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 ¥111.00 to $1, the prevailing exchange rate on December 31, 2018. Financial disclosures by the Bridgestone Corporation are in accordance with accounting principles generally accepted in Japan.

RESULTS OF OPERATIONS

Business environment

In fiscal 2018, the Companies' operating environment showed signs of gradual recovery in the domestic economy. However, due to the rising uncertainty of overseas politics and economies, the future outlook is difficult to predict. The U.S. economy continued on a solid recovery path, and the European economy continued to show gradual recovery. In Asia, the Chinese economic recovery has been at a standstill. In addition, tire demand in the mining industry increased along with rising commodity prices.

Net sales

Net sales were on a par with the previous fiscal year, at ¥3,650.1 billion ($32,884 million), primarily due to yen appreciation and increased tire sales. As a result, sales in the tire segment made a year on year increase, and sales in the diversified products segment declined from the previous fiscal year.

The average yen/dollar exchange rate in fiscal 2018 was ¥110, compared with ¥112 in the previous fiscal year, while the average yen/euro exchange rate in fiscal 2018 was ¥130, compared with ¥127 in the previous fiscal year.

Operating income

Due in large part to a decrease in profits in the diversified products segment, operating income decreased by 4%, or ¥16.3 billion ($147 million), to ¥402.7 billion ($3,628 million). As a result, the operating income margin edged down by 0.5 percentage points, from 11.5% to 11.0%.

Operating Income Margin

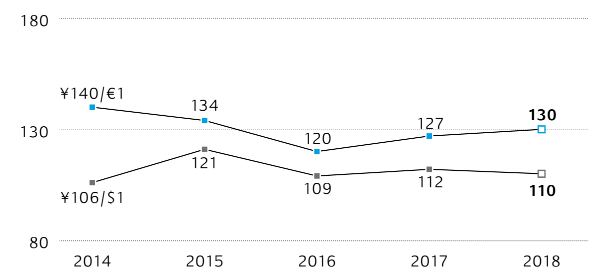
2018	2017	2016	2015	2014
				% of net sales
11.0	11.5	13.5	13.6	13.0

Net Sales

¥ billion

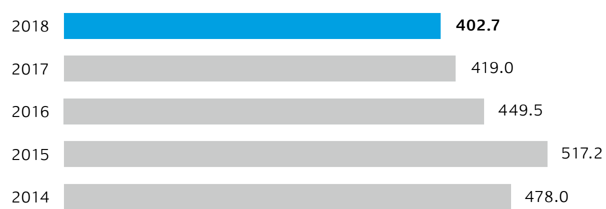
Currency Exchange Rates

Annual average rates



Operating Income

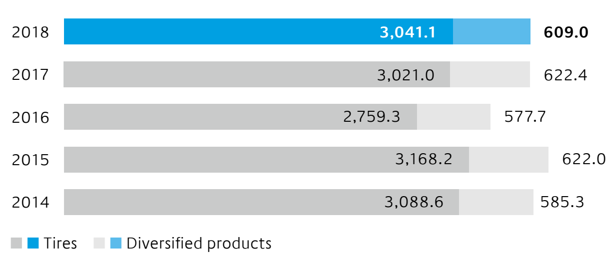
¥ billion



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 2018 increased by 1% from the previous fiscal year, to ¥3,051.4 billion ($27.5 billion). Operating income increased by 2%, to ¥394.0 billion ($3,549 million).

In the tire segment, the Companies introduced appealing new products and services globally and enhanced their future-oriented competitive advantages and differentiations while responding promptly to demand fluctuation in each region.

In Japan, unit sales of tires for passenger cars and light trucks saw steady year-on-year growth, and unit sales of tires for trucks and buses remained at a consistent level with the previous fiscal year.

In the Americas, unit sales of tires for passenger cars and light trucks remained steady in North America, and 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 increased steadily, and unit sales of tires for trucks and buses grew favorably year on year.

In China and the Asia Pacific region, both unit sales of tires for passenger cars and light trucks and unit sales of tires for trucks and buses decreased 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, the chemical and industrial products business is undergoing a radical business restructuring under the name "chemical and industrial products." This restructuring is aimed toward 2021, the 50th anniversary of integrated business activities. Additionally, the Companies are advancing their management reform in the diversified products business overseas, as well as in the Sports, Cycle, and Active and Healthy Lifestyle ("AHL") related businesses—businesses that have undergone organizational restructuring.

As a result, in the diversified products segment, net sales totaled ¥618.8 billion ($5,574 million), a decrease of 1% from the previous fiscal year. Operating income declined by 72% from the previous fiscal year, to ¥8.9 billion ($80 million), due to lower earnings from the domestic business and the BSAM Diversified Products business.

Composition of Sales by Business Segment

Net of inter-segment transactions

	2018	2017
		% of net sales
Tires	83.3	82.9
Diversified products	16.7	17.1
	100	100.0

Performance by market

In Japan, net sales totaled ¥682.0 billion ($6,144 million), roughly the same as the previous fiscal year. In the Americas, net sales totaled ¥1,737.6 billion ($15.7 billion), a decrease of 1% from the previous fiscal year. In Europe, Russia, the Middle East and Africa, net sales totaled ¥644.0 billion ($5,802 million), an increase of 7% from the previous fiscal year. In China, the rest of Asia and Oceania, net sales totaled ¥586.5 billion ($5,284 million), a decrease of 2% from the previous fiscal year.

Composition of Sales by Market

Net of inter-segment transactions

	2018	2017
		% of net sales
Japan	18.7	18.7
The Americas	47.6	48.2
Europe, Russia, the Middle East and Africa	17.6	16.6
China, the rest of Asia and Oceania	16.1	16.5
	100.0	100.0

Other income and expenses

The total of other income and other expenses equaled a gain of ¥25.0 billion ($226 million), compared with a corresponding gain of ¥1.4 billion in the previous fiscal year.

Net interest-related expenses increased by ¥2,990 million ($27 million), to expenses of ¥955 million ($9 million). In the previous fiscal year, gain on sales of investment securities was ¥28.6 billion, and gain on sales of shares of subsidiaries and associates was ¥10.6 billion, while impairment loss was ¥10.1 billion, expenses related to the relocation of the head office of Americas Operations were ¥4.7 billion, and loss related to civil litigation in the Americas was ¥4.5 billion. In fiscal 2018, gain on sales of investment securities was ¥16.2 billion ($146 million) and gain on establishment in jointly controlled entity was ¥30.4 billion ($274 million), while there was no extraordinary loss.

Income before income taxes and non-controlling interests increased by ¥7.3 billion ($66 million), to ¥427.8 billion ($3,854 million).

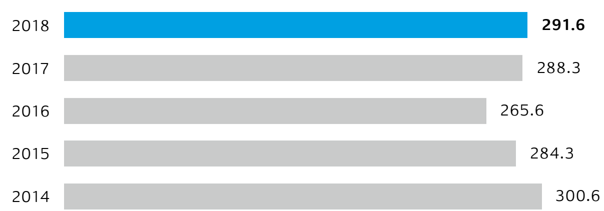
Profit attributable to owners of parent
Profit attributable to owners of parent increased by ¥3.4 billion ($30 million), to ¥291.6 billion ($2,627 million), from ¥288.3 billion in the previous fiscal year. Profit attributable to non-controlling interests decreased to ¥8.1 billion ($73 million). As a result, the net return on sales increased from 7.9% in the previous fiscal year to 8.0%.

Net Return on Sales

2018	2017	2016	2015	2014
				% of net sales
8.0	7.9	8.0	7.5	8.2

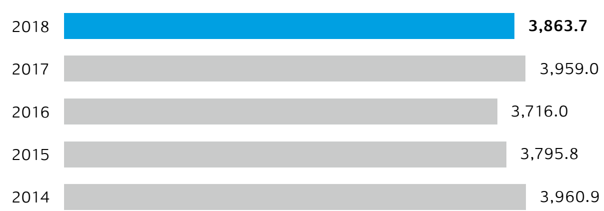
Profit Attributable to Owners of Parent

¥ 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 decreased by 1%, or ¥18.6 billion ($168 million), compared with the previous fiscal year-end, to ¥1,968.4 billion ($17.7 billion).

This was mainly attributable to decreases in cash and cash equivalents of ¥67.9 billion ($612 million) and in short-term investments of ¥67.8 billion ($611 million), despite increases in notes and accounts receivable of ¥98.0 billion ($883 million) and in raw materials and supplies of ¥15.6 billion ($140 million).

In property, plant and equipment and investments and other assets, capital expenditures of ¥268.4 billion ($2,418 million) surpassed depreciation and amortization of ¥200.5 billion ($1,806 million). However, tangible and intangible assets decreased by ¥62.7 billion ($565 million) due to appreciation of the yen at the end of fiscal 2018 (compared with the spot exchange rate at the end of the previous consolidated fiscal year). In addition, investments in securities and investments in and advances to affiliated companies decreased by ¥58.8 billion ($530 million).

Consequently, the total of property, plant and equipment and investments and other assets decreased by 4%, or ¥76.7 billion ($691 million), compared with the previous fiscal year-end, to ¥1,895.3 billion ($17.1 billion).

Total assets decreased by 2%, or ¥95.3 billion ($859 million), compared with the previous fiscal year-end, to ¥3,863.7 billion ($34.8 billion).

Liabilities
In current liabilities, despite increases of ¥34.5 billion ($311 million) in current portion of bonds and other interest-bearing debt, a decrease of ¥51.4 billion ($463 million) in income taxes payable contributed to a decrease in total current liabilities by 2%, or ¥19.5 billion ($176 million), to ¥891.0 billion ($8,027 million).

Long-term liabilities decreased by 17%, or ¥109.2 billion ($984 million) to ¥536.5 billion ($4,834 million) mainly due to a decrease of ¥85.1 billion ($767 million) in bonds and other interest-bearing debt.

Total interest-bearing debt, which is recorded in current liabilities and long-term liabilities, decreased by 11%, or ¥50.5 billion ($455 million), compared with the previous fiscal year-end, to ¥408.5 billion ($3,680 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, 2018, amounted to ¥2,436.2 billion ($21.9 billion). This was 1%, or ¥33.4 billion ($301 million), higher than the previous fiscal year-end.

Cash dividends paid were ¥120.3 billion ($1,084 million), while net unrealized gain on available-for-sale securities decreased by ¥67.8 billion ($611 million) and losses related to foreign currency translation adjustments increased by ¥81.4 billion ($733 million). However, profit attributable to owners of parent increased to ¥291.6 billion ($2,627 million).

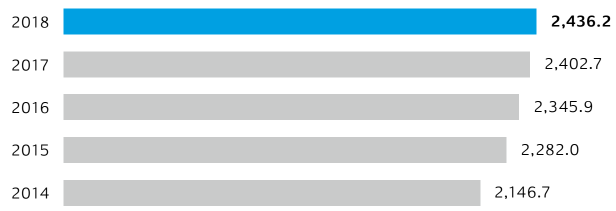
Consequently, total assets at the end of fiscal 2018 stood at ¥3,863.7 billion ($34.8 billion), a decrease of 2%, or ¥95.3 billion ($859 million), from the previous fiscal year-end. Furthermore, the ratio of shareholders' equity, excluding stock acquisition rights and non-controlling interests, to total assets at the end of fiscal 2018 was 61.6%, an increase of 2.4 percentage points compared with the previous fiscal year-end.

The ratio of total debt to debt and shareholders' equity was 14.6% at December 31, 2018, compared with a ratio of 16.4% at the previous fiscal year-end.

Net return on shareholders' equity (ROE) was 12.4%, a decrease of 0.1 percentage point compared with the previous fiscal year. Net return on total assets (ROA) was 7.5%, the same as the previous fiscal year.

Total Equity

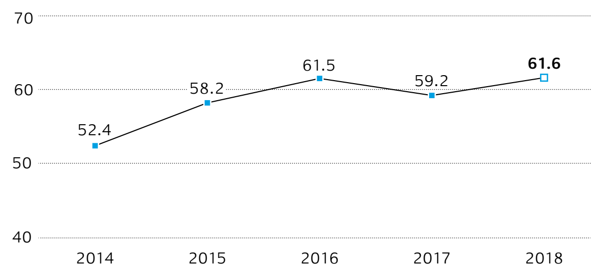
¥ billion



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.

Ratio of Shareholders' Equity to Total Assets

%



ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries
Years ended December 31

	2018	2017	2016	2015
		Millions of yen, except per share data and financial ratios		
Net sales	¥ 3,650,111	¥ 3,643,428	¥ 3,337,017	¥ 3,790,251
Overseas sales	2,968,123	2,959,067	2,683,488	3,128,343
Tires (net sales excluding inter-segment transactions)	3,041,100	3,021,000	2,759,275	3,168,219
Diversified products (net sales excluding inter-segment transactions)	609,012	622,428	577,742	622,032
Operating income	402,732	419,047	449,549	517,248
Profit attributable to owners of parent	291,642	288,276	265,551	284,294
Total equity	2,436,162	2,402,739	2,345,900	2,282,012
Total assets	3,863,699	3,959,039	3,716,030	3,795,847
Ratio of shareholders' equity to total assets	61.6	59.2	61.5	58.2
Per share in yen:				
Net income				
Basic	387.95	375.67	339.04	362.99
Diluted	387.28	375.01	338.52	362.52
Shareholders' equity	3,163.71	3,115.69	2,915.85	2,820.48
Cash dividends	160.00	150.00	140.00	130.00
Capital expenditure	268,421	234,850	194,111	253,581
Depreciation and amortization	200,477	200,377	188,062	202,334
Research and development costs	103,551	99,792	95,403	94,978

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 ¥111.00 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

2018	2017	2016	2015	2014
		% of simple average of year-end shareholders' equity		
12.4	12.5	11.8	13.3	15.5

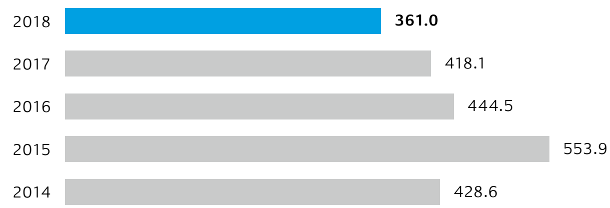
Net Return on Total Assets

2018	2017	2016	2015	2014
		% of simple average of year-end total assets		
7.5	7.5	7.1	7.3	8.0

Cash Flow

Net cash provided by operating activities

¥ billion



Cash flow

Consolidated cash and cash equivalents decreased by ¥67.9 billion ($612 million), to ¥433.9 billion ($3,909 million), compared with an increase of ¥30.1 billion during the previous fiscal year.

Net cash provided by operating activities was ¥361.0 billion ($3,252 million), a decrease of ¥57.2 billion ($515 million) from the previous fiscal year. Income taxes paid were ¥143.7 billion ($1,295 million), compared with ¥67.3 billion in the previous fiscal year. However, income before income taxes and non-controlling interests was ¥427.8 billion ($3,854 million), compared with ¥420.4 billion in the previous fiscal year, and depreciation and amortization totaled ¥200.5 billion ($1,806 million), compared with ¥200.4 billion in the previous fiscal year.

Net cash used in investing activities increased by ¥42.3 billion ($381 million), compared with the previous fiscal year, to ¥243.1 billion ($2,190 million). This was due to payments for purchase of property, plant and equipment of ¥257.5 billion ($2,320 million), compared with ¥198.3 billion during the previous fiscal year, despite proceeds from sales of investments in securities of ¥20.5 billion ($185 million), compared with ¥31.8 billion in the previous fiscal year.

Net cash used in financing activities decreased by ¥31.0 billion ($279 million), compared with the previous fiscal year, to

2014	2013	2012	2011	2010	2009	2008
					Millions of yen, except per share data and financial ratios	
¥ 3,673,965	¥ 3,568,091	¥ 3,039,738	¥ 3,024,356	¥ 2,861,615	¥ 2,597,002	¥ 3,234,406
2,979,922	2,893,251	2,343,546	2,330,154	2,189,765	1,982,192	2,448,300
3,088,627	3,033,660	2,554,126	2,536,731	2,377,305	2,151,314	2,622,890
585,338	534,431	485,612	487,625	484,310	445,687	611,516
478,038	438,132	285,995	191,322	166,450	75,712	131,551
300,589	202,054	171,606	102,970	98,914	1,044	10,412
2,146,658	1,862,964	1,417,348	1,165,672	1,176,147	1,120,797	1,019,996
3,960,908	3,577,045	3,039,799	2,677,344	2,706,640	2,808,439	2,768,470
52.4	50.5	45.2	42.2	42.2	38.7	35.8
383.84	258.10	219.26	131.56	126.19	1.33	13.33
383.39	257.81	219.10	131.50	126.16	1.33	13.33
2,650.47	2,305.64	1,754.30	1,444.53	1,458.01	1,385.43	1,263.30
100.00	57.00	32.00	22.00	20.00	16.00	24.00
296,396	274,862	245,644	201,390	182,648	178,204	275,301
188,333	176,180	155,066	158,044	170,663	180,547	187,420
94,147	89,098	82,801	83,982	85,154	85,766	93,252

¥159.1 billion ($1,433 million). This was due to repayments of long-term borrowings of ¥45.0 billion ($405 million), compared with ¥131.8 billion in the previous fiscal year; ¥20.0 billion ($180 million) in payments for redemption of bonds, compared with no payments from the previous fiscal year; and ¥120.2 billion ($1,083 million) in cash dividends paid, compared with ¥108.7 billion in the previous fiscal year, despite a total of ¥24.3 billion ($219 million) net increase in short-term borrowings and commercial paper, compared with a ¥25.6 billion increase in the previous fiscal year; and ¥15.8 billion ($143 million) in proceeds from long-term borrowings, compared with ¥37.2 billion in 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

During fiscal 2018, the Company paid an interim dividend of ¥80.0 ($0.72) and a year-end dividend of ¥80.0 ($0.72) per share, totally ¥160.0 ($1.44) per share for the year.

PROJECTION FOR FISCAL 2019

In fiscal 2019, 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 feedstock, 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 2019 of ¥3,690.0 billion, an increase of 1% from fiscal 2018. Management expects operating income to increase by 2%, to ¥410.0 billion, with profit attributable to owners of parent rising to ¥300.0 billion. Projected annual dividends in fiscal 2019 is ¥160 per share.

These performance forecasts are based on assumed average exchange rates of ¥108 against the dollar and ¥123 against the euro, compared with the full-year average rates recorded in fiscal 2018 of ¥110 and ¥130, respectively.

Capital Expenditure