



BRIDGESTONE ANNUAL REPORT 2009  
FINANCIAL REVIEW

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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 Group's actual performance and results to differ from management's projections and plans.

# MANAGEMENT'S DISCUSSION & ANALYSIS

Unless otherwise noted, all figures are taken from the consolidated financial statements and notes. The U.S. dollar figures have been translated solely for the convenience of readers outside Japan at ¥92.10 to \$1, the prevailing exchange rate on December 31, 2009. Financial disclosures by the Bridgestone Corporation ("the Company") are in accordance with accounting principles generally accepted in Japan.

## RESULTS OF OPERATIONS

### Business Environment

In fiscal 2009, the operating environment of the Company and its subsidiaries ("the Companies") remained challenging. The economic conditions in Japan remained severe, with weakened consumer spending and declines in private-sector capital investment, which counteracted signs of recovery among some exports.

Although the economic recession in the United States and Europe caused by the vicious downward spiral of the global economy continued, some sectors showed signs of stabilization. Economic stimulus measures implemented by some governments can be recognized as one of the drivers of this stabilization.

In Asia, China's business climate recovered, and although conditions remained challenging, the business climate in other regions began to show slight signs of recovery.

### Net Sales

With the considerable decline in demand due to the global economic recession and the exchange impact of the stronger Japanese yen, consolidated net sales were down 20%, or ¥637.4 billion (\$6,921 million), to ¥2,597.0 billion (\$28.2 billion). Sales declined in both the tire segment and the diversified products segment, and declines in sales were recorded in each geographic segment as well.

The average yen/dollar exchange rate in fiscal 2009 was ¥94, compared with ¥104 in fiscal 2008, while the average yen/euro exchange rate in fiscal 2009 was ¥130, compared with ¥153 in the previous year.

### Operating Income

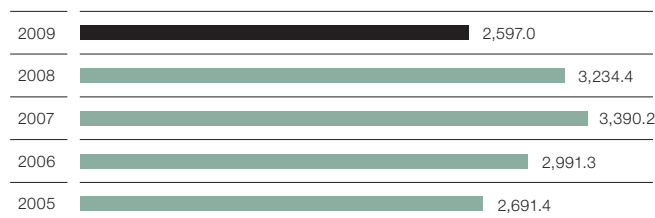
With a significant impact from sales decline, consolidated operating income decreased by ¥55.8 billion (\$606 million), or 42%, to ¥75.7 billion (\$822 million). The operating margin decreased by 1.2 percentage points, from 4.1% to 2.9%.

#### Operating Income Margin

	2009	2008	2007	2006	2005
% of sales	2.9	4.1	7.4	6.4	7.9

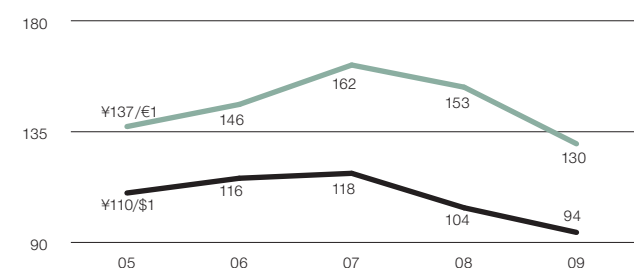
### Net Sales

¥ billion



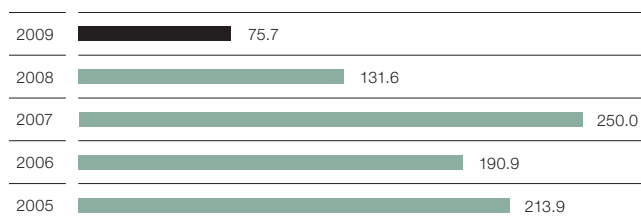
### Currency Exchange Rates

Annual average rates



### Operating Income

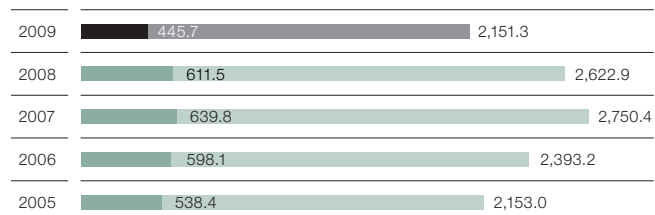
¥ billion



### Sales of Tires and Diversified Products

Net of inter-segment transactions

¥ billion



■ Diversified Products ■ Tires

### 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, retreading business, and automotive maintenance services.

Including inter-segment transactions, in the tire segment, sales in fiscal 2009 decreased by 18% from the previous year, to ¥2,153.0 billion (\$23.4 billion), while operating income decreased by 19%, to ¥75.2 billion (\$817 million).

In the tire segment, the Companies worked to maximize its sales momentum by introducing appealing new products worldwide, while at the same time improving and expanding strategic production sites around the world in support of respective product domains, particularly those that have been identified as strategic and important to the Companies' future growth.

In Japan, unit sales of tires were substantially down from fiscal 2008 due to the impact of slumping demand.

In the Americas, the North American tire business saw a major decline in unit sales of tires for passenger cars, light trucks, and trucks and buses from fiscal 2008 because of a significant fall in demand. However, there was a significant increase from fiscal 2008 in unit sales of such strategic products as runflat tires and UHP (ultra-high-performance) tires in the replacement sector.

In Europe, unit sales of tires for passenger cars, light trucks, and trucks and buses were down substantially from fiscal 2008 because of a significant fall in demand, but there was a significant increase in unit sales of strategic products, led by runflat tires and UHP tires, in the replacement sector.

In the specialty tire business, unit sales of ultralarge off-the-road radial tires for construction and mining vehicles were favorable, exceeding those of fiscal 2008.

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.

Including inter-segment transactions, in the diversified products segment, sales in fiscal 2009 decreased by 27% from the previous year, to ¥454.2 billion (\$4,932 million), due to the significant impact of slumping demand. Operating income in fiscal 2009 was down 99% from the previous year, to ¥0.5 billion (\$5 million).

### Composition of Sales by Business Segment

Net of inter-segment transactions

	2009	2008
	% of net sales	
Tires	82.8	81.1
Diversified products	17.2	18.9
	100.0	100.0

### Performance by Geographic Segment

Including inter-segment transactions, sales in Japan decreased by 23% relative to the previous year, to ¥1,012.0 billion (\$11.0 billion), due to the significant impact of slumping demand on both the tire segment and the diversified products segment. Operating income was down 79%, to ¥14.4 billion (\$156 million).

In the Americas, sales decreased by 20% from the previous year, to ¥1,132.9 billion (\$12.3 billion), due to slumping demand. On the other hand, due to curbed expenses and a favorable performance by tire retail operations, operating income increased by 59%, to ¥34.5 billion (\$375 million).

In Europe, sales decreased by 24% from the previous year, to ¥362.6 billion (\$3,937 million), due to the significant impact of slumping demand. An operating loss of ¥12.0 billion (\$130 million) was recorded.

In other regions, due to the significant impact of slumping demand, sales decreased by 15%, to ¥511.6 billion (\$5,555 million). Operating income was down 7%, to ¥32.9 billion (\$357 million).

### Composition of Sales by Geographic Segment

Net of inter-segment transactions

	2009	2008
	% of net sales	
Japan	26.2	26.7
The Americas	43.3	43.4
Europe	13.8	14.6
Other	16.7	15.3
	100.0	100.0

### Other Income and Expense

Total of other income and expenses equaled a loss of ¥40.3 billion (\$438 million), compared with the corresponding loss of ¥78.1 billion in the prior year.

Net interest related expenses decreased by ¥3.1 billion (\$34 million), to ¥19.9 billion (\$216 million), and foreign currency exchange loss decreased by ¥19.8 billion (\$215 million), to ¥3.3 billion (\$36 million), gain on sales of property, plant and equipment was ¥4.1 billion (\$45 million), but plant restructuring costs in Oceania were ¥10.6 billion (\$115 million). Furthermore, loss on disposals of property, plant and equipment was ¥5.5 billion (\$60 million), loss on valuation of investments in securities was ¥3.8 billion (\$41 million), loss on provision for environmental remediation was ¥3.3 billion (\$36 million).

Income before income taxes and minority interests decreased by ¥18.1 billion (\$197 million), or 34%, to ¥35.4 billion (\$384 million).

### Net Income

Income taxes decreased by 27% relative to fiscal 2008, declining to ¥29.2 billion (\$317 million). Minority interests increased to ¥5.1 billion (\$55 million).

As a result, net income was down ¥9.4 billion (\$102 million), or 90%, to ¥1.0 billion (\$11 million). The net return on sales was down 0.28 percentage points, from 0.32% to 0.04%.

#### Net Return on Sales

	2009	2008	2007	2006	2005
	0.04	0.3	3.9	2.8	6.7
	% of net sales				

## FINANCIAL CONDITION

### Assets

Current assets decreased by ¥47.7 billion (\$518 million), or 4.0%, compared with the prior year-end, to ¥1,274.5 billion (\$13.8 billion). An increase of ¥122.2 billion (\$1,327 million) in cash and cash equivalents was offset by a decrease of ¥142.3 billion (\$1,545 million) in merchandise and finished products, work in process, raw materials and supplies; a decrease of ¥12.0 billion (\$130 million) in deferred tax assets; and an increase of ¥1.9 billion (\$21 million) in allowance for doubtful accounts.

In fixed assets, depreciation and amortization of ¥180.5 billion (\$1,960 million) exceeded capital investment of ¥178.2 billion (\$1,935 million), but net property, plant and equipment increased by ¥22.9 billion (\$249 million) compared with the previous year-end, mainly reflecting the exchange impact of the weaker Japanese yen.

Due in part to higher stock prices, investments in securities increased ¥71.3 billion (\$774 million), and consequently investments and other assets were up ¥64.7 billion (\$702 million) compared with the prior year-end, to ¥457.4 billion (\$4,966 million).

The total of "property, plant and equipment" and "investments and other assets" increased by ¥87.6 billion (\$951 million), or 6%, compared with the previous year-end, to ¥1,534.0 billion (\$16.7 billion).

Total assets increased by ¥40.0 billion (\$434 million), or 1%, compared with the previous year-end, to ¥2,808.4 billion (\$30.5 billion).

### Liabilities

Short-term debt and the current portion of long-term debt decreased by ¥112.0 billion (\$1,216 million) and notes and accounts payable were down ¥65.7 billion (\$713 million). Consequently total current liabilities were down 19%, or ¥177.3 billion (\$1,925 million), to ¥762.7 billion (\$8,281 million).

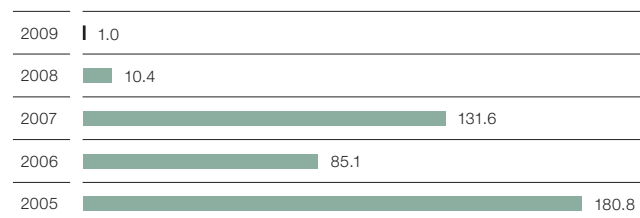
Accrued pension and liability for retirement benefits declined ¥27.6 billion (\$300 million), but long-term debt increased by ¥122.4 billion (\$1,329 million). Total long-term liabilities were up 14%, or ¥116.5 billion (\$1,265 million), to ¥924.9 billion (\$10.0 billion).

Total interest-bearing debt\*, which is recorded in current liabilities and long-term liabilities, increased by ¥10.4 billion (\$113 million), or 1%, compared with the prior year-end, to ¥786.3 billion (\$8,537 million).

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

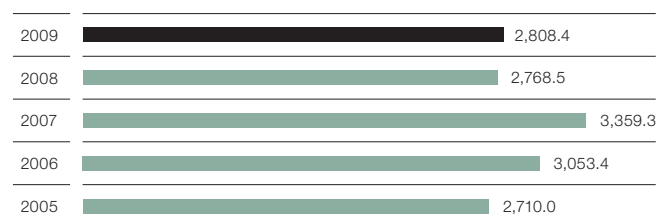
### Net Income

¥ billion



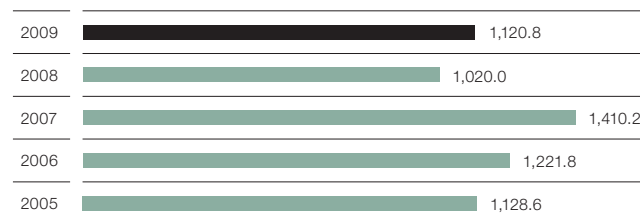
### Total Assets

¥ billion



### Total Equity

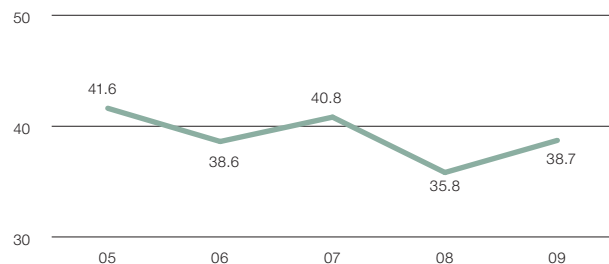
¥ billion



Note: By adoption of the new accounting standard for presentation of equity, minority interests, and deferred gain (loss) on derivative instruments are included in equity for the year ended December 31, 2006.

### Ratio of Shareholders' Equity to Total Assets

%



## Equity

Total equity at December 31, 2009 amounted to ¥1,120.8 billion (\$12.2 billion). This was ¥100.8 billion (\$1,094 million), or 10%, higher than at the previous year-end. Cash dividends paid were ¥14.9 billion (\$162 million), while net income was ¥1.0 billion (\$11 million), net unrealized gain (loss) on available-for-sale securities was up by ¥55.2 billion (\$599 million), foreign currency translation adjustments increased by ¥37.7 billion (\$409 million).

The ratio of shareholders' equity, excluding stock acquisition rights and minority interests, to total assets at the end of December 2009 was 38.7%, an increase of 2.9 percentage points from the previous year-end.

The ratio of total debt to debt and shareholders' equity was 42.0% at December 31, 2009 compared with a ratio of 43.9% at the previous year-end.

Net return on shareholders' equity (ROE) was 0.1%, compared with 0.9% in fiscal 2008. Net return on total assets (ROA) equaled 0.04%, a decrease of 0.3 percentage points compared with the previous year.

## Net Return on Shareholders' Equity

	2009	2008	2007	2006	2005
	% of simple average of year-end shareholders' equity				
	0.1	0.9	10.3	7.4	17.5

## Net Return on Assets

	2009	2008	2007	2006	2005
	% of simple average of year-end total assets				
	0.04	0.3	4.1	3.0	7.2

## Cash Flow

Consolidated cash and cash equivalents increased by ¥122.2 billion (\$1,327 million) during 2009, to ¥236.3 billion (\$2,566 million), compared with a decrease of ¥136.5 billion during the prior year.

Net cash provided by operating activities increased by ¥228.9 billion (\$2,485 million) compared with the prior year, to ¥338.7 billion (\$3,678 million).

The principal items included income before income taxes and minority interests of ¥35.4 billion (\$384 million), compared with ¥53.5 billion during the prior year, and depreciation and amortization of ¥180.5 billion (\$1,960 million), compared with ¥187.4 billion during the prior year. Those items offset income taxes paid of ¥19.7 billion (\$214 million), compared with ¥57.7 billion in the prior year.

Net cash used in investing activities decreased by ¥77.1 billion (\$837 million) compared with the prior year, to ¥188.3 billion (\$2,045 million). Expenditures included payments of ¥191.2 billion (\$2,076 million) for purchase of property, plant and equipment, compared with ¥268.3 billion during the prior year.

## ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries  
Years ended December 31

	2009	2008	2007	2006
	Millions of yen, except per share data and financial ratios			
<b>Net Sales</b>	¥ 2,597,002	¥ 3,234,406	¥ 3,390,219	¥ 2,991,275
Overseas sales	1,982,192	2,448,300	2,589,006	2,213,880
Tires (net of inter-segment transactions)	2,151,314	2,622,890	2,750,374	2,393,165
Diversified products (net of inter-segment transactions)	445,687	611,516	639,845	598,110
Operating income	75,712	131,551	249,962	190,876
Net income	1,044	10,412	131,630	85,121
Total equity	1,120,797	1,019,996	1,410,225	1,221,846
Total assets	2,808,439	2,768,470	3,359,255	3,053,440
Ratio of shareholders' equity to total assets	38.7	35.8	40.8	38.6
<b>Per Share in Yen:</b>				
Net Income				
Basic	1.33	13.33	168.69	109.10
Diluted	1.33	13.33	168.65	109.07
Shareholders' equity	1,385.43	1,263.30	1,757.23	1,511.43
Cash dividends	16.00	24.00	26.00	24.00
<b>Capital Expenditure</b>	178,204	275,301	272,381	261,335
<b>Depreciation and Amortization</b>	180,547	187,420	173,585	145,349
<b>Research and Development Costs</b>	85,766	93,252	86,748	86,687

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 ¥92.10 to \$1, the approximate year-end rate.

2 By adoption of the new accounting standard for presentation of equity, minority interests, stock acquisition rights and deferred gain (loss) on derivative instruments are included in equity from fiscal 2006.

Net cash used in financing activities totaled ¥33.6 billion (\$365 million), while net cash provided by financing activities totaled ¥76.4 billion in the prior year. The major items included a net decrease of ¥195.7 billion (\$2,125 million) in payment for short-term debt, compared with a net increase of ¥107.7 billion during the prior year. These decreases offset proceeds from long-term debt of ¥231.9 billion (\$2,518 million), compared with ¥86.1 billion during the prior year.

### Capital Financing and Liquidity

Besides issuance of straight bonds in Japan and borrowings from financial institutions, the Companies taps financial markets directly through the issuance of medium-term notes in overseas markets and commercial paper. The Companies continues to seek to diversify risk and to reduce financing costs through methods such as the securitization of receivables and the use of leases.

### DIVIDEND

Comprising interim dividends of ¥8.0 (\$0.09) and year-end dividends of ¥8.0 (\$0.09) per share, annual dividends for fiscal 2009 totaled ¥16.0 (\$0.17) per share.

### Cash Flow

Net cash provided by operating activities  
¥ billion

2009	338.7
2008	109.8
2007	333.6
2006	149.1
2005	149.0

### Capital Expenditure

¥ billion

2009	178.2
2008	275.3
2007	272.4
2006	261.3
2005	203.7

2005	2004	2003	2002	2001	2000	1999
Millions of yen, except per share data and financial ratios						
¥ 2,691,376	¥ 2,416,685	¥ 2,303,917	¥ 2,247,769	¥ 2,133,825	¥ 2,006,902	¥ 2,085,720
1,945,283	1,700,599	1,593,863	1,508,112	1,377,433	1,248,185	1,322,914
2,152,950	1,927,989	1,836,395	1,797,598	1,687,235	1,560,182	1,638,304
538,426	488,696	467,522	450,171	446,590	446,720	447,416
213,851	197,697	183,294	183,862	118,023	161,785	236,777
180,796	114,453	88,720	45,379	17,389	17,741	88,690
1,128,597	934,981	887,987	796,013	835,144	778,713	743,069
2,709,962	2,333,708	2,220,613	2,143,928	2,443,793	2,038,578	1,792,744
41.6	40.1	40.0	37.1	34.2	38.2	41.4
226.92	138.96	102.75	51.97	20.20	20.60	103.98
226.86	138.94	102.56	51.89	20.19	20.59	102.96
1,443.43	1,163.82	1,056.54	924.48	970.20	904.40	862.80
24.00	19.00	16.00	16.00	16.00	16.00	14.00
203,670	191,000	155,742	116,764	104,313	137,772	175,495
127,609	111,491	104,383	119,466	132,920	119,925	118,464
79,415	72,898	70,967	68,161	62,755	61,116	N.A.

### PROJECTION FOR FISCAL 2010

In 2010, the Companies will likely experience challenging conditions because, although economies are trending toward recovery, trends in the prices of raw materials and materials are uncertain, and the Companies is expected to face rapid changes in the structures of demand and competition worldwide.

Amid such a business environment, management predicts that unit sales of tires in Japan will increase over the level of the previous year. In the diversified products segment, sales of such products as precision electronic components are forecasted to increase year-over-year.

In the Americas, management anticipates that unit sales of tires in the North American tire business will increase over the level of the previous year, while in Europe it also forecasts that unit sales of tires will increase year-over-year.

Management forecasts consolidated net sales in fiscal 2010 of ¥2,830.0 billion, an increase of 9% from fiscal 2009. Management also expects operating income to increase 24%, to ¥94.0 billion, with net income rising to ¥45 billion. Projected annual dividends in fiscal 2010 are ¥16 per share.

These performance forecasts are based on assumed average exchange rates of ¥90 against the dollar and ¥125 against the euro, compared with the full-year average rates recorded in fiscal 2009 of ¥94 and ¥130, respectively.

## OPERATIONAL RISKS

The status of the Bridgestone Group (Bridgestone Corporation and its consolidated subsidiaries, "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 alert to 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 30, 2010.

### MAJOR CATEGORIES OF OPERATIONAL RISK

#### Demand and Macroeconomic Conditions

The Companies conducts research and development (R&D), purchasing, manufacturing, logistics, marketing, sales 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 the fiscal year ended December 31, 2009, the consolidated sales split by geographic segment (for external customers only) was 43% from operations in the Americas, 26% from Japan and 14% from Europe. An economic downturn in any of these regions could exert a major adverse effect on the business results and financial position of the Companies.

The core tire business 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 operates is also a function of 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.

Large and ultra-large off-the-road radial tires for construction and mining vehicles are affected by business conditions in the resource industries and in the civil engineering and construction industries. Trends in those business conditions that might cause demand for these tires 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 such as in Japan, Europe and North America) is closely related to seasonal weather trends. Low snowfall 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, anti-competitive practices, and environmental protection.

Examples of historical legal and regulatory changes that have had an effect on the Companies' tire operations include the prohibition of spiked tires in Japan and the passage of the Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act in the United States. Legal and regulatory developments have also affected diversified products operations in the past, such as prohibitions on the use of chlorofluorocarbons in urethane foam. New or revised laws and regulations could limit the scope of business activities, raise operating costs, or otherwise adversely affect the business results and financial position of the Companies.

The Companies' business 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 its business activities in Japan or overseas markets. In the event that an important lawsuit is instituted or investigation by governmental authorities is commenced, the Companies' business results and financial position could be affected.

In regard to the alleged international cartel activities regarding the sale of marine hoses and improper monetary payments to foreign agents regarding sales of industrial products, including marine hoses, please refer to "Note 19: Information about the Company and certain of its subsidiaries' alleged cartel activities regarding the sale of marine hoses and improper monetary payments" on page 32.

#### Operational Disruptions

##### Natural Disasters, Wars, Terrorist Actions, Civil Strife, Social and Political Unrest

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

Also, such factors as abrupt, substantial fluctuations in political/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 has 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) and other measures have been created to promote swift response to an earthquake and early restoration of operations. The Companies is 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 such 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 condition.

Operational disruptions at those plants where 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 customers' confidence in the Companies as a reliable sources 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 for any reason, such as a natural or manmade disaster, or through human error, could cause significant operational disruption, with the potential for major adverse effects on performance. The Companies has 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 strives to enhance its 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 affect the operating results and financial position of the Companies adversely 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 employs foreign currency forward contracts to hedge short-term exposure to exchange rate fluctuations between the yen and the 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 encounters numerous competitors in both the tire and diversified products segments, across the entire product lineup. Competitive price pressures have the potential to affect the operating results and financial position of the Companies adversely. In addition, the Companies faces a constant risk of demands for price reductions from large corporate clients.

The Companies strives 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 targets the development and introduction of products equipped with new and advanced technologies, and then aims 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 invests 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 has honed its 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 at some point in the future. 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 suits and other litigation pose a particular risk in the United States.

### **Raw Materials Procurement**

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

The availability of natural rubber supplies in quantities sufficient for manufacturing purposes is subject to disruption due to natural disasters, war, 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 a potential problem with other basic raw materials.

The Companies relies on in-house upstream raw materials operations and on third-party suppliers for important raw materials. Any disruption of activity at 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 condition. Increases in the

costs of raw materials due to tight supply, trade for speculation purpose 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 material costs.

### **Pension Costs**

Pension-related costs and obligations are reliant on actuarial assumptions concerning a number of variables, including discount rates and the expected 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 treats 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 SHEETS

Bridgestone Corporation and Subsidiaries  
December 31, 2009 and 2008

	Note	2009	2008	2009
	2		Millions of yen	Thousands of U.S. dollars
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents		¥ 236,270	¥ 114,075	\$ 2,565,364
Notes and accounts receivable, less allowance for doubtful accounts of ¥18,419 million (\$199,989 thousand) in 2009 and ¥16,491 million in 2008	7	465,542	462,185	5,054,745
Inventories	5,7	435,284	577,574	4,726,210
Deferred tax assets	14	58,558	70,593	635,809
Other current assets		78,803	97,695	855,624
<b>Total Current Assets</b>		<b>1,274,457</b>	<b>1,322,122</b>	<b>13,837,752</b>
<b>Property, Plant and Equipment:</b>				
	7			
Land		150,512	141,194	1,634,224
Buildings and structures		724,023	677,488	7,861,270
Machinery and equipment		1,935,441	1,804,228	21,014,560
Construction in progress		86,133	99,370	935,212
		2,896,109	2,722,280	31,445,266
Accumulated depreciation		(1,819,507)	(1,668,603)	(19,755,776)
<b>Net Property, Plant and Equipment</b>		<b>1,076,602</b>	<b>1,053,677</b>	<b>11,689,490</b>
<b>Investments and Other Assets:</b>				
Investments in securities	6	198,857	127,606	2,159,142
Investments in and advances to affiliated companies		15,966	14,854	173,355
Long-term loans receivable, less allowance for doubtful accounts of ¥747 million (\$8,111 thousand) in 2009 and ¥845 million in 2008		7,923	8,335	86,026
Deferred tax assets	14	134,307	133,658	1,458,274
Other assets		100,327	108,218	1,089,327
<b>Total Investments and Other Assets</b>		<b>457,380</b>	<b>392,671</b>	<b>4,966,124</b>
<b>Total Assets</b>		<b>¥ 2,808,439</b>	<b>¥ 2,768,470</b>	<b>\$ 30,493,366</b>

See notes to consolidated financial statements.

	Note	2009	2008	2009
	2		Millions of yen	Thousands of U.S. dollars
<b>Liabilities and Equity</b>				
<b>Current Liabilities:</b>				
Short-term debt	7	¥ 140,586	¥ 323,837	\$ 1,526,450
Current portion of long-term debt	7	101,790	30,524	1,105,212
Notes and accounts payable		299,968	365,694	3,256,981
Income taxes payable		11,290	12,758	122,584
Accrued expenses		160,226	147,566	1,739,696
Provision for voluntary tire recall	18	—	4,506	—
Deferred tax liabilities	14	1,198	1,349	13,008
Other current liabilities		47,639	53,745	517,252
<b>Total Current Liabilities</b>		<b>762,697</b>	<b>939,979</b>	<b>8,281,183</b>
<b>Long-term Liabilities:</b>				
Long-term debt	7	543,950	421,600	5,906,080
Accrued pension and liability for retirement benefits	8	284,758	312,318	3,091,835
Deferred tax liabilities	14	37,335	16,316	405,375
Provision for environmental remediation		3,921	788	42,573
Other liabilities		54,981	57,473	596,971
<b>Total Long-term Liabilities</b>		<b>924,945</b>	<b>808,495</b>	<b>10,042,834</b>
<b>Total Liabilities</b>		<b>1,687,642</b>	<b>1,748,474</b>	<b>18,324,017</b>
<b>Contingent Liabilities and Commitments</b>	16,18			
<b>Equity:</b>				
Common stock authorized—1,450,000,000 shares, issued—813,102,321 shares in 2009 and 2008	3,9	126,354	126,354	1,371,922
Capital surplus		122,647	122,658	1,331,672
Stock acquisition rights		337	134	3,659
Retained earnings		1,006,859	1,003,996	10,932,237
Net unrealized gain (loss) on available-for-sale securities		100,697	45,456	1,093,345
Deferred gain (loss) on derivative instruments		(845)	(839)	(9,175)
Foreign currency translation adjustments		(214,264)	(251,949)	(2,326,428)
Treasury stock—at cost, 28,797,299 shares in 2009 and 28,818,808 shares in 2008		(54,847)	(54,891)	(595,516)
<b>Total</b>		<b>1,086,938</b>	<b>990,919</b>	<b>11,801,716</b>
Minority interests		33,859	29,077	367,633
<b>Total Equity</b>		<b>1,120,797</b>	<b>1,019,996</b>	<b>12,169,349</b>
<b>Total Liabilities and Equity</b>		<b>¥2,808,439</b>	<b>¥2,768,470</b>	<b>\$30,493,366</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Bridgestone Corporation and Subsidiaries  
Years ended December 31, 2009, 2008, and 2007

	Note	2009	2008	2007	2009
	2			Millions of yen	Thousands of U.S. dollars
<b>Net Sales</b>	17	¥2,597,002	¥3,234,406	¥3,390,219	\$28,197,633
<b>Cost of Sales</b>		1,766,950	2,216,530	2,259,149	19,185,125
Gross profit		830,052	1,017,876	1,131,070	9,012,508
<b>Selling, General and Administrative Expenses</b>		754,340	886,325	881,108	8,190,445
Operating income	17	75,712	131,551	249,962	822,063
<b>Other Income (Expenses):</b>					
Interest and dividend income		6,117	10,814	10,510	66,417
Interest expense		(26,065)	(33,901)	(33,047)	(283,008)
Foreign currency exchange loss		(3,286)	(23,050)	(3,509)	(35,678)
Gain on sales of property, plant and equipment	13	4,056	10,034	—	44,039
Impairment loss	13	—	(10,632)	—	—
Loss on disposals of property, plant and equipment		(5,483)	(4,327)	—	(59,533)
Loss on valuation of investments in securities		(3,767)	(6,502)	—	(40,901)
Loss on provision for environmental remediation	13	(3,279)	—	—	(35,603)
Plant restructuring costs in Oceania	13	(10,618)	—	—	(115,288)
Plant restructuring costs in the Americas	13	—	(2,079)	—	—
Loss related to EU competition law case	13	—	(7,486)	—	—
Loss related to voluntary tire replacement	13,18	—	—	(3,338)	—
Other—net		1,979	(10,925)	(4,900)	21,488
<b>Total</b>		(40,346)	(78,054)	(34,284)	(438,067)
<b>Income before Income Taxes and Minority Interests</b>		35,366	53,497	215,678	383,996
<b>Income Taxes:</b>	14				
Current		21,694	41,346	75,921	235,548
Deferred		7,524	(1,350)	1,647	81,694
<b>Total</b>		29,218	39,996	77,568	317,242
Income before minority interests		6,148	13,501	138,110	66,754
<b>Minority Interests</b>		(5,104)	(3,089)	(6,480)	(55,418)
<b>Net Income</b>		¥ 1,044	¥ 10,412	¥ 131,630	\$ 11,336
	2			Yen	U.S. dollars
<b>Per Share of Common Stock:</b>					
Basic	11	¥ 1.33	¥13.33	¥168.69	\$0.01
Diluted	11	1.33	13.33	168.65	0.01
Cash dividends applicable to the year		16.00	24.00	26.00	0.17

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Bridgestone Corporation and Subsidiaries  
Years ended December 31, 2009, 2008, and 2007

	Note	Outstanding number of shares of common stock Thousands	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity Millions of yen
Balance at January 1, 2007		780,157	¥126,354	¥122,079	—	¥ 887,217	¥ 170,250	¥ 23	¥ (64,021)	¥(62,747)	¥1,179,155	¥42,691	¥1,221,846
Net income for the year						131,630					131,630		131,630
Cash dividends						(19,506)					(19,506)		(19,506)
Retirement benefit obligations						42,880					42,880		42,880
Purchase of treasury stock		(10)								(26)	(26)		(26)
Disposal of treasury stock		204				(19)				390	371		371
Net change in the year					¥ 40		13,328	103	23,321		36,792	(3,762)	33,030
Balance at December 31, 2007		780,351	126,354	122,079	40	1,042,202	183,578	126	(40,700)	(62,383)	1,371,296	38,929	1,410,225
Net income for the year						10,412					10,412		10,412
Cash dividends						(20,290)					(20,290)		(20,290)
Retirement benefit obligations						(28,328)					(28,328)		(28,328)
Purchase of treasury stock		(11)								(20)	(20)		(20)
Disposal of treasury stock		3,944		579						7,512	8,091		8,091
Net change in the year					94		(138,122)	(965)	(211,249)		(350,242)	(9,852)	(360,094)
Balance at December 31, 2008		784,284	126,354	122,658	134	1,003,996	45,456	(839)	(251,949)	(54,891)	990,919	29,077	1,019,996
Effect of application for ASBJ Practical Issues Task Force No. 18	3					136					136		136
Net income for the year						1,044					1,044		1,044
Cash dividends						(14,902)					(14,902)		(14,902)
Retirement benefit obligations						16,585					16,585		16,585
Purchase of treasury stock		(7)								(10)	(10)		(10)
Disposal of treasury stock		28		(11)						54	43		43
Net change in the year					203		55,241	(6)	37,685		93,123	4,782	97,905
Balance at December 31, 2009		784,305	¥126,354	¥122,647	¥337	¥1,006,859	¥ 100,697	¥ (845)	¥(214,264)	¥(54,847)	¥1,086,938	¥33,859	¥1,120,797

	Note	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity Thousands of U.S. dollars
Balance at December 31, 2008		\$1,371,922	\$1,331,791	\$1,455	\$10,901,151	\$ 493,551	\$(9,110)	\$(2,735,603)	\$(595,993)	\$10,759,164	\$315,711	\$11,074,875
Effect of application for ASBJ Practical Issues Task Force No. 18	3				1,476					1,476		1,476
Net income for the year					11,336					11,336		11,336
Cash dividends					(161,802)					(161,802)		(161,802)
Retirement benefit obligations					180,076					180,076		180,076
Purchase of treasury stock									(109)	(109)		(109)
Disposal of treasury stock				(119)					586	467		467
Net change in the year				2,204		599,794	(65)	409,175		1,011,108	51,922	1,063,030
Balance at December 31, 2009		\$1,371,922	\$1,331,672	\$3,659	\$10,932,237	\$1,093,345	\$(9,175)	\$(2,326,428)	\$(595,516)	\$11,801,716	\$367,633	\$12,169,349

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Bridgestone Corporation and Subsidiaries  
Years ended December 31, 2009, 2008, and 2007

	Note	2009	2008	2007	2009
	2			Millions of yen	Thousands of U.S. dollars
<b>Cash Flows from Operating Activities:</b>					
Income before income taxes and minority interests		¥ 35,366	¥ 53,497	¥ 215,678	\$ 383,996
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:					
Depreciation and amortization		180,547	187,420	173,585	1,960,337
Increase (decrease) in allowance for doubtful accounts		1,214	3,756	—	13,181
Increase (decrease) in accrued pension and liability for retirement benefits		(3,593)	1,500	8,660	(39,012)
Interest and dividend income		(6,117)	(10,814)	(10,510)	(66,417)
Interest expense		26,065	33,901	33,047	283,008
Foreign exchange loss and gain		—	14,465	—	—
Gain on sales of property, plant and equipment		(4,056)	(10,034)	—	(44,039)
Impairment loss		—	10,632	—	—
Loss on disposals of property, plant and equipment		5,483	4,327	—	59,533
Loss on valuation of investments in securities		3,767	6,502	—	40,901
Loss on provision for environmental remediation		3,279	—	—	35,603
Plant restructuring costs in Oceania		10,618	—	—	115,288
Plant restructuring costs in the Americas		—	2,079	—	—
Loss related to EU competition law case		—	7,486	—	—
Loss related to voluntary tire replacement		—	—	3,338	—
Change in assets and liabilities:					
Decrease (increase) in notes and accounts receivable		7,021	31,580	(11,779)	76,232
Decrease (increase) in inventories		163,668	(144,615)	8,338	1,777,068
Increase (decrease) in notes and accounts payable		(54,163)	(11,115)	26,507	(588,089)
Other		15,915	10,720	(30,297)	172,801
Subtotal		385,014	191,287	416,567	4,180,391
Interest and dividends received		6,162	10,836	10,503	66,905
Interest paid		(25,366)	(34,700)	(33,019)	(275,418)
Payments related to EU competition law case		(7,421)	—	—	(80,575)
Payments related to voluntary tire replacement		—	—	(3,338)	—
Income taxes paid		(19,707)	(57,650)	(57,141)	(213,974)
<b>Net Cash Provided by Operating Activities</b>		<b>338,682</b>	<b>109,773</b>	<b>333,572</b>	<b>3,677,329</b>
<b>Cash Flows from Investing Activities:</b>					
Payments for purchase of property, plant and equipment		(191,241)	(268,334)	(268,630)	(2,076,450)
Proceeds from sales of property, plant and equipment		6,793	15,812	3,456	73,757
Payments for investments in securities, subsidiaries and affiliated companies		(8,064)	(18,105)	(10,608)	(87,557)
Proceeds from sales of investment in securities		4,138	—	—	44,929
Proceeds from redemption of investment securities		3,000	—	—	32,573
Payments for acquisition of newly consolidated subsidiaries		—	—	(109,565)	—
Other		(2,883)	5,319	7,790	(31,302)
<b>Net Cash Used in Investing Activities</b>		<b>(188,257)</b>	<b>(265,308)</b>	<b>(377,557)</b>	<b>(2,044,050)</b>
<b>Cash Flows from Financing Activities:</b>					
Net increase (decrease) in short-term debt		(195,730)	107,678	(19,982)	(2,125,190)
Proceeds from long-term debt		231,873	86,106	175,083	2,517,622
Repayments of long-term debt		(52,768)	(103,452)	(38,835)	(572,942)
Cash dividends paid		(14,905)	(20,336)	(19,461)	(161,835)
Proceeds from sale of treasury stock		—	8,092	—	—
Repayments of obligations under finance leases		—	(1,499)	(1,373)	—
Other		(2,080)	(226)	(1,351)	(22,584)
<b>Net Cash Provided by Financing Activities</b>		<b>(33,610)</b>	<b>76,363</b>	<b>94,081</b>	<b>(364,929)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>		<b>5,380</b>	<b>(57,306)</b>	<b>2,187</b>	<b>58,415</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		<b>122,195</b>	<b>(136,478)</b>	<b>52,283</b>	<b>1,326,765</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>		<b>114,075</b>	<b>250,553</b>	<b>198,270</b>	<b>1,238,599</b>
<b>Cash and Cash Equivalents at End of Year</b>		<b>¥ 236,270</b>	<b>¥ 114,075</b>	<b>¥ 250,553</b>	<b>\$ 2,565,364</b>

See notes to consolidated financial statements.

## SUPPLEMENTAL INFORMATION

Bridgestone Americas, Inc. acquired all outstanding shares of Bandag, Incorporated, which was newly consolidated in 2007. The breakdown of assets and liabilities of Bandag, Incorporated at the date of acquisition was as follows:

	Millions of yen
Current assets	¥ 57,156
Fixed assets	91,114
Current liabilities	(15,761)
Fixed liabilities	(7,965)
Minority interests	(176)
Net assets acquired	124,368
Cash and cash equivalents	(14,803)
Payments for acquisition of newly consolidated subsidiaries	¥109,565

# 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 PRESENTING 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 conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and the accounting principles generally accepted in the U.S.

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 ¥92.10 to \$1, the approximate rate of exchange at December 31, 2009. 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

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries 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 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. Equity in earnings of the affiliated companies is included in other income (expenses) in the consolidated statements of income.

The number of consolidated subsidiaries and affiliated companies for 2009 and 2008 is summarized below:

	2009	2008
Consolidated subsidiaries	404	437
Affiliated companies	159	170

### (b) 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.

### (c) 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.

### (d) Inventories

Prior to January 1, 2009, inventories were substantially stated at cost determined by the moving-average method. In July 2006, the Accounting Standard Board of Japan (the "ASBJ") issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company and its domestic subsidiaries applied this new accounting standard for measurement of inventories effective January 1, 2009. The effect of the new accounting method on inventories is not material.

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

### (e) Investments in Securities

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

(i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gain or loss are included in income; (ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gain or loss, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale

securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investments in securities are reduced to net realizable value by a charge to income.

The Companies do not hold securities for trading purposes.

#### **(f) 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 at rates 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.

#### **(g) 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 would be 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 cash flows from the continued use and eventual disposition of the asset or asset group, or the net selling price at disposition.

The impairment of assets for certain overseas subsidiaries is accounted for in accordance with Accounting Standard Codification ("ASC") 360, "Property, Plant, and Equipment," which was formerly Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and ASC 350, "Intangibles—Goodwill and other," which was formerly SFAS No. 142, "Goodwill and Other Intangible Assets," or International Accounting Standard No. 36, "Impairment of Assets."

#### **(h) 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, is mainly being amortized on a straight-line basis over reasonable economical life up to twenty years.

#### **(i) Provision for Product Warranties**

The 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.

#### **(j) Provision for Environmental Remediation**

The provision for environmental remediation is estimated and recorded to provide for future potential costs, such as costs related to removal and disposal of asbestos based on related legal requirements.

#### **(k) 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, provided by funded defined benefit pension plans based on the rates of pay at the time of termination, years of service and certain other factors. The Company and its domestic subsidiaries account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation, prior service costs, and actuarial gain or loss are being amortized over ten years, respectively.

For certain overseas subsidiaries, unrecognized actuarial gain or loss at the beginning of the fiscal year that exceed 10% of the larger of retirement benefit obligations or pension plan assets is treated as an expense using the straight-line method over a fixed number of years (7 to 12 years) based on the average remaining years of service.

In addition, at certain consolidated subsidiaries in the Americas, an estimated total amount of expenses for post-retirement benefits in addition to pensions is allotted based on the number of years of service provided by the employees.

At certain overseas subsidiaries, unrecognized amounts of actuarial gain or loss not yet treated as expenses are recorded on the balance sheet.

The liability for a lump-sum payment at retirement to directors (members of the Board of Directors) and corporate auditors was formerly provided by the Company and its domestic subsidiaries for at the amount which would be required, based on the Company's regulations, in the event that all directors and corporate auditors terminated their offices at the balance sheet date. Any amounts payable to directors and corporate auditors at retirement were subject to approval at the general shareholders meeting.

On February 19, 2009, the Board of Directors of the Company resolved to abolish a lump-sum payment at retirement to directors of the Company. On March 26, 2009, the general shareholders meeting of the Company resolved to make a lump-sum payment of retirement benefits for duties performed up to the date of abolition of the retirement plan at the time of their retirement.

A lump-sum payment at retirement to corporate auditors of the Company as well as directors and corporate auditors of its domestic subsidiaries remains the same.

#### **(l) Leases**

Finance leases are capitalized, and the present value of the related payments is recorded as a liability. Amortization of capitalized leased assets is computed substantially by the declining-balance method at rates based on the term of the lease.

#### **(m) Income Taxes**

The provision for income taxes is computed based on income before income taxes included in the consolidated statements 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 tax laws 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.

#### **(n) Foreign Currency Transactions**

Short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign currency exchange gain or loss from translation is recognized in income.

#### **(o) 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 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.

#### **(p) 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 future 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 and foreign currency transactions are classified and accounted for as follows: (i) all derivatives are recognized as either assets or liabilities and measured at fair value, and gain or loss on derivative transactions is recognized in income; and (ii) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gain or loss on derivatives is deferred until maturity of the hedged transactions.

The foreign currency forward contracts which are designated as hedging exposure to variable cash flows of forecasted transactions are measured at the fair value, and the unrealized gain or loss is 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 the fair value but the unrealized gain or loss is 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 is translated at the contracted rate if the foreign currency forward contracts and currency swap contracts qualify for hedge accounting. The 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 or income. The gain or loss on commodity future contracts in a hedge to fluctuations of commodity prices is recognized currently in income.

#### **(q) 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.

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

#### **(r) 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.

#### **(s) Accounting Change**

##### **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**

Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The task force prescribes: (i) 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, (ii) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (iii) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
- (3) Expensing capitalized development costs of R&D
- (4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
- (5) Recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated
- (6) Exclusion of minority interests from net income, if contained.

The task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective January 1, 2009. The effect of the new accounting method is not material.

#### (t) New Accounting Pronouncements

##### Business Combinations

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

##### Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to

apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States 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:

- (1) Amortization of goodwill
- (2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
- (3) Expensing capitalized development costs of R&D
- (4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
- (5) Recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated
- (6) Exclusion of minority interests from net income, if contained

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

##### Asset Retirement Obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

#### Construction Contracts

Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published

a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts.

This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

#### NOTE 4: BUSINESS COMBINATION

On May 31, 2007, Bridgestone Americas, Inc. acquired all outstanding shares of Bandag, Incorporated stock for consideration of \$1,022 million. This acquisition was made to offer a comprehensive tire maintenance solution, backed by a complete line of new and retread tire offerings. During the year ended December 31, 2007, the results of operations for

Bandag, Incorporated are included in the consolidated statement of income from June 1, 2007 to December 31, 2007.

This business combination was accounted by the purchase method of accounting.

#### NOTE 5: INVENTORIES

Inventories at December 31, 2009 and 2008 consist of the following:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Finished products	¥271,935	¥368,586	\$2,952,606
Work in process	30,214	36,481	328,056
Raw materials and supplies	133,135	172,507	1,445,548
<b>Total</b>	<b>¥435,284</b>	<b>¥577,574</b>	<b>\$4,726,210</b>

#### NOTE 6: INVESTMENTS IN SECURITIES

Information regarding each category of available-for-sale securities at December 31, 2009 and 2008 is as follows:

	Cost	Unrealized gain	Unrealized loss	Fair value	Cost	Unrealized gain	Unrealized loss	Fair value
	2009				2008			
	Millions of yen							
<b>Securities Classified as:</b>								
<b>Available-for-sale:</b>								
Equity securities	¥46,550	¥147,606	¥(1,663)	¥192,493	¥57,068	¥71,288	¥(7,922)	¥120,434
Debt securities	6,578	56	(62)	6,572	4,990	166	(7)	5,149

Thousands of U.S. dollars

	Cost	Unrealized gain	Unrealized loss	Fair value
<b>Securities Classified as:</b>				
<b>Available-for-sale:</b>				
Equity securities	\$505,429	\$1,602,671	\$(18,056)	\$2,090,043
Debt securities	71,422	608	(673)	71,357

Available-for-sale securities whose fair value is not readily determinable at December 31, 2009 and 2008 are mainly as follows:

	2009	2008	2009
Carrying amount		Millions of yen	Thousands of U.S. dollars
<b>Available-for-sale:</b>			
Equity securities	¥3,253	¥4,113	\$35,320

Proceeds from sales of available-for-sale securities for the years ended December 31, 2009, 2008 and 2007 are ¥4,559 million (\$49,501 thousand), ¥254 million and ¥552 million, respectively. Gross realized gain and loss on these sales, computed on the moving average cost basis, are ¥1,986 million (\$21,564 thousand) and ¥3 million (\$33 thousand), respectively, for the year ended December 31, 2009, ¥197 million and ¥0.2 million, respectively, for the year ended December 31, 2008 and ¥245 million and ¥3 million, respectively, for the year ended December 31, 2007.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at December 31, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Available-for-sale:</b>		
<b>Debt Securities:</b>		
Due 2010	—	—
Due 2011 to 2014	¥ 220	\$ 2,389
Due 2015 to 2019	6,352	68,968
Due 2020 and thereafter	—	—
<b>Total</b>	<b>¥6,572</b>	<b>\$71,357</b>

#### NOTE 7: SHORT-TERM AND LONG-TERM DEBT

Short-term debt at December 31, 2009 and 2008 consists of the following:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Short-term bank loans, weighted average interest rate of 3.2% at December 31, 2009 and 4.5% at December 31, 2008	¥136,672	¥301,100	\$1,483,952
Commercial paper, weighted average interest rate of 0.8% at December 31, 2009 and 2.2% at December 31, 2008	1,914	17,730	20,782
1.1% yen unsecured medium term note, due 2009	—	2,000	—
From 0.3% to 0.4% yen unsecured medium term note, due 2010	2,000	—	21,716
Euro unsecured medium term notes due 2009 with interest rate of 0.7% at December 31, 2008	—	3,007	—
<b>Total</b>	<b>¥140,586</b>	<b>¥323,837</b>	<b>\$1,526,450</b>

Long-term debt at December 31, 2009 and 2008 consists of the following:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Borrowings from banks, insurance companies and others, weighted average interest rate of 3.1% at December 31, 2009 and 4.2% at December 31, 2008 denominated mainly in Japanese yen, U.S. dollars and Euros			
Secured	¥ 186	¥ 183	\$ 2,020
Unsecured	432,139	303,855	4,692,062
2.0% yen unsecured straight bonds, due 2010	30,000	30,000	325,733
0.6% yen unsecured straight bonds, due 2010	30,000	30,000	325,733
0.9% yen unsecured straight bonds, due 2013	50,000	50,000	542,888
0.8% yen unsecured straight bonds, due 2014	60,000	—	651,466
Euro unsecured medium term notes due 2010–2012 with interest rates ranging from 1.1% to 1.4% at December 31, 2009 and due 2009–2012 with interest rates ranging from 1.0% to 1.4% at December 31, 2008	37,277	38,086	404,745
Obligations under finance leases	6,138	—	66,645
<b>Total</b>	<b>645,740</b>	<b>452,124</b>	<b>7,011,292</b>
Less current portion	(101,790)	(30,524)	(1,105,212)
<b>Long-term Debt, Less Current Portion</b>	<b>¥ 543,950</b>	<b>¥421,600</b>	<b>\$ 5,906,080</b>

Annual maturities of long-term debt at December 31, 2009 are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2010	¥101,790	\$1,105,212
2011	217,593	2,362,573
2012	61,159	664,050
2013	118,275	1,284,202
2014	107,654	1,168,882
2015 and thereafter	39,269	426,373
<b>Total</b>	<b>¥645,740</b>	<b>\$7,011,292</b>

Notes and accounts receivable, inventories, 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 ¥1,571 million (\$17,058 thousand) and long-term bank loans of ¥186 million (\$2,020 thousand) at December 31, 2009 is ¥9,049 million (\$98,252 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 20, 2010, Bridgestone Americas, Inc. ("BSAM") and

its major subsidiaries in the U.S. entered into separate eighth amended and restated revolving credit agreements with a syndicate of banks providing an aggregate borrowing commitment of \$1,095 million. These agreements expire on January 2011. 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 and (ii) restrictions on entering into additional debt arrangements and the sale of assets. Further, an event of default under these agreements by any of the major subsidiaries in the U.S. cause an event of default under the BSAM eighth amended and restated revolving credit agreements. The above agreements replace the separate seventh amended and restated revolving credit agreements expired on January 2010, of which the terms were substantially the same as those of the eighth agreements discussed above.

#### NOTE 8: 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. There are escalated payment plans for voluntary retirement at certain specific ages prior to the mandatory retirement age.

Employees serving with certain of the Company's overseas subsidiaries are entitled to either or each of a lump-sum payment at retirement, funded defined benefit pension plans as well as defined contribution pension plans.

The liability for employees' retirement benefits at December 31, 2009 and 2008 consist of the following:

	2009	2008	2009
	Millions of yen		Thousands of U.S. dollars
Projected benefit obligation	¥ 541,060	¥ 520,194	\$ 5,874,701
Fair value of plan assets	(336,232)	(282,020)	(3,650,727)
Unrecognized prior service cost	11,712	15,633	127,166
Unrecognized actuarial gain (loss)	(27,585)	(42,482)	(299,511)
Unrecognized transitional obligation	(1,060)	(2,171)	(11,509)
Prepaid benefit cost	12,734	16,791	138,263
Other	(1,081)	(506)	(11,738)
<b>Net Liability</b>	<b>¥ 199,548</b>	<b>¥ 225,439</b>	<b>\$ 2,166,645</b>

Certain subsidiaries adopt a simplified method in calculating their retirement benefit obligation.

Of the accrued pension and liability for retirement benefits noted above,

a liability for postretirement benefits of ¥85,210 million (\$925,190 thousand) and ¥86,879 million is included in the consolidated balance sheets at December 31, 2009 and 2008, respectively.

The components of the net periodic benefit costs for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007	2009
	Millions of yen			Thousands of U.S. dollars
Service cost	¥ 16,078	¥ 19,306	¥ 17,504	\$ 174,571
Interest cost	23,053	23,975	25,057	250,304
Expected return on plan assets	(15,815)	(24,556)	(24,600)	(171,715)
Amortization of transitional obligation	1,059	1,083	1,089	11,498
Recognized actuarial loss	20,410	4,463	7,360	221,607
Amortization of prior service cost	(1,617)	(1,147)	(1,671)	(17,557)
<b>Net periodic benefit costs</b>	<b>¥ 43,168</b>	<b>¥ 23,124</b>	<b>¥ 24,739</b>	<b>\$ 468,708</b>

Net periodic benefit costs noted above do not include payment costs for defined contribution pension plans provided by the Company and certain of its domestic and overseas subsidiaries of ¥6,091 million

(\$66,135 thousand), ¥6,567 million and ¥7,141 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Assumptions used for the years ended December 31, 2009, 2008 and 2007 are set forth as follows:

	2009		2008		2007	
	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries
Discount rate	2.5%	5.5 to 6.2%	2.5%	5.5 to 6.3%	2.5%	5.5 to 6.2%
Expected rate of return on plan assets	3.0%	5.5 to 9.0%	0.7% to 3.0%	5.5 to 9.0%	0.7% to 3.0%	5.5 to 9.0%
Amortization period of prior service cost	10 years	3 to 12 years	10 years	3 to 12 years	10 years	3 to 12 years
Recognized period of actuarial gain or loss	10 years	7 to 12 years	10 years	7 to 12 years	10 years	7 to 12 years
Amortization period of transitional obligation	10 years	—	10 years	—	10 years	—

## NOTE 9: 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. For Japanese companies that meet certain criteria such as having the Board of Directors, having independent auditors, having the Board of Corporate Auditors, and the term of service of the directors is prescribed as one year rather than two years of normal 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 Act permits Japanese companies to distribute dividends in kind (non-cash 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 total of 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 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 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.

## NOTE 10: STOCK-BASED COMPENSATION

The stock options outstanding as of December 31, 2009 are as follows:

Date of approval	Persons granted	Number of options granted (Thousands of shares)		Date of grant	Exercise price	Exercise period
March 28, 2002 at the general shareholders meeting	Directors	8	264	May 1, 2002	¥1,954	from April 1, 2004 to March 31, 2009
	Selected employees	62			(\$21.22)	
March 28, 2003 at the general shareholders meeting	Directors	10	262	May 1, 2003	¥1,479	from April 1, 2005 to March 31, 2010
	Selected employees	52			(\$16.06)	
March 30, 2004 at the general shareholders meeting	Directors	9	264	May 6, 2004	¥1,864	from April 1, 2006 to March 31, 2011
	Selected employees	59			(\$20.24)	
March 30, 2005 at the general shareholders meeting	Directors	10	258	May 2, 2005	¥2,114	from April 1, 2007 to March 31, 2012
	Selected employees	58			(\$22.95)	
March 30, 2006 at the general shareholders meeting	Directors	10	280	April 28, 2006	¥2,775	from April 1, 2008 to March 31, 2013
	Selected employees	68			(\$30.13)	
March 29, 2007 at the general shareholders meeting	Directors	9	260	May 1, 2007	¥2,546	from April 1, 2009 to March 31, 2014
	Selected employees	65			(\$27.64)	
March 27, 2008 at the general shareholders meeting and the board of directors	Directors	7	234.5	May 1, 2008	¥1,936	from April 1, 2010 to March 31, 2015
	Selected employees	80			(\$21.02)	
March 26, 2009 at the general shareholders meeting and the board of directors	Directors	9	110	May 1, 2009	¥1	from May 1, 2009 to April 30, 2029
	Corporate officers not doubling as directors	20			(\$0.01)	

The stock option activity for the year ended December 31, 2009 is as follows:

	March 28, 2002	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006	March 29, 2007	March 27, 2008	March 26, 2009
<b>Non-Vested (Thousands of shares)</b>								
Outstanding at December 31, 2008	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	110
Expired	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	110
Outstanding at December 31, 2009	—	—	—	—	—	—	—	—
<b>Vested (Thousands of shares)</b>								
Outstanding at December 31, 2008	193	119	227	252	280	260	234.5	—
Vested	—	—	—	—	—	—	—	110
Exercised	—	25	2	—	—	—	—	—
Expired	193	—	—	—	—	—	—	—
Outstanding at December 31, 2009	—	94	225	252	280	260	234.5	110
Exercise price	¥1,954 (\$21.22)	¥1,479 (\$16.06)	¥1,864 (\$20.24)	¥2,114 (\$22.95)	¥2,775 (\$30.13)	¥2,546 (\$27.64)	¥1,936 (\$21.02)	¥1 (\$0.01)
Average stock price at exercise	—	¥1,588 (\$17.24)	¥1,553 (\$16.86)	—	—	—	—	—
Fair value price at grant date	—	—	—	—	—	¥447 (\$4.85)	¥399 (\$4.33)	¥1,264 (\$13.72)

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

	March 26, 2009
Volatility of stock price	40.914%
Estimated remaining outstanding period	10 years
Estimated dividend per share	¥24 (\$0.26)
Risk-free interest rate	1.390%

**NOTE 11: NET INCOME PER SHARE**

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2009, 2008 and 2007 is as follows:

	Net income		Weighted-average shares		EPS	
	Millions of yen	Thousands of shares	Yen	U.S. dollars	For the year ended December 31, 2009	
<b>For the year ended December 31, 2009</b>						
<b>Basic EPS</b>						
Net income available to common shareholders	¥1,044	784,287	¥1.33	\$0.01		
Effect of dilutive securities						
Stock options		110				
<b>Diluted EPS</b>						
Net income for computation	¥1,044	784,397	¥1.33	\$0.01		
<b>For the year ended December 31, 2008</b>						
<b>Basic EPS</b>						
Net income available to common shareholders	¥10,412	781,275	¥13.33			
Effect of dilutive securities						
Stock options		22				
<b>Diluted EPS</b>						
Net income for computation	¥10,412	781,297	¥13.33			

	Net income	Weighted-average shares	EPS
	For the year ended December 31, 2007		
	Millions of yen	Thousands of shares	Yen
Basic EPS			
Net income available to common shareholders	¥131,630	780,284	¥168.69
Effect of dilutive securities			
Stock options		216	
Diluted EPS			
Net income for computation	¥131,630	780,500	¥168.65

## NOTE 12: RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

Research and development costs are ¥85,766 million (\$931,227 thousand), ¥93,252 million and ¥86,748 million for the years ended December 31, 2009, 2008 and 2007, respectively.

## NOTE 13: OTHER INCOME (EXPENSES)

### Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the years ended December 31, 2009 and 2008 mainly consist of gain on sales of land.

### Impairment Loss

During the year ended December 31, 2008, impairment loss has been recognized mainly on intangible assets related to the retread business in the Americas due to uncertainties in economic conditions.

### Loss on Provision for Environmental Remediation

During the year ended December 31, 2009, the Companies have increased the provision for environmental remediation in preparation for rising cost of waste disposal based on related legal requirements.

### Plant Restructuring Costs in Oceania

During the year ended December 31, 2009, some of the Company's overseas subsidiaries in Oceania have recorded costs of their plant closures as a part of tire manufacturing rationalization.

### Plant Restructuring Costs in the Americas

During the year ended December 31, 2008, some of the Company's overseas subsidiaries in the Americas have recorded costs to discontinue production of passenger tires and light truck tires as a part of tire manufacturing rationalization.

### Loss Related to EU Competition Law Case

During the year ended December 31, 2008, the Company has recorded the expense because the Company received a notice of decision imposing a fine from the European Commission with respect to the alleged international cartel of marine hose.

### Loss Related to Voluntary Tire Replacement

During the year ended December 31, 2007, the Company has recorded an amount for a legal settlement of disclosure issues associated with the August 2000 voluntary safety recall.

**NOTE 14: INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for each of the years ended December 31, 2009, 2008 and 2007, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
<b>Deferred Tax Assets:</b>			
Accrued pension and liability for retirement benefits	¥111,465	¥119,753	\$1,210,261
Accrued expenses	30,152	33,493	327,383
Unrealized intercompany profits	20,062	23,578	217,828
Net operating loss carryforwards for tax purposes	52,450	49,052	569,490
Other	52,460	47,962	569,598
Less valuation allowance	(37,249)	(20,771)	(404,441)
<b>Total</b>	<b>229,340</b>	<b>253,067</b>	<b>2,490,119</b>
<b>Deferred Tax Liabilities:</b>			
Reserve for deferred gain related fixed assets for tax purposes	(14,425)	(13,364)	(156,623)
Unrealized gain on available-for-sale securities	(45,184)	(24,423)	(490,597)
Depreciation	(6,765)	(13,005)	(73,453)
Other	(8,634)	(15,689)	(93,746)
<b>Total</b>	<b>(75,008)</b>	<b>(66,481)</b>	<b>(814,419)</b>
Net deferred tax assets	¥154,332	¥186,586	\$1,675,700

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
			%
<b>Normal Effective Statutory Tax Rate</b>	<b>40.6%</b>	<b>40.6%</b>	<b>40.6%</b>
Expenses not deductible for income tax purposes	15.7	18.6	2.1
Lower income tax rates applicable to income in certain consolidated subsidiaries	(11.4)	(3.8)	(2.6)
Tax credit for research and development costs of domestic companies	—	(5.0)	(3.2)
Tax adjustment of overseas companies	8.4	4.3	—
Change in valuation allowance for deferred tax assets	30.9	18.7	(1.7)
Other—net	(1.6)	1.4	0.8
<b>Actual Effective Tax Rate</b>	<b>82.6%</b>	<b>74.8%</b>	<b>36.0%</b>

**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 future 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. Foreign currency forward contracts and currency swap contracts which qualify for hedge accounting for the years ended December 31, 2009 and 2008 are excluded from the disclosure of market value information.

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 balance of derivative contracts at December 31, 2009 and 2008 are as follows:

	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
	2009			2008		
Millions of yen						
<b>Foreign Currency Forward Contracts:</b>						
<b>Sell:</b>						
U.S. dollar	¥56,533	¥57,628	¥(1,095)	¥73,614	¥70,114	¥3,500
Euro	26,820	26,697	123	33,720	33,110	610
Australian dollar	11,280	11,561	(281)	8,618	7,564	1,054
Other	12,889	13,138	(297)	10,271	9,868	403
<b>Buy:</b>						
U.S. dollar	10,187	10,361	174	10,023	9,848	(175)
Japanese yen	592	584	(8)	3,057	3,264	207
Poland zloty	10,261	10,446	185	—	—	—
Other	2,446	2,432	(14)	922	929	7
<b>Currency Swap Contracts:</b>						
Poland zloty receipt, Euro payment	—	—	—	5,580	(71)	(71)
U.S. dollar receipt, Singapore dollar payment	660	(3)	(3)	3,208	107	107
U.S. dollar receipt, Japanese yen payment	—	—	—	2,506	483	483
New Zealand dollar receipt, U.S. dollar payment	—	—	—	785	20	20
Japanese yen receipt, India rupee payment	1,022	(55)	(55)	—	—	—
Other	—	—	—	851	11	11
<b>Interest Rate Swap Contracts:</b>						
Floating rate receipt, fixed rate payment	4,050	(82)	(82)	4,173	(63)	(63)

	Contract amount	Fair value	Unrealized gain (loss)
	2009		
Thousands of U.S. dollars			
<b>Foreign Currency Forward Contracts:</b>			
<b>Sell:</b>			
U.S. dollar	\$613,822	\$625,711	\$(11,889)
Euro	291,205	289,870	1,335
Australian dollar	122,476	125,527	(3,051)
Other	139,946	143,171	(3,225)
<b>Buy:</b>			
U.S. dollar	110,608	112,497	1,889
Japanese yen	6,428	6,341	(87)
Poland zloty	111,411	113,420	2,009
Other	26,558	26,406	(152)
<b>Currency Swap Contracts:</b>			
U.S. dollar receipt, Singapore dollar payment	7,166	(33)	(33)
Japanese yen receipt, India rupee payment	11,097	(597)	(597)
<b>Interest Rate Swap Contracts:</b>			
Floating rate receipt, fixed rate payment	43,974	(890)	(890)

**NOTE 16: CONTINGENT LIABILITIES AND COMMITMENTS**

**(a) Contingent Liabilities**

At December 31, 2009 and 2008, the Companies have the following contingent liabilities:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥1,585	¥2,253	\$17,210
Guarantees and similar items of bank borrowings	222	260	2,410
<b>Total</b>	<b>¥1,807</b>	<b>¥2,513</b>	<b>\$19,620</b>

**(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, 2009 and 2008 are as follows:

	2009	2008	2009
		Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 32,324	¥ 28,490	\$ 350,966
Due after one year	164,343	149,744	1,784,398
<b>Total</b>	<b>¥196,667</b>	<b>¥178,234</b>	<b>\$2,135,364</b>

**(c) Litigation**

See "Note 18: Voluntary tire recall costs and legal liabilities" for contingent legal liabilities in relation to the voluntary tire recall.

## NOTE 17: SEGMENT INFORMATION

Information by business segments, geographic segments and overseas sales, for the years ended December 31, 2009, 2008 and 2007, is as follows:

### (a) Information by Business Segment

	Tires	Diversified products	Total	Elimination or corporate	Consolidated
Year ended December 31, 2009					
Millions of yen					
<b>Net Sales:</b>					
External customers	¥2,151,314	¥445,688	¥2,597,002	—	¥2,597,002
Inter-segment	1,652	8,488	10,140	¥ (10,140)	—
<b>Total</b>	<b>2,152,966</b>	<b>454,176</b>	<b>2,607,142</b>	<b>(10,140)</b>	<b>2,597,002</b>
Operating expenses	2,077,761	453,709	2,531,470	(10,180)	2,521,290
Operating income	¥ 75,205	¥ 467	¥ 75,672	¥ 40	¥ 75,712
Identifiable assets	¥2,417,505	¥393,634	¥2,811,139	¥ (2,700)	¥2,808,439
Depreciation and amortization	¥ 156,922	¥ 23,625	¥ 180,547	¥ —	¥ 180,547
Capital expenditures	¥ 159,676	¥ 21,707	¥ 181,383	¥ —	¥ 181,383
Year ended December 31, 2008					
Millions of yen					
<b>Net Sales:</b>					
External customers	¥2,622,890	¥611,516	¥3,234,406	—	¥3,234,406
Inter-segment	6,260	13,993	20,253	¥ (20,253)	—
<b>Total</b>	<b>2,629,150</b>	<b>625,509</b>	<b>3,254,659</b>	<b>(20,253)</b>	<b>3,234,406</b>
Operating expenses	2,536,394	586,794	3,123,188	(20,333)	3,102,855
Operating income	¥ 92,756	¥ 38,715	¥ 131,471	¥ 80	¥ 131,551
Identifiable assets	¥2,336,836	¥434,707	¥2,771,543	¥ (3,073)	¥2,768,470
Depreciation and amortization	¥ 162,751	¥ 24,669	¥ 187,420	¥ —	¥ 187,420
Impairment loss	¥ 10,148	¥ 484	¥ 10,632	¥ —	¥ 10,632
Capital expenditures	¥ 255,827	¥ 27,354	¥ 283,181	¥ —	¥ 283,181
Year ended December 31, 2007					
Millions of yen					
<b>Net Sales:</b>					
External customers	¥2,750,374	¥639,845	¥3,390,219	—	¥3,390,219
Inter-segment	5,618	16,498	22,116	¥ (22,116)	—
<b>Total</b>	<b>2,755,992</b>	<b>656,343</b>	<b>3,412,335</b>	<b>(22,116)</b>	<b>3,390,219</b>
Operating expenses	2,560,956	601,636	3,162,592	(22,335)	3,140,257
Operating income	¥ 195,036	¥ 54,707	¥ 249,743	¥ 219	¥ 249,962
Identifiable assets	¥2,878,953	¥483,310	¥3,362,263	¥ (3,008)	¥3,359,255
Depreciation and amortization	¥ 150,239	¥ 23,346	¥ 173,585	¥ —	¥ 173,585
Capital expenditures	¥ 257,178	¥ 32,754	¥ 289,932	¥ —	¥ 289,932
Year ended December 31, 2009					
Thousands of U.S. dollars					
<b>Net Sales:</b>					
External customers	\$23,358,458	\$4,839,175	\$28,197,633	—	\$28,197,633
Inter-segment	17,937	92,161	110,098	\$ (110,098)	—
<b>Total</b>	<b>23,376,395</b>	<b>4,931,336</b>	<b>28,307,731</b>	<b>(110,098)</b>	<b>28,197,633</b>
Operating expenses	22,559,837	4,926,265	27,486,102	(110,532)	27,375,570
Operating income	\$ 816,558	\$ 5,071	\$ 821,629	\$ 434	\$ 822,063
Identifiable assets	\$26,248,697	\$4,273,985	\$30,522,682	\$ (29,316)	\$30,493,366
Depreciation and amortization	\$ 1,703,822	\$ 256,515	\$ 1,960,337	\$ —	\$ 1,960,337
Capital expenditures	\$ 1,733,724	\$ 235,690	\$ 1,969,414	\$ —	\$ 1,969,414

The major products and services of each business segment are as follows:

Tires: Tires and tubes, wheels and accessories, retread material and services, auto maintenance, etc.

Diversified products: Chemical products, industrial products, sporting goods, bicycles, etc.

## (b) Information by Geographic Segment

	Japan	The Americas	Europe	Other	Total	Elimination or corporate	Consolidated
							Year ended December 31, 2009
Millions of yen							
<b>Net Sales:</b>							
External customers	¥ 680,346	¥1,123,670	¥359,657	¥433,329	¥2,597,002	—	¥2,597,002
Inter-segment	331,606	9,193	2,907	78,258	421,964	¥(421,964)	—
<b>Total</b>	<b>1,011,952</b>	<b>1,132,863</b>	<b>362,564</b>	<b>511,587</b>	<b>3,018,966</b>	<b>(421,964)</b>	<b>2,597,002</b>
Operating expenses	997,553	1,098,367	374,526	478,681	2,949,127	(427,837)	2,521,290
Operating income	¥ 14,399	¥ 34,496	¥ (11,962)	¥ 32,906	¥ 69,839	¥ 5,873	¥ 75,712
Identifiable assets	¥1,216,398	¥ 862,591	¥443,480	¥479,525	¥3,001,994	¥(193,555)	¥2,808,439
							Year ended December 31, 2008
Millions of yen							
<b>Net Sales:</b>							
External customers	¥ 864,908	¥1,403,046	¥471,029	¥495,423	¥3,234,406	—	¥3,234,406
Inter-segment	457,039	14,242	3,792	103,949	579,022	¥(579,022)	—
<b>Total</b>	<b>1,321,947</b>	<b>1,417,288</b>	<b>474,821</b>	<b>599,372</b>	<b>3,813,428</b>	<b>(579,022)</b>	<b>3,234,406</b>
Operating expenses	1,252,987	1,395,647	479,689	563,927	3,692,250	(589,395)	3,102,855
Operating income	¥ 68,960	¥ 21,641	¥ (4,868)	¥ 35,445	¥ 121,178	¥ 10,373	¥ 131,551
Identifiable assets	¥1,215,783	¥ 860,668	¥460,128	¥472,305	¥3,008,884	¥(240,414)	¥2,768,470
							Year ended December 31, 2007
Millions of yen							
<b>Net Sales:</b>							
External customers	¥ 941,457	¥1,497,977	¥511,731	¥439,054	¥3,390,219	—	¥3,390,219
Inter-segment	430,267	12,758	4,277	109,632	556,934	¥(556,934)	—
<b>Total</b>	<b>1,371,724</b>	<b>1,510,735</b>	<b>516,008</b>	<b>548,686</b>	<b>3,947,153</b>	<b>(556,934)</b>	<b>3,390,219</b>
Operating expenses	1,224,210	1,459,220	498,800	511,049	3,693,279	(553,022)	3,140,257
Operating income	¥ 147,514	¥ 51,515	¥ 17,208	¥ 37,637	¥ 253,874	¥ (3,912)	¥ 249,962
Identifiable assets	¥1,408,965	¥1,081,386	¥581,435	¥536,550	¥3,608,336	¥(249,081)	¥3,359,255
							Year ended December 31, 2009
Thousands of U.S. dollars							
<b>Net Sales:</b>							
External customers	\$ 7,387,036	\$12,200,543	\$3,905,070	\$4,704,984	\$28,197,633	—	\$28,197,633
Inter-segment	3,600,499	99,815	31,564	849,707	4,581,585	\$(4,581,585)	—
<b>Total</b>	<b>10,987,535</b>	<b>12,300,358</b>	<b>3,936,634</b>	<b>5,554,691</b>	<b>32,779,218</b>	<b>(4,581,585)</b>	<b>28,197,633</b>
Operating expenses	10,831,194	11,925,809	4,066,515	5,197,405	32,020,923	(4,645,353)	27,375,570
Operating income	\$ 156,341	\$ 374,549	\$ (129,881)	\$ 357,286	\$ 758,295	\$ 63,768	\$ 822,063
Identifiable assets	\$13,207,362	\$ 9,365,809	\$4,815,201	\$5,206,568	\$32,594,940	\$(2,101,574)	\$30,493,366

Major countries and areas included in each geographic segment are as follows:

- The Americas: United States, Canada, Mexico, Venezuela, Brazil, etc.
- Europe: Germany, United Kingdom, France, Italy, Spain, etc.
- Other: Asia Pacific, Africa, etc.

(c) Overseas Sales

Sales to customers outside of Japan and its percentage over consolidated net sales for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Amount			Percentage		
	2009	2008	2007	2009	2008	2007
	Millions of yen			Thousands of U.S. dollars		
				%		
<b>Areas:</b>						
The Americas	¥1,125,660	¥1,386,319	¥1,489,061	\$12,222,150	43.3%	42.9%
Europe	363,012	489,654	531,581	3,941,498	14.0	15.1
Other	493,520	572,327	568,364	5,358,524	19.0	17.7
<b>Overseas Sales</b>	<b>¥1,982,192</b>	<b>¥2,448,300</b>	<b>¥2,589,006</b>	<b>\$21,522,172</b>	<b>76.3%</b>	<b>75.7%</b>
<b>Net Sales</b>	<b>¥2,597,002</b>	<b>¥3,234,406</b>	<b>¥3,390,219</b>	<b>\$28,197,633</b>	<b>100.0%</b>	<b>100.0%</b>

Major countries and areas included in each geographic area are as follows:

The Americas: United States, Canada, Mexico, Venezuela, Brazil, etc.

Europe: Germany, United Kingdom, France, Italy, Spain, etc.

Other: Asia Pacific, Middle East, Africa, etc.

#### NOTE 18: VOLUNTARY TIRE RECALL COSTS AND LEGAL LIABILITIES

Bridgestone Americas, Inc. and/or certain of its subsidiaries (collectively, "BSA") are defendants in numerous product liability lawsuits and claims seeking compensatory and, in some cases, punitive damages based on allegations that death, personal injury, property damage and/or other loss resulted from accidents caused by tire tread separations or other tire failures, and the Company has been named as a co-defendant in some of those cases. Many of these cases involve certain tires that were part of the BSA's voluntary safety recall that was announced in August 2000 (and completed in August 2001).

In the individual product liability lawsuits and claims BSA's approach is to offer a reasonable settlement and to defend its position aggressively where such settlement is not possible. There can be no assurance that product liability lawsuits and claims will be resolved as currently envisioned and, accordingly, the ultimate liability could be higher than the recorded liability on the balance sheet, which consists of reasonably estimated costs related to the voluntary tire recall. However, in the opinion of BSA management, the ultimate disposition of these product liability lawsuits and claims could possibly be material to the results of operations in any one accounting period but will not have a material adverse effect on the financial position or liquidity of BSA.

In September 2000, the National Highway Traffic Safety Administration ("NHTSA") opened an investigation into BSA's Steeltex tires. NHTSA closed that investigation in April 2002 and found no design or manufacturing defect in these tires. Since then, an attorney who had filed multiple purported class action lawsuits against BSA petitioned NHTSA to reopen its investigation of Steeltex tires. The first petition was filed in November 2002, and that petition was denied by NHTSA in June 2003. A second petition was filed in May 2004, urging NHTSA to investigate Steeltex tires generally, and in particular those tires used on ambulances. NHTSA denied this petition in September 2004. A third petition was filed in

May 2006, and that petition was denied in February 2007.

This same attorney filed two purported class action lawsuits against BSA relating to Steeltex tires (and generally alleging that all such tires are defective). The first suit, filed in a California state court in August 2002, was dismissed in February 2007. The second suit, filed in a U.S. federal court was similar to the first, and a motion to certify a California statewide class was denied in August 2007, and this matter is now fully concluded.

Two securities cases filed in January 2001 against BSA and the Company were pending in a U.S. federal court. These suits, which had been consolidated, alleged (i) misrepresentations regarding the quality of the tires previously under investigation by NHTSA; and (ii) violations of the U.S. Securities Exchange Act. The trial court initially dismissed these actions in their entirety in October 2002. However, in October 2004 a federal court of appeals reversed part of that ruling and held that two statements by the Company in its 1999 annual report, and BSA's statement made in August 2000, might have been actionable under applicable laws and regulations. In July 2006, the plaintiffs moved for class certification on behalf of all purchasers of the Company stock and American Depositary Receipts between March 30, 2000 and August 31, 2000. In November 2006, BSA and the Company filed papers in which they opposed class certification, and in which they again urged the court to dismiss or at least limit the scope of this matter. The court had scheduled a hearing on these issues for September 2007. In September 2007, the parties reached a tentative agreement to settle these matters for a payment by the Company. The Company recorded this payment as loss related to voluntary tire replacement in 2007. This agreement received final court approval in January 2009, and the approval was completed in February 2009. The settlement contains no admission of wrongdoing, such as violation of any securities laws or any material misrepresentations regarding the quality of tires, by BSA or the Company.

**NOTE 19: INFORMATION ABOUT THE COMPANY AND CERTAIN OF ITS SUBSIDIARIES' ALLEGED CARTEL ACTIVITIES REGARDING THE SALE OF MARINE HOSES AND IMPROPER MONETARY PAYMENTS**

Since May 2007, the U.S. Department of Justice, the European Commission, the Fair Trade Commission of Japan, and other authorities have been investigating the Company and certain of its subsidiaries in connection with alleged international cartel activities regarding the sale of marine hoses. In February 2008, the Company received orders from the Fair Trade Commission of Japan. The orders, which directed the Company to cease and desist from violating the Antimonopoly Act and to pay surcharges for violating the Act, were finalized. Moreover, in January 2009, the Company was notified by the European Commission of its decision to impose a fine of €58.5 million for alleged involvement in an international cartel related to the sale of marine hoses. After careful consideration, the Company has determined that bringing the course of proceedings to an end and subsequently focusing on the reinforcement of its compliance system and the promotion of preventive measures are the appropriate actions to take. Therefore, the Company decided not to appeal to the Court of First Instance of European Commission and has paid the imposed fine. Regarding this matter, the Company has recorded ¥7,485 million as an expense related to the European Commission fine in the fiscal year ended December 31, 2008. Proceedings in the other countries which have

investigated have already been finalized or are expected to be finalized. In regard to the class action lawsuit brought in the United States in connection with the marine hose cartel, a final approval of proposed settlements was granted by the Court. Further, the Company has handled other individual civil claims in an appropriate manner. The investigation by the U.S. Department of Justice is continuing. In the future, there is a possibility that fines will be imposed by the U.S. Department of Justice, but at this point, there are a number of uncertain factors regarding the calculation of a specific reserve, and as a result expenses have not been recorded.

Further, aside from the above-mentioned issue, the Company uncovered the fact that there have been incidents of improper monetary payments to foreign agents, a part of which may have been provided to foreign governmental officials, and other possible forms of improper payments. The Company has been able to confirm that inappropriate payments have been identified in connection with the sale of marine hoses and other industrial products. The Company has reported the findings of its internal inquiries to the Japanese Public Prosecutors Office and the U.S. Department of Justice. The impact that these incidents may have on financial results is unclear at this time.

**NOTE 20: SUBSEQUENT EVENTS**

On March 30, 2010, the shareholders of the Company approved payment of a cash dividend of ¥8.0 (\$0.09) per share, or a total of ¥6,274 million (\$68,122 thousand), to shareholders of record at December 31, 2009. A stock option plan for directors as remuneration was also approved by the shareholders of the Company. In addition, a stock option plan for selected employees was approved at the Board of Directors on the same date. These stock option plans provide options to purchase 80 thousand shares of the Company's common stock, at maximum. The exercise price of these stock options is ¥1 (\$0.01). The exercise period is from May 6, 2010 to April 30, 2030.

At the same time, the Board of Directors resolved to establish a new factory as follows:

(1) Objective

Increase tire production capacity in response to growing demand in India

(2) Investment

Planned site for construction of plant: Chakan Industrial Area, near Pune, Maharashtra State

Facility details: Plant for passenger car radial (PSR) tire production and truck and bus radial tire (TBR) production

Planned investment amount: Approximately ¥50 billion (by the end of 2020)

(3) Starting of construction

June 2010

(4) Anticipated production capacity

PSR-Approximately 10,000 units per day, TBR-Approximately 3,000 units per day (Planned by the end of 2020)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Bridgestone Corporation:

We have audited the accompanying consolidated balance sheets of Bridgestone Corporation (the "Company") and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 19 to the consolidated financial statements, since May 2007, the U.S. Department of Justice, the European Commission, the Fair Trade Commission of Japan and other authorities have been investigating the Company and subsidiaries in connection with alleged international cartel activities regarding the sales of marine hose. The orders from the Fair Trade Commission of Japan, which directed the Company to cease and desist from violating the Antimonopoly Act and to pay surcharges for violating the Act, were finalized. The Company has paid the imposed fine based on the decision notified by the European Commission. During the internal inquiry being conducted into facts related to cartel activity, the Company and subsidiaries have uncovered the fact that there have been incidents of improper monetary payments to foreign agents.

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

*Deloitte Touche Tohmatsu LLC*

March 30, 2010

**Bridgestone Corporation**

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