) Current portion of long-term debt, and (4) Income taxes payable

The fair values of bonds with market prices are based on the market prices. The fair values of others approximate book values because of their short-term maturities.

(3) Notes and accounts payable

The fair values approximate book values because of their short-term maturities.

(5) Long-term debt

The fair values of bonds with market prices are based on the market prices. The fair values of bonds without market prices and long-term bank borrowings are determined by discounting the aggregated values of the principal and interest using an assumed interest rate as if identical debt was newly issued.

Derivative transactions

Information on derivative transactions is described in Note 15 "Derivatives."

2. Financial instruments whose fair values are extremely difficult to calculate

	Carrying amount		
	2017	2016	2017
	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities			
Unlisted equity securities	¥4,186	¥1,487	$37,044

It is extremely difficult to calculate their fair values because there are no market prices. Therefore, these items are not included in "(3) Marketable and investment securities."

3. Redemption schedule of monetary assets and investments in securities with contractual maturities

	Due 2018	Due 2019 to 2022	Due 2023 to 2027	Due 2028 and thereafter
	2017			
	Millions of yen			
Cash and cash equivalents	¥501,798	¥—	¥—	¥—
Notes and accounts receivable	503,413	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	—	—	—	—
Corporate bonds	2	—	—	—
Other	10,000	—	—	—
	Thousands of U.S. dollars			
Cash and cash equivalents	$4,440,690	$—	$—	$—
Notes and accounts receivable	4,454,982	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	—	—	—	—
Corporate bonds	18	—	—	—
Other	88,496	—	—	—

4. Please see Note 6 "Short-term and long-term debt" for annual maturities of long-term debt.

NOTE 15 DERIVATIVES

The Companies enter into foreign currency forward contracts, currency swap contracts and currency option contracts to hedge foreign currency exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies enter into interest rate swap contracts to manage their interest rate exposures on certain liabilities. In addition, the Companies enter into commodity swap contracts to hedge the risk of fluctuation of commodity prices for raw materials.

All derivative transactions are entered into to hedge foreign currency, interest and commodity price exposures that arise in the course of the Companies' business. Accordingly, the market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk. Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

The outstanding balances of derivative contracts which do not qualify for hedge accounting at December 31, 2017 and 2016, are as follows:

	Contract amount	Fair value	Unrealized gain (loss)
			2017
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥48,752	¥ (219)	¥ (219)
Hungarian forint	29,481	(456)	(456)
Australian dollar	22,280	(317)	(317)
Euro	17,080	(252)	(252)
Russian ruble	6,748	(438)	(438)
Other	22,918	(455)	(455)
Buy:			
U.S. dollar	28,639	(1,219)	(1,219)
Japanese yen	11,080	(443)	(443)
Colombian peso	3,129	(40)	(40)
Other	4,514	(7)	(7)
Currency Swap Contracts:			
U.S. dollar receipt, Japanese yen payment	¥37,565	¥ 837	¥ 837
Euro receipt, U.S. dollar payment	16,638	(185)	(185)
Russian ruble receipt, U.S. dollar payment	15,151	(767)	(767)
Thai baht receipt, U.S. dollar payment	10,209	(220)	(220)
Chinese yuan receipt, Japanese yen payment	9,727	(721)	(721)
Poland zloty receipt, Japanese yen payment	5,982	(481)	(481)
Indian rupee receipt, Japanese yen payment	5,744	(389)	(389)
Other	6,011	(1,013)	(1,013)
Commodity Swap Contracts:			
Natural rubber	¥ 2,436	¥ (144)	¥ (144)

	Contract amount	Fair value	Unrealized gain (loss)
			2016
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥47,437	¥(2,578)	¥(2,578)
Australian dollar	9,670	(428)	(428)
Euro	15,924	(764)	(764)
Russian ruble	7,905	(1,936)	(1,936)
Other	17,431	(709)	(709)
Buy:			
U.S. dollar	36,338	941	941
Japanese yen	8,059	69	69
Other	11,643	(421)	(421)
Currency Swap Contracts:			
U.S. dollar receipt, Japanese yen payment	¥47,474	¥ (21)	¥ (21)
Euro receipt, U.S. dollar payment	657	11	11
Chinese yuan receipt, Japanese yen payment	11,817	1,969	1,969
Poland zloty receipt, Japanese yen payment	8,973	684	684
Indian rupee receipt, Japanese yen payment	5,744	(262)	(262)
Russian ruble receipt, Japanese yen payment	11,417	(1,146)	(1,146)
Euro receipt, Japanese yen payment	10,277	1,677	1,677
Other	18,255	(147)	(147)

	Contract amount	Fair value	Unrealized gain (loss)
			2017
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	**$431,434**	**$ (1,938)**	**$ (1,938)**
Hungarian forint	**260,894**	**(4,035)**	**(4,035)**
Australian dollar	**197,168**	**(2,805)**	**(2,805)**
Euro	**151,150**	**(2,230)**	**(2,230)**
Russian ruble	**59,717**	**(3,876)**	**(3,876)**
Other	**202,814**	**(4,027)**	**(4,027)**
Buy:			
U.S. dollar	**253,442**	**(10,788)**	**(10,788)**
Japanese yen	**98,053**	**(3,920)**	**(3,920)**
Colombian peso	**27,690**	**(354)**	**(354)**
Other	**39,947**	**(62)**	**(62)**
Currency Swap Contracts:			
U.S. dollar receipt, Japanese yen payment	**$332,434**	**$ 7,407**	**$ 7,407**
Euro receipt, U.S. dollar payment	**147,239**	**(1,637)**	**(1,637)**
Russian ruble receipt, U.S. dollar payment	**134,080**	**(6,788)**	**(6,788)**
Thai baht receipt, U.S. dollar payment	**90,345**	**(1,947)**	**(1,947)**
Chinese yuan receipt, Japanese yen payment	**86,080**	**(6,381)**	**(6,381)**
Poland zloty receipt, Japanese yen payment	**52,938**	**(4,257)**	**(4,257)**
Indian rupee receipt, Japanese yen payment	**50,832**	**(3,442)**	**(3,442)**
Other	**53,195**	**(8,965)**	**(8,965)**
Commodity Swap Contracts:			
Natural rubber	**$ 21,558**	**$ (1,274)**	**$ (1,274)**

The outstanding balances of derivative contracts which qualify for hedge accounting at December 31, 2017 and 2016, are as follows:

	Primary hedged item	Contract amount	Fair value
			2017
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	¥8,189	¥(61)
Euro		5,732	(68)
Australian dollar		3,660	(20)
Russian ruble		1,640	(50)
Other		10	—
Buy:			
U.S. dollar	Accounts payable	729	(12)
Other		44	(1)

	Primary hedged item	Contract amount	Fair value
			2016
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	¥21,471	¥(1,931)
Euro		5,355	(260)
Australian dollar		2,536	(79)
Russian ruble		1,861	(221)
Buy:			
U.S. dollar	Accounts payable	688	5
Other		20	(1)

	Primary hedged item	Contract amount	Fair value
			2017
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	$72,469	$(540)
Euro		50,726	(602)
Australian dollar		32,389	(177)
Russian ruble		14,513	(442)
Other		88	—
Buy:			
U.S. dollar	Accounts payable	6,451	(106)
Other		389	(9)

NOTE 16 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities

At December 31, 2017, the Companies have the following contingent liabilities:

	2017	
	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥213	$1,885
Total	¥213	$1,885

(b) Operating lease commitments

The Companies lease certain land, machinery, vehicles, computer equipment, office space and other assets. The minimum lease commitments under noncancelable operating leases at December 31, 2017 are as follows:

	2017	
	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 42,619	$ 377,159
Due after one year	144,975	1,282,965
Total	¥187,594	$1,660,124

NOTE 17 SEGMENT INFORMATION

For the years ended December 31, 2017 and 2016

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Companies' reportable segments are components of the Companies whose separate financial information is obtainable, and the Board of Directors and the Management Committee regularly consider these segments in order to decide the allocation of business resources and evaluate business performance.

The Companies' reportable segments consist mainly of the Tire business that comprises the manufacture and sale of tires and tubes, sale of wheels and accessories, the manufacture and sale of retread material and services, auto maintenance, and Diversified products business that comprises Chemical and Industrial Products, BSAM Diversified Products*, sporting goods, bicycles, etc. Thus, the Companies have two reporting segments: Tires and Diversified products.

* BSAM Diversified Products: A business under BRIDGESTONE AMERICAS, INC. supplying commercial roofing materials and others.

2. Methods of measurement for the amounts of sales and income (loss), assets, and other items for each reportable segment

The accounting policies for each reportable segment are consistent with those outlined in Note 3 "Summary of significant accounting policies." Reportable segment income figures are on an operating income basis. Internal sales and transfers between segments are mainly based on prices for third-party transactions.

3. Information about sales and income (loss), assets, and other items by reportable segment

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2017
					Millions of yen
Net Sales:					
External customers	¥3,021,000	¥622,428	¥3,643,428	¥ —	¥3,643,428
Inter-segment	10,156	5,421	15,577	(15,577)	—
Total	3,031,156	627,849	3,659,005	(15,577)	3,643,428
Segment income					
(Operating income)	¥ 387,159	¥ 31,879	¥ 419,038	¥ 9	¥ 419,047
Segment assets	¥3,513,680	¥447,760	¥3,961,440	¥ (2,401)	¥3,959,039
Other					
Depreciation and amortization	¥ 179,790	¥ 20,587	¥ 200,377	¥ —	¥ 200,377
Amortization of goodwill	2,703	1,858	4,561	—	4,561
Investment for equity-method affiliates	16,195	419	16,614	(4)	16,610
Increase in property, plant and equipment and intangible assets	225,976	33,782	259,758	—	259,758

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2016
					Millions of yen
Net Sales:					
External customers	¥2,759,275	¥577,742	¥3,337,017	¥ —	¥3,337,017
Inter-segment	6,500	7,969	14,469	(14,469)	—
Total	2,765,775	585,711	3,351,486	(14,469)	3,337,017
Segment income					
(Operating income)	¥ 414,711	¥ 34,820	¥ 449,531	¥ 18	¥ 449,549
Segment assets	¥3,308,732	¥409,100	¥3,717,832	¥ (1,802)	¥3,716,030
Other					
Depreciation and amortization	¥ 168,296	¥ 19,766	¥ 188,062	¥ —	¥ 188,062
Amortization of goodwill	1,153	846	1,999	—	1,999
Investment for equity-method affiliates	13,873	310	14,183	(5)	14,178
Increase in property, plant and equipment and intangible assets	183,265	16,073	199,338	—	199,338

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2017
					Thousands of U.S. dollars
Net Sales:					
External customers	$26,734,513	$5,508,213	$32,242,726	$ —	$32,242,726
Inter-segment	89,876	47,974	137,850	(137,850)	—
Total	26,824,389	5,556,187	32,380,576	(137,850)	32,242,726
Segment income					
(Operating income)	$ 3,426,186	$ 282,115	$ 3,708,301	$ 80	$ 3,708,381
Segment assets	$31,094,513	$3,962,478	$35,056,991	$ (21,248)	$35,035,743
Other					
Depreciation and amortization	$ 1,591,062	$ 182,186	$ 1,773,248	$ —	$ 1,773,248
Amortization of goodwill	23,920	16,443	40,363	—	40,363
Investment for equity-method affiliates	143,319	3,708	147,027	(35)	146,992
Increase in property, plant and equipment and intangible assets	1,999,788	298,956	2,298,744	—	2,298,744

* The reconciliations are as follows:
1 Reconciliations of segment income refer to elimination of inter-segment transactions.
2 Reconciliations of segment assets refer to elimination of inter-segment receivables and payables.

4. Related information

1. Information about product and services

Information has been omitted, as the classification is the same as that for reportable segments.

2. Information about geographical areas

From the current fiscal year, EMEA segment reporting structure includes Russia, in addition to Europe, Middle East and Africa. This realignment is reflected accordingly in comparison figures.

China was separately presented in fiscal 2016 but not in fiscal 2017 because the materiality of the amount has decreased.

(1) Sales

Japan	The Americas	United States*2	EMEA	China, Asia Pacific	Total
					Year ended December 31, 2017
					Millions of yen
¥684,361	¥1,755,090	¥1,431,232	¥603,815	¥600,162	¥3,643,428
					Thousands of U.S. dollars
$6,056,292	$15,531,770	$12,665,770	$5,343,496	$5,311,168	$32,242,726

Japan	The Americas	United States*2	EMEA	China, Asia Pacific	Total
					Year ended December 31, 2016
					Millions of yen
¥653,529	¥1,625,724	¥1,338,040	¥532,660	¥525,104	¥3,337,017

*1 Sales are classified by country or region based on location of customers.
*2 The figure for the United States is included in that of the Americas.

(2) Property, plant and equipment

Japan	The Americas	United States*1	EMEA	China, Asia Pacific	Total
					Year ended December 31, 2017
					Millions of yen
¥335,515	¥573,463	¥438,172	¥192,387	¥371,682	¥1,473,047
					Thousands of U.S. dollars
$2,969,159	$5,074,894	$3,877,628	$1,702,540	$3,289,221	$13,035,814

Japan	The Americas	United States*1	EMEA	China, Asia Pacific	Total
					Year ended December 31, 2016
					Millions of yen
¥335,616	¥563,625	¥437,518	¥173,936	¥375,949	¥1,449,126

*1 The figure for the United States is included in that of the Americas.

3. Information about major customers

The Companies are not required to disclose information on external customers since there are no sales to a single external customer amounting to 10% or more of the Companies' net sales.

5. Information about impairment loss of property, plant and equipment

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2017
				Millions of yen
Impairment Loss of Assets	¥7,764	¥2,359	¥—	¥10,123
				Thousands of U.S. dollars
Impairment Loss of Assets	$68,708	$20,876	$—	$89,584

	Tires*	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2016
				Millions of yen
Impairment Loss of Assets	¥6,001	¥829	¥—	¥6,830

* Note that ¥2,416 million of impairment loss recognized in Tires was included in Loss related to reorganization of R&D and manufacturing base in the consolidated income statement.

6. Information about amortization of goodwill and unamortized balance

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2017
				Millions of yen
Amortization	¥ 2,703	¥ 1,858	¥—	¥ 4,561
Unamortized Balance	16,282	27,499	—	43,781
				Thousands of U.S. dollars
Amortization	$ 23,920	$ 16,443	$—	$ 40,363
Unamortized Balance	144,088	243,354	—	387,442

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2016
				Millions of yen
Amortization	¥1,153	¥ 846	¥—	¥ 1,999
Unamortized Balance	7,060	15,876	—	22,936

NOTE 18 SUBSEQUENT EVENTS

Cash dividend

On March 23, 2018, the shareholders of the Company approved payment of a cash dividend of ¥80.0 ($0.71) per share, or a total of ¥60,138 million ($532,198 thousand), to shareholders of record as of December 31, 2017.

NOTE 19 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016	2017
		Millions of yen	Thousands of U.S. dollars
Net Unrealized Gain (Loss) on Available-for-sale Securities:			
Gains (losses) arising during the year	¥ 41,808	¥(18,253)	$ 369,983
Reclassification adjustment to profit or loss	(28,590)	(11,105)	(253,009)
Amount before income tax effect	13,218	(29,358)	116,974
Income tax effect	(10,747)	11,248	(95,106)
Total	¥ 2,471	¥(18,110)	$ 21,868
Deferred Gain (Loss) on Derivative Instruments:			
Gains (losses) arising during the year	¥ (353)	¥ 645	$ (3,124)
Reclassification adjustment to profit or loss	2,620	(2,410)	23,186
Amount before income tax effect	2,267	(1,765)	20,062
Income tax effect	(706)	696	(6,248)
Total	¥ 1,561	¥ (1,069)	$ 13,814
Foreign Currency Translation Adjustments:			
Adjustments arising during the year	¥ 14,796	¥(59,880)	$ 130,938
Reclassification adjustment to profit or loss	(73)	178	(646)
Total	¥ 14,723	¥(59,702)	$ 130,292
Remeasurements of Defined Benefit Plans:			
Gains (losses) arising during the year	¥ (7,608)	¥(18,428)	$ (67,327)
Reclassification adjustment to profit or loss	23,399	16,199	207,071
Amount before income tax effect	15,791	(2,229)	139,744
Income tax effect	(5,717)	(1,146)	(50,594)
Total	¥ 10,074	¥ (3,375)	$ 89,150
Share of Other Comprehensive Income in Affiliates:			
Gains (losses) arising during the year	¥ (511)	¥ (1,969)	$ (4,522)
Reclassification adjustment to profit or loss	(80)	(100)	(708)
Total	¥ (591)	¥ (2,069)	$ (5,230)
Total Other Comprehensive Income	¥ 28,238	¥(84,325)	$ 249,894