BRIDGESTONE
Your Journey, Our Passion

ANNUAL REPORT 2017

Financial Review

CONTENTS

The Bridgestone Corporation is referred to as the "Company," and the Company and its subsidiaries are referred to as the "Companies" in this publication.

Forward-Looking Statements

The descriptions of projections and plans that appear in this annual report are "forward-looking statements." They involve known and unknown risks and uncertainties in regard to such factors as product liability, currency exchange rates, raw material costs, labor-management relations, and political stability. These and other variables could cause the Bridgestone Group's actual performance and results to differ from management's projections and plans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise noted, all figures are taken from the consolidated financial statements and notes. U.S. dollar figures have been translated solely for the convenience of readers outside Japan at the rate of ¥113.00 to $1, the prevailing exchange rate on December 31, 2017. Financial disclosures by the Bridgestone Corporation are in accordance with accounting principles generally accepted in Japan.

RESULTS OF OPERATIONS

Business environment

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

Net sales

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

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

Operating income

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

Operating Income Margin

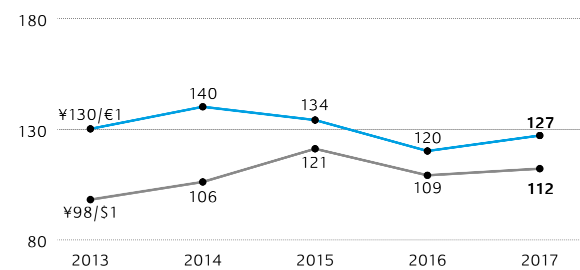
2017	2016	2015	2014	2013
				% of net sales
11.5	13.5	13.6	13.0	12.3

Net Sales

¥ billion

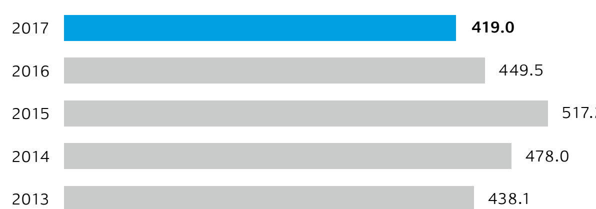
Currency Exchange Rates

Annual average rates



Operating Income

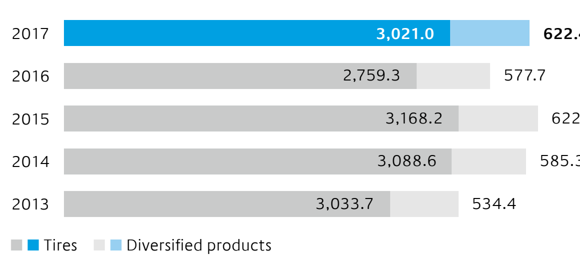
¥ billion



Sales of Tires and Diversified Products

Net of inter-segment transactions

¥ billion



Performance by business segment

The tire segment includes tires for passenger cars, trucks and buses, construction and mining vehicles, aircraft, and motorcycles, as well as tubes, wheels, related accessories, the retreading business, and automotive maintenance services. Including inter-segment transactions, the tire segment's sales in fiscal 2017 increased by 10% from the previous fiscal year, to ¥3,031.2 billion ($26.8 billion). Operating income decreased by 7%, to ¥387.2 billion ($3,426 million).

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

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

In the Americas, although unit sales of tires for passenger cars and light trucks fell year on year in North America, unit sales of tires for trucks and buses grew favorably year on year.

In Europe, unit sales of tires for passenger cars and light trucks, as well as unit sales of tires for trucks and buses, increased steadily year on year.

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

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

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

In the diversified products segment, net sales totaled ¥627.8 billion ($5,556 million), an increase of 7% from the previous fiscal year. Operating income declined by 8% from the previous fiscal year, to ¥31.9 billion ($282 million), due to lower earnings from the domestic business.

Composition of Sales by Business Segment

Net of inter-segment transactions

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

Performance by market

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

Composition of Sales by Market

Net of inter-segment transactions

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

Other income and expenses

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

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

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

Profit attributable to owners of parent

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

Net Return on Sales

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

FINANCIAL CONDITION

Assets

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

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

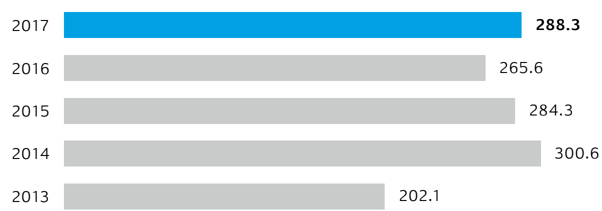
In property, plant and equipment and investments and other assets, capital expenditures of ¥234.9 billion ($2,078 million) surpassed depreciation and amortization of ¥200.4 billion ($1,773 million), and investments in securities and investments in and advances to affiliated companies increased ¥15.2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

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

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

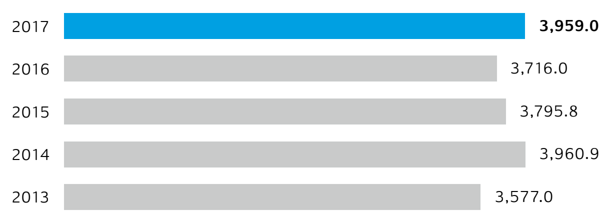
Profit Attributable to Owners of Parent

¥ 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.

Liabilities

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

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

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

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

Equity

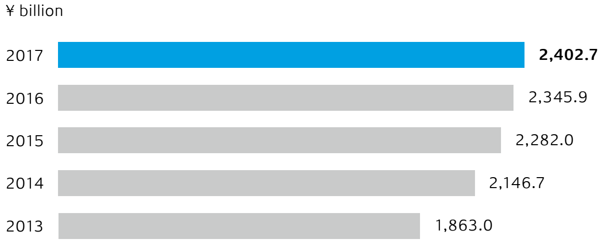
Total equity at December 31, 2017, amounted to ¥2,402.7 billion ($21.3 billion). This was 2%, or ¥56.8 billion ($503 million), higher than the previous fiscal year-end.

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

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

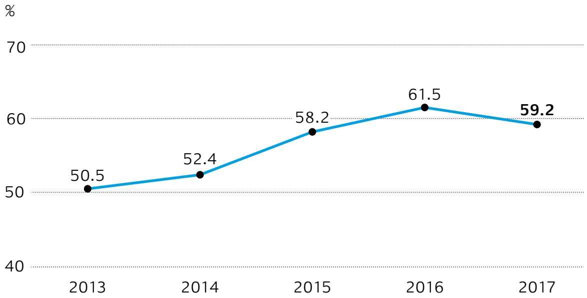
Net return on shareholders' equity (ROE) was 12.5%, an increase of 0.7 percentage point compared with the previous fiscal year. Net return on total assets (ROA) was 7.5%, an increase of 0.4 percentage point compared with the previous fiscal year.

Total Equity



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

Ratio of Shareholders' Equity to Total Assets



ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries
Years ended December 31

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

Notes: 1. Solely for the convenience of readers, the Japanese yen amounts in this annual report are translated into U.S. dollars at the rate of ¥113.00 to $1, the approximate year-end rate.
2. Certain overseas subsidiaries applied IAS 19 "Employee Benefits" (amended on June 16, 2011). As this change in accounting policy is applied retrospectively, the amount of total equity for fiscal 2012 reflects the retrospective application.

Net Return on Shareholders' Equity

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

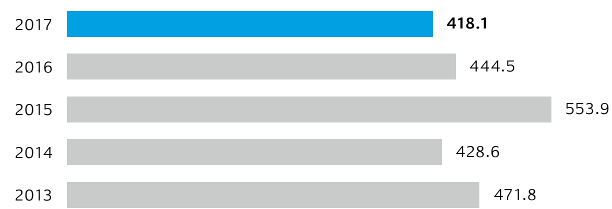
Net Return on Total Assets

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

Cash Flow

Net cash provided by operating activities

¥ billion



Cash flow

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

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

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

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

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

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

Capital financing and liquidity

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

DIVIDEND

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

PROJECTION FOR FISCAL 2018

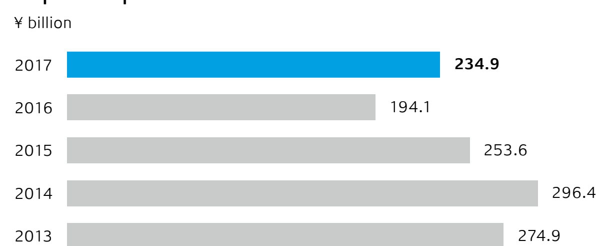
In fiscal 2018, the Companies' operating environment will continue to require careful attention due to factors such as fluctuations in exchange rates and the prices of raw materials and feedstocks, an ongoing lack of clarity in the global economic situation, and international political conditions that remain unstable.

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

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

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

Capital Expenditure



OPERATIONAL RISKS

The status of the Companies as documented in this report is subject to diverse risks from both operational and accounting perspectives. This section provides an overview of the major categories of risk that may have a bearing on investors' decisions.

Management is aware of these risks, and systematic efforts are made to prevent or minimize the impact of related adverse events on operations. Nonetheless, the potential exists for unforeseen or unpredictable events related to the risk factors described below to affect the operations, business results and financial position of the Companies. All references to possible future developments in the following text are as of March 23, 2018.

MAJOR CATEGORIES OF OPERATIONAL RISK

Demand and macroeconomic conditions

The Companies conduct research and development (R&D), purchasing, manufacturing, logistics, marketing, sales, procurement, and other functional activities on a global basis. Operating results and financial position are thus subject to trends in demand, interest rates, exchange rates, share prices, and other economic variables in different countries and regions. In fiscal 2017, the consolidated sales split by market (for external customers only) was 48% from operations in the Americas; 19% from Japan; 17% from Europe, Russia, the Middle East and Africa; and 16% from China, the rest of Asia and Oceania. An economic downturn in any of these regions could exert a major adverse effect on the operating results and financial position of the Companies.

The core tire business segment accounts for 83% of consolidated net sales. In addition, operations in the diversified products business segment also include a substantial volume of business in automotive products. The operating results and financial position of the Companies are thus heavily exposed to business conditions in the global automobile industry.

Demand for replacement tires in each country where the Companies operate depends on national trends in consumer spending, automotive fuel prices, and a range of other local market variables. Any combination of trends that might cause demand for replacement tires to decline, or to grow at a slower rate, could adversely affect the operating results and financial position of the Companies.

Demand for large and ultra-large off-the-road radial tires for construction and mining vehicles—which are the core of the Companies' mining, manufacturing, and construction solutions businesses—and for certain products, such as conveyor belts, are affected by businesses in the resource industries and in the civil engineering and construction industries. Trends in those business conditions that might cause demand to decline, or to grow at a slower rate, could adversely affect the operating results and financial position of the Companies.

Moreover, demand for winter tires (which make a certain contribution to sales in regions such as Japan, Europe, and North America) is closely related to seasonal weather trends. A mild winter and a decline in demand in these regions could adversely affect to some extent the operating results and financial position of the Companies.

Legal, regulatory, and litigation risk

The Companies' operations around the world are subject to diverse national (and, in Europe, supranational) laws and regulations governing all aspects of business activity, including trade, investment, foreign exchange transactions, anticompetitive practices, and environmental protection.

Laws and regulations that affect the Companies' business activities have been established and introduced. These include labeling systems and regulations regarding tire performance and regulations regarding chemicals in Japan and overseas. Accordingly, new or revised laws and regulations could limit the scope of business activities, raise operating costs, or otherwise adversely affect the operating results and financial position of the Companies.

The Companies' operating results and financial position could be adversely affected by unavoidable, significant changes in investment plans or operational plans due to unpredictable legal or regulatory changes, etc., in Japan or in overseas markets.

The Companies could be subject to lawsuits or to investigations by governmental authorities in regard to their business activities in Japan or in overseas markets. In the event that an important lawsuit is filed or investigation by governmental authorities has commenced, the Companies' operating results and financial position could be affected.

OPERATIONAL DISRUPTIONS

Natural disasters, wars, terrorist actions, civil strife, and social and political unrest

Globally dispersed operations expose the Companies to a broad range of natural and man-made risks that could constitute force majeure, including natural disasters such as earthquakes and floods, wars, terrorist actions, civil strife, boycotts, epidemics, energy supply problems, and general social or political unrest. Such events have the potential to adversely affect the operating results and financial position of the Companies.

Also, factors such as abrupt, substantial fluctuations in political or economic matters in Japan or overseas could hinder the continuation of the Companies' business activities. Such events have the potential to affect the Companies' operating results and financial position.

The risk of earthquakes is particularly high in Japan, where the Companies have numerous key facilities. Management systematically promotes the seismic reinforcement of the Companies' facilities in Japan, based on an order of priority determined from the results of site analyses using seismic diagnostics. In addition, a business continuity plan (BCP) has been created and other measures have been taken to promote swift response to an earthquake and the early restoration of operations. The Companies are also moving forward with infection-prevention measures and business continuity planning in regard to the spread of an infectious disease, such as H1N1 influenza.

Despite the preventive measures, such a serious risk could disrupt or reduce the scale of operations or cause damage to facilities, necessitating expensive repairs or restoration work. The costs involved could adversely affect the Companies' operating results and financial position.

Operational disruptions at those plants where the production of certain products or materials is concentrated have the potential to cause greater problems due to the increased possibility of a supply interruption, which could result in claims for compensation based on breach of supply contracts, or in an erosion of customer confidence in the Companies as a reliable source of supply. Any such developments could have a significantly adverse impact on the operating results and financial position of the Companies.

INFORMATION TECHNOLOGY (IT) SYSTEMS FAILURES

The complex operations of the Companies are increasingly dependent on the smooth, round-the-clock functioning of various computing and IT systems. Failure of such technical systems due to external causes, such as natural disasters or computer viruses, or through human error, could cause significant operational disruption, with the potential for major adverse effects on performance. The Companies have instituted comprehensive measures to safeguard IT and computing systems and related data, and to upgrade network security on an ongoing basis in order to prevent systemic failures.

INDUSTRIAL ACTION

Prolonged strikes or other industrial action could cause operational disruptions and thereby adversely affect the operating results and financial position of the Companies. Management strives to minimize the risk of labor unrest by fostering good labor management relations throughout global operations.

Corporate and brand image

The Companies strive to enhance their corporate and brand image consistently through global business activities. Systematic efforts are made to ensure compliance with all applicable laws and regulations and to promote the highest ethical standards. Programs are in place across the Companies to prevent industrial incidents, particularly fires and any accidents that could cause occupational injuries, and to respond immediately to any accidents that occur.

Despite such preventive measures, serious ethical lapses or industrial accidents, which are by their nature unpredictable, have the potential to adversely affect the operating results and financial position of the Companies by damaging the image and reputation of the Companies, diminishing the general public's confidence in the Companies, or leading to a drop in share price.

Currency risk

The global distribution of the Companies' R&D, manufacturing, logistics, marketing, and sales facilities requires business transactions in numerous currencies. The Companies employ foreign currency forward contracts to hedge short-term exposure to exchange rate fluctuations between the Japanese yen and the U.S. dollar, euro, and other leading currencies. However, hedging cannot insulate the Companies' operations completely from foreign exchange market trends since these operations include extensive import and export activities worldwide. Fluctuations in exchange rates can thus have an adverse effect on the operating results and financial position of the Companies.

Exchange rate fluctuations also affect the consolidated performance of the Companies because results are reported in yen. Changes in exchange rates affect the values recorded for sales, expenses, assets, and liabilities in all countries outside Japan when translated into yen. In general terms, yen appreciation against other leading currencies tends to depress the financial results, while yen depreciation tends to have a favorable impact.

Competition

The Companies encounter numerous competitors in both the tire and diversified products segments, across the entire product lineup. Competitive price pressures have the potential to adversely affect the operating results and financial position of the Companies. In addition, the Companies face a constant risk of demands for price reductions from large corporate clients.

The Companies strive to maintain profitability in the face of downward price pressures by continually seeking to raise productivity, enhance brand image, develop new markets, and launch new products that provide greater value to customers. However, management cannot guarantee that such efforts will always be sufficient to offset the effects of competition.

The Companies' strategy is based on maintaining a highly competitive technological edge. The Companies target the development and introduction of products equipped with new and advanced technologies, and then aim to persuade customers of the value inherent in such technical advances to secure prices sufficient to ensure that profits fully offset the costs of development. Fierce competition in various fields can sometimes prevent the Companies from recovering development costs through pricing, which can also have an adverse effect on operating results and financial position.

Product defects

The Companies invest considerable resources in establishing and maintaining high quality standards for all products manufactured and sold. Management is particularly sensitive to the importance of quality assurance in tires and other products intimately associated with human safety. The Companies have honed their collective quality assurance capabilities by upgrading information systems related to product performance, collecting pertinent market information, and establishing systems to provide early warning of any potential safety issues that may arise before they become problems.

Nonetheless, such efforts cannot guarantee a zero level of product defects or eliminate the chance of an extensive product recall, because product defects could occur due to unpredictable factors, and the Companies hold customer safety as their highest priority. Any such defects or recalls could result in customer claims for damages, as well as associated litigation costs, replacement costs, and damage to the Companies' reputation. Product liability claims, class-action lawsuits, and other litigation pose a particular risk in the U.S.

Raw materials procurement

Disruption of supplies of raw materials has the potential to affect performance adversely. The Companies use large quantities of natural rubber in tires and other rubber products, most of which are supplied from Southeast Asia.

The availability of natural rubber supplies in quantities sufficient for manufacturing purposes is subject to disruption due to natural disasters, wars, terrorist actions, civil strife, and other social or political unrest, in addition to the threat of poor harvests. Supply shortages or capacity constraints are also potential problems with other basic raw materials.

The Companies rely on in-house upstream raw materials operations and on third-party suppliers for important raw materials. Any disruption of activity to those operations or suppliers and any other events that impede the Companies' plants that use those raw materials could adversely affect the Companies' operating results and financial position. Increases in the costs of raw materials due to tight supply, trade for speculative purposes, and other reasons are also potentially detrimental to the operating results and financial position of the Companies. Management cannot guarantee that price rises can always be passed on to customers, or that ongoing efforts to raise productivity will be sufficient to compensate for any sharp increases in raw materials costs.

Pension costs

Pension-related costs and obligations are reliant on actuarial assumptions concerning a number of variables, including discount rates and the expected long-term rates of investment return on pension assets. There could be a material impact on the operating results and financial position of the Companies if actual results were to differ significantly from initial assumptions, or if deteriorating conditions in financial markets or other factors were to necessitate a change in the underlying assumptions.

Intellectual property

The Companies treat intellectual property as an important business resource. Systematic efforts are made to employ intellectual property effectively in improving the competitive position of the Companies, to protect intellectual property rights from infringement, and to avoid infringing the intellectual property rights of other parties.

Despite such safeguards, any actual or alleged infringement of third-party intellectual property rights by the Companies could have a negative impact on the use of certain materials or technologies by the Companies, and could potentially also trigger the payment of compensatory damages. Any such outcome could have a negative effect on the operating results and financial position of the Companies.

Conversely, if claims by the Companies of intellectual property rights infringement against third parties are not upheld, the Companies could also suffer direct or indirect losses through the diminished differentiation or competitiveness of their products in global markets.

CONSOLIDATED BALANCE SHEET

Bridgestone Corporation and Subsidiaries
December 31, 2017 and 2016

ASSETS	Note	2017	2016	2017
	2		Millions of yen	Thousands of U.S. dollars
Current Assets:				
Cash and cash equivalents	14	¥ 501,798	¥ 471,742	$ 4,440,690
Marketable securities	5,14	211,680	157,697	1,873,275
Notes and accounts receivable	6,14	503,413	455,219	4,454,982
Inventories	4	590,184	557,410	5,222,867
Deferred tax assets	13	59,855	69,657	529,690
Other current assets		137,169	126,605	1,213,885
Allowance for doubtful accounts		(17,063)	(16,180)	(151,000)
Total Current Assets		1,987,036	1,822,150	17,584,389
Property, Plant and Equipment:	6			
Land		163,452	167,296	1,446,478
Buildings and structures		1,139,656	1,076,176	10,085,451
Machinery and equipment		2,741,960	2,624,783	24,265,133
Construction in progress		146,161	160,753	1,293,460
Total		4,191,229	4,029,008	37,090,522
Accumulated depreciation		(2,718,182)	(2,579,882)	(24,054,708)
Net Property, Plant and Equipment		1,473,047	1,449,126	13,035,814
Investments and Other Assets:				
Investments in securities	5,14	262,193	249,372	2,320,292
Investments in and advances to affiliated companies		16,827	14,452	148,912
Long-term loans receivable		5,924	4,797	52,425
Deferred tax assets	13	40,578	37,172	359,097
Goodwill		43,781	22,936	387,442
Other assets		131,245	117,755	1,161,460
Allowance for doubtful accounts		(1,592)	(1,730)	(14,088)
Total Investments and Other Assets		498,956	444,754	4,415,540
Total Assets		¥ 3,959,039	¥ 3,716,030	$ 35,035,743

See notes to consolidated financial statements.

LIABILITIES AND EQUITY

	Note	2017	2016	2017
	2		Millions of yen	Thousands of U.S. dollars
Current Liabilities:				
Short-term debt	6,14	¥ 82,318	¥ 55,086	$ 728,478
Current portion of long-term debt	6,14	76,406	120,610	676,159
Notes and accounts payable	14	400,917	363,176	3,547,938
Income taxes payable	14	66,454	22,722	588,088
Accrued expenses		223,777	221,738	1,980,327
Deferred tax liabilities	13	4,817	2,145	42,628
Provision for sales returns		3,603	3,471	31,885
Other current liabilities		52,254	60,886	462,426
Total Current Liabilities		910,546	849,834	8,057,929
Long-term Liabilities:				
Long-term debt	6,14	300,305	167,074	2,657,566
Net defined benefit liability	7	202,864	215,072	1,795,257
Deferred tax liabilities	13	53,344	50,214	472,071
Provision for environmental remediation		1,696	2,018	15,009
Provision for reorganization of R&D and manufacturing base		8,322	13,951	73,646
Other liabilities		79,223	71,967	701,088
Total Long-term Liabilities		645,754	520,296	5,714,637
Total Liabilities		1,556,300	1,370,130	13,772,566
Contingent Liabilities and Commitments	16			
Equity:	8			
Common stock Authorized—1,450,000,000 shares, issued—813,102,321 shares in 2017 and 2016		126,354	126,354	1,118,177
Capital surplus		122,984	123,006	1,088,354
Stock acquisition rights		3,629	2,976	32,115
Retained earnings		2,342,823	2,163,115	20,732,947
Treasury stock—at cost, 61,375,611 shares in 2017 and 29,844,837 shares in 2016		(206,052)	(56,151)	(1,823,469)
Accumulated other comprehensive income	19			
Net unrealized gain on available-for-sale securities		176,687	174,198	1,563,602
Deferred loss on derivative instruments		(55)	(1,721)	(487)
Foreign currency translation adjustments		(93,480)	(107,243)	(827,257)
Remeasurements of defined benefit plans		(127,112)	(137,698)	(1,124,885)
Total		2,345,778	2,286,836	20,759,097
Non-controlling Interests		56,961	59,064	504,080
Total Equity		2,402,739	2,345,900	21,263,177
Total Liabilities and Equity		¥3,959,039	¥3,716,030	$35,035,743

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2017 and 2016

	Note	2017	2016	2017
	2		Millions of yen	Thousands of U.S. dollars
Net Sales	17	¥3,643,428	¥3,337,017	$32,242,726
Cost of Sales		2,262,590	1,972,476	20,022,920
Gross profit		1,380,838	1,364,541	12,219,806
Selling, General and Administrative Expenses		961,791	914,992	8,511,425
Operating income	17	419,047	449,549	3,708,381
Other Income (Expenses):				
Interest and dividend income		14,141	13,166	125,142
Interest expense		(12,105)	(10,169)	(107,124)
Foreign currency exchange gain (loss)		(8,508)	(7,802)	(75,292)
Gain on sales of investment securities		28,595	11,118	253,053
Gain on sales of shares of subsidiaries and associates		10,616	—	93,947
Impairment loss	12	(10,123)	(4,414)	(89,584)
Expenses related to relocation of head office of Americas Operations	12	(4,746)	—	(42,000)
Loss related to civil litigation in the Americas	12	(4,485)	—	(39,690)
Loss related to reorganization of R&D and manufacturing base	12	—	(17,649)	—
Other—net		(12,010)	(12,211)	(106,284)
Total		1,375	(27,961)	12,168
Income before Income Taxes and Non-Controlling Interests		420,422	421,588	3,720,549
Income Taxes:	13			
Current		124,709	113,488	1,103,620
Deferred		(1,703)	32,662	(15,071)
Total		123,006	146,150	1,088,549
Income before non-controlling interests		297,416	275,438	2,632,000
Profit Attributable to Non-Controlling Interests		(9,140)	(9,887)	(80,885)
Profit Attributable to Owners of Parent		¥288,276	¥ 265,551	$ 2,551,115

	2		Yen	U.S. dollars
Per Share of Common Stock:				
Basic	10	¥375.67	¥339.04	$3.32
Diluted	10	375.01	338.52	3.32
Cash dividends applicable to the year		150.00	140.00	1.33

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2017 and 2016

	Note	2017	2016	2017
	2		Millions of yen	Thousands of U.S. dollars
Income before non-controlling interests		¥297,416	¥275,438	$2,632,000
Other comprehensive income	19			
Net unrealized gain (loss) on available-for-sale securities		2,471	(18,110)	21,868
Deferred gain (loss) on derivative instruments		1,561	(1,069)	13,814
Foreign currency translation adjustments		14,723	(59,702)	130,292
Remeasurements of defined benefit plans		10,074	(3,375)	89,150
Share of other comprehensive income in affiliates		(591)	(2,069)	(5,230)
Total Other Comprehensive Income		28,238	(84,325)	249,894
Comprehensive income	19	¥325,654	¥191,113	$2,881,894
Comprehensive income attribute to:				
Owners of Parent		¥316,779	¥183,959	$2,803,354
Non-controlling interests		8,875	7,154	78,540

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2017 and 2016

								Accumulated other comprehensive income						
	Note	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Non-controlling interests	Total equity
	2	Thousands												Millions of yen
Balance at January 1, 2016		783,224	¥126,354	¥123,025	¥2,470	¥2,014,497	¥ (56,212)	¥192,324	¥ (776)	¥ (55,407)	¥(134,736)	¥2,211,539	¥ 70,473	¥2,282,012
Cumulative effects of changes in accounting policies						(7,281)				7,668	56	443		443
Restated Balance at January 1, 2016		783,224	¥126,354	¥123,025	¥2,470	¥2,007,216	¥ (56,212)	¥192,324	¥ (776)	¥ (47,739)	¥(134,680)	¥2,211,982	¥ 70,473	¥2,282,455
Profit attributable to owners of parent for the year						265,551						265,551		265,551
Cash dividends						(109,652)						(109,652)		(109,652)
Purchase of treasury stock		(1)					(4)					(4)		(4)
Disposal of treasury stock		34		(18)			65					47		47
Purchase of shares of consolidated subsidiaries				(1)								(1)		(1)
Net change in the year					506			(18,126)	(945)	(59,504)	(3,018)	(81,087)	(11,409)	(92,496)
Balance at December 31, 2016		783,257	¥126,354	¥123,006	¥2,976	¥2,163,115	¥ (56,151)	¥174,198	¥(1,721)	¥(107,243)	¥(137,698)	¥2,286,836	¥59,064	¥2,345,900
Profit attributable to owners of parent for the year						288,276						288,276		288,276
Cash dividends						(108,463)						(108,463)		(108,463)
Purchase of treasury stock		(31,568)					(150,013)					(150,013)		(150,013)
Disposal of treasury stock		38		(22)			112					90		90
Purchase of shares of consolidated subsidiaries						(105)						(105)		(105)
Net change in the year					653			2,489	1,666	13,763	10,586	29,157	(2,103)	27,054
Balance at December 31, 2017		**751,727**	**¥126,354**	**¥122,984**	**¥3,629**	**¥2,342,823**	**¥(206,052)**	**¥176,687**	**¥ (55)**	**¥ (93,480)**	**¥(127,112)**	**¥2,345,778**	**¥ 56,961**	**¥2,402,739**

							Accumulated other comprehensive income						
	Note	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Non-controlling interests	Total equity
	2												Thousands of U.S. dollars
Balance at December 31, 2016		$1,118,177	$1,088,549	$26,336	$19,142,611	$ (496,912)	$1,541,575	$(15,230)	$(949,053)	$(1,218,566)	$20,237,487	$522,690	$20,760,177
Profit attributable to owners of parent for the year					2,551,115						2,551,115		2,551,115
Cash dividends					(959,850)						(959,850)		(959,850)
Purchase of treasury stock						(1,327,549)					(1,327,549)		(1,327,549)
Disposal of treasury stock			(195)			992					797		797
Purchase of shares of consolidated subsidiaries					(929)						(929)		(929)
Net change in the year				5,779			22,027	14,743	121,796	93,681	258,026	(18,610)	239,416
Balance at December 31, 2017		**$1,118,177**	**$1,088,354**	**$32,115**	**$20,732,947**	**$(1,823,469)**	**$1,563,602**	**$ (487)**	**$(827,257)**	**$(1,124,885)**	**$20,759,097**	**$504,080**	**$21,263,177**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2017 and 2016

	Note	2017	2016	2017
	2		Millions of yen	Thousands of U.S. dollars
Cash Flows from Operating Activities:				
Income before income taxes and non-controlling interests		¥ 420,422	¥ 421,588	$ 3,720,549
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:				
Depreciation and amortization		200,377	188,062	1,773,248
Amortization of goodwill		4,561	1,999	40,363
Increase (decrease) in net defined benefit liability		1,193	(45,186)	10,558
Interest and dividend income		(14,141)	(13,166)	(125,142)
Interest expense		12,105	10,169	107,124
Foreign currency exchange loss (gain)		3,982	(6,178)	35,239
Gain on sales of investments in securities		(28,595)	(11,118)	(253,053)
Gain on sales of shares of subsidiaries and associates		(10,616)	—	(93,947)
Impairment loss		10,123	4,414	89,584
Expenses related to relocation of head office of Americas Operations		4,746	—	42,000
Loss related to civil litigation in the Americas		4,485	—	39,690
Loss related to reorganization of R&D and manufacturing base		—	17,649	—
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable		(93,947)	9,600	(831,389)
Decrease (increase) in inventories		(26,123)	(16,047)	(231,177)
Increase (decrease) in notes and accounts payable		35,097	22,700	310,592
Other		(27,691)	(14,335)	(245,053)
Subtotal		495,978	570,151	4,389,186
Interest and dividends received		14,115	13,174	124,912
Interest paid		(12,078)	(10,052)	(106,886)
Payments related to relocation of head office of Americas Operations		(4,787)	—	(42,363)
Payments related to civil litigation in the Americas		(4,546)	—	(40,230)
Payments related to reorganization of R&D and manufacturing base		(3,321)	—	(29,389)
Income taxes paid		(67,252)	(128,737)	(595,150)
Net Cash Provided by Operating Activities		418,109	444,536	3,700,080
Cash Flows from Investing Activities:				
Payments for purchase of property, plant and equipment		(198,260)	(186,815)	(1,754,513)
Proceeds from sales of property, plant and equipment		8,629	4,793	76,363
Payments for purchase of intangible assets		(6,295)	(5,901)	(55,708)
Payments for purchase of investment in securities		(4,842)	(1,289)	(42,850)
Proceeds from sales of investments in securities		31,832	14,433	281,699
Payments of long-term loans receivable		(2,394)	(3,401)	(21,186)
Other		(29,448)	(97)	(260,601)
Net Cash Used in Investing Activities		(200,778)	(178,277)	(1,776,796)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		25,607	(38,175)	226,611
Proceeds from long-term debt		187,165	19,464	1,656,327
Repayments of long-term debt		(131,849)	(68,395)	(1,166,805)
Purchase of treasury stock		(150,013)	(4)	(1,327,549)
Cash dividends paid		(108,655)	(109,386)	(961,549)
Cash dividends paid to non-controlling interests		(11,015)	(19,268)	(97,478)
Other		(1,310)	(640)	(11,593)
Net Cash Used in Financing Activities		(190,070)	(216,404)	(1,682,036)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		2,795	(4,840)	24,734
Net Increase (Decrease) in Cash and Cash Equivalents		30,056	45,015	265,982
Cash and Cash Equivalents at Beginning of Year		471,742	426,727	4,174,708
Cash and Cash Equivalents at End of Year		¥ 501,798	¥ 471,742	$ 4,440,690

See notes to consolidated financial statements.

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bridgestone Corporation:

We have audited the accompanying consolidated balance sheet of Bridgestone Corporation and its subsidiaries as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgestone Corporation and its subsidiaries as of December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 23, 2018

Member of
Deloitte Touche Tohmatsu Limited

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May 2018