Bridgestone Annual Report 2010

Financial Review

Contents

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

Forward-looking statements

The descriptions of projections and plans that appear in this annual report are "forward-looking statements." They involve known and unknown risks and uncertainties in regard to such factors as product liability, currency exchange rates, raw material costs, labor-management relations, and political stability. These and other variables could cause the 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 ¥81.49 to $1, the prevailing exchange rate on December 31, 2010. 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 2010, the operating environment of the Company and its subsidiaries ("the Companies") was plagued by rising raw materials and materials prices and the appreciating Japanese yen. Despite these challenges, the domestic economy showed signs of slight recovery. Due in part to the effects of government economic stimulus measures, the United States is gradually recovering, and the business climate in Europe showed signs of slight recovery. In Asia, the rate of recovery continued to accelerate throughout all regions, particularly in China.

Net Sales

Net sales rose 10%, or ¥264.6 billion ($3,247 million), to ¥2,861.6 billion ($35.1 billion). Demand recovered, and sales increased in both the tire segment and the diversified products segment. Higher sales were recorded in each geographic segment as well.

The average yen/dollar exchange rate in fiscal 2010 was ¥88, compared with ¥94 in fiscal 2009, while the average yen/euro exchange rate in fiscal 2010 was ¥116, compared with ¥130 in the previous year.

Operating Income

Due in large part to the increase in sales, operating income rose 120%, or ¥90.7 billion ($1,113 million), to ¥166.5 billion ($2,043 million). As a result, the operating margin increased by 2.9 percentage points, from 2.9% to 5.8%.

Operating Income Margin

	2010	2009	2008	2007	2006
					% of sales
	5.8	2.9	4.1	7.4	6.4

Performance by Business Segment

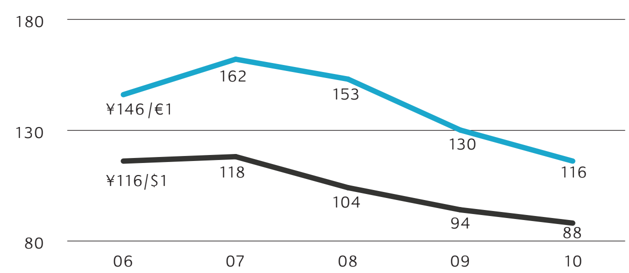
The tire segment includes tires for passenger cars, trucks and buses, construction and mining vehicles, aircraft, and motorcycles, as well as tubes, wheels, related accessories, retreading business, and automotive maintenance services.

Including inter-segment transactions, the tire segment's sales in fiscal 2010 increased by 11% from the previous year, to ¥2,379.6 billion ($29.2 billion). Operating income also increased, rising by 104%, to ¥153.1 billion ($1,879 million).

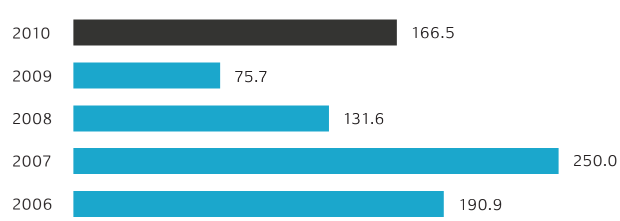
Net Sales
¥ billion

Note: Net sales exclude inter-segment transactions.

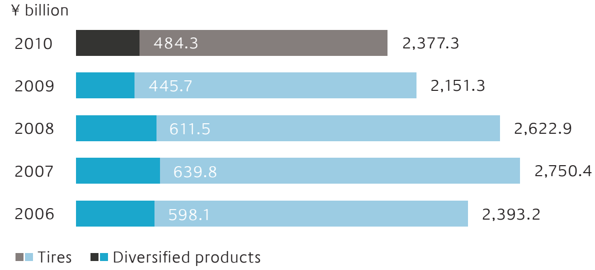
Currency Exchange Rates
Annual average rates



Operating Income
¥ billion



Sales of Tires and Diversified Products
Net of inter-segment transactions
¥ billion



In the tire segment, the Companies worked to maximize their sales momentum by introducing appealing new products worldwide, particularly those that have been identified as strategic and important to the Companies' future growth.

In Japan, unit sales of tires increased greatly over fiscal 2009 due to the recovery in demand.

In the Americas, the unit sales of tires for passenger cars, light trucks, trucks and buses in North American tire operations exceeded greatly those of fiscal 2009 due to the recovery in demand. There was a great increase from 2009 in unit sales of such strategic products as UHP (ultra-high-performance) tires in the replacement sector.

In Europe, unit sales of tires for passenger cars, light trucks, trucks and buses increased greatly over fiscal 2009 due to the recovery in demand, and unit sales of strategic products, led by runflat tires, UHP tires and winter tires, grew significantly over fiscal 2009 in the replacement sector.

In the specialty tire business, unit sales of large and ultralarge off-the-road radial tires for construction and mining vehicles significantly exceeded those of fiscal 2009.

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 2010 increased by 9% from the previous fiscal year, to ¥494.7 billion ($6,071 million), due to the recovery in demand. Operating income in fiscal 2010 was ¥13.4 billion ($164 million), while it was ¥0.5 billion during fiscal 2009.

Composition of Sales by Business Segment
Net of inter-segment transactions

	2010	2009
		% of net sales
Tires	**83.1**	82.8
Diversified products	**16.9**	17.2
	100.0	100.0

Performance by Geographic Segment

Including inter-segment transactions, in Japan, sales in both the tire segment and the diversified products segment exceeded those of fiscal 2009. As a result, net sales and operating income totaled ¥1,154.6 billion ($14.2 billion) and ¥61.7 billion ($757 million), an increase of 14% and 328%, respectively, from fiscal 2009.

In the Americas, net sales and operating income totaled ¥1,223.9 billion ($15.0 billion) and ¥48.4 billion ($594 million), an increase of 8% and 40%, respectively, from fiscal 2009.

In Europe, net sales totaled to ¥383.9 billion ($4,711 million), an increase of 6% from fiscal 2009, and operating income was ¥7.1 billion ($87 million), while operating loss was ¥12.0 billion during fiscal 2009.

In other regions, net sales totaled ¥612.0 billion ($7,510 million) and operating income was ¥45.0 billion ($552 million), an increases of 20% and 37%, respectively, from fiscal 2009.

Composition of Sales by Geographic Segment
Net of inter-segment transactions

	2010	2009
		% of net sales
Japan	**26.4**	26.2
The Americas	**42.4**	43.3
Europe	**13.3**	13.8
Other	**17.9**	16.7
	100.0	100.0

Other Income and Expense

The total of other income and other expenses equaled a loss of ¥24.8 billion ($304 million), compared with the corresponding loss of ¥40.3 billion in the previous year.

Net interest-related expenses decreased by ¥8.1 billion ($99 million), to ¥11.8 billion ($145 million), gain on sales of property, plant and equipment was ¥3.0 billion ($36 million). Furthermore, loss on disposals of property, plant and equipment was ¥4.0 billion ($49 million), and loss on recall of merchandise was ¥2.2 billion ($27 million).

Income before income taxes and minority interests increased by ¥106.3 billion ($1,305 million), or 301%, to ¥141.7 billion ($1,739 million).

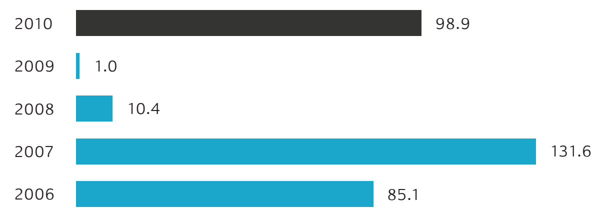
Net Income

Net income increased significantly, rising by ¥97.9 billion ($1,201 million), to ¥98.9 billion ($1,214 million), from ¥1.0 billion in the previous fiscal year. Minority interests increased to ¥6.2 billion ($76 million). As a result, the net return on sales was up 3.42 percentage points, from 0.04% to 3.46%.

Net Return on Sales

	2010	2009	2008	2007	2006
					% of net sales
	3.46	0.04	0.3	3.9	2.8

Net Income
¥ billion



Financial Condition

Assets

Current assets increased by ¥2.5 billion ($31 million), compared with the prior year-end, to ¥1,277.0 billion ($15.7 billion). Cash and cash equivalents declined ¥19.3 billion ($237 million) and notes and accounts receivable decreased ¥48.5 billion ($595 million). However, under US GAAP, the reserve portion of securitized accounts receivable is considered to be an investments in securities, and accordingly ¥82.9 billion ($1,018 million) in the reserve portion of securitized accounts receivable was recorded as investments in securities.

In fixed assets, capital investment of ¥182.6 billion ($2,241 million) exceeded depreciation and amortization of ¥170.7 billion ($2,094 million). However, due to the influence of the appreciation of the yen on the conversion of foreign-currency amounts into yen, net property, plant and equipment decreased by ¥70.0 billion ($859 million) , and deferred tax assets declined ¥31.1 billion ($382 million).

The total of "property, plant and equipment" and "investments and other assets"decreased by ¥104.3 billion ($1,280 million), or 7%, compared with the previous fiscal year-end, to ¥1,429.7 billion ($17.5 billion).

Total assets decreased by ¥101.8 billion ($1,249 million), or 4%, compared with the previous fiscal year-end, to ¥2,706.6 billion ($33.2 billion).

Total Assets
¥ billion

Liabilities

Short-term debt and the current portion of long-term debt increased by¥97.6 billion ($1,197 million), and notes and accounts payable increased ¥26.5 billion ($326 million). Consequently total current liabilities were up 15%, or ¥114.4 billion ($1,403 million), to ¥877.1 billion ($10.8 billion).

Long-term debt declined ¥220.7 billion ($2,708 million), and accrued pension and liability for retirement benefits decreased ¥47.6 billion ($584 million). Consequently, total long-term liabilities were down 29%, or ¥271.5 billion ($3,332 million), to ¥653.4 billion ($8,019 million).

Total interest-bearing debt*, which is recorded in current liabilities and long-term liabilities, decreased by ¥123.2 billion ($1,511 million), or 16%, compared with the prior fiscal year-end, to ¥663.2 billion ($8,138 million).

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

Equity

Total equity at December 31, 2010 amounted to ¥1,176.1 billion ($14.4 billion). This was ¥55.4 billion ($679 million), or 5%, higher than at the previous fiscal year-end. Cash dividends paid were ¥14.1 billion ($173 million), foreign currency translation adjustments decreased by ¥59.8 billion ($733 million), while net income was ¥98.9 billion ($1,214 million), and net unrealized gain (loss) on available-for-sale securities was up by ¥11.4 billion ($139 million).

The ratio of shareholders' equity, excluding stock acquisition rights and minority interests, to total assets at the end of December 2010 was 42.2%, an increase of 3.5 percentage points from the previous fiscal year-end.

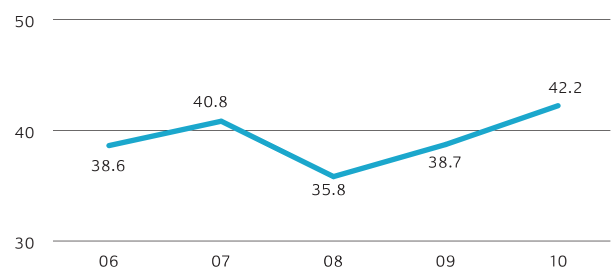
The ratio of total debt to debt and shareholders' equity was 36.7% at December 31, 2010 compared with a ratio of 42.0% at the previous fiscal year-end.

Net return on shareholders' equity (ROE) was 8.9%, an increase of 8.8 percentage points compared with the previous fiscal year. Net return on total assets (ROA) equaled 3.6%, an increase of 3.6 percentage points compared with the previous fiscal year.

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
%



Eleven-year summary

Bridgestone Corporation and Subsidiaries
Years ended December 31

	2010	2009	2008	2007
			Millions of yen, except per share data and financial ratios	
Net Sales	**¥ 2,861,615**	¥ 2,597,002	¥ 3,234,406	¥ 3,390,219
Overseas sales	**2,189,765**	1,982,192	2,448,300	2,589,006
Tires (net of inter-segment transactions)	**2,377,305**	2,151,314	2,622,890	2,750,374
Diversified products (net of inter-segment transactions)	**484,310**	445,687	611,516	639,845
Operating income	**166,450**	75,712	131,551	249,962
Net income	**98,914**	1,044	10,412	131,630
Total equity	**1,176,147**	1,120,797	1,019,996	1,410,225
Total assets	**2,706,640**	2,808,439	2,768,470	3,359,255
Ratio of shareholders' equity to total assets	**42.2**	38.7	35.8	40.8
Per Share in Yen:				
Net Income				
Basic	**126.19**	1.33	13.33	168.69
Diluted	**126.16**	1.33	13.33	168.65
Shareholders' equity	**1,458.01**	1,385.43	1,263.30	1,757.23
Cash dividends	**20.00**	16.00	24.00	26.00
Capital Expenditure	**182,648**	178,204	275,301	272,381
Depreciation and Amortization	**170,663**	180,547	187,420	173,585
Research and Development Costs	**85,154**	85,766	93,252	86,748

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 ¥81.49 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.

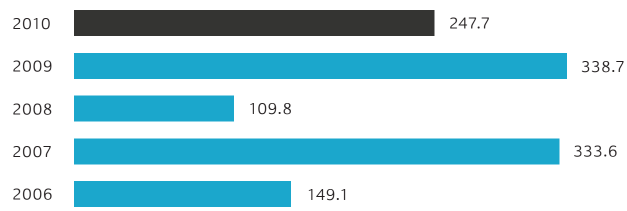
Net Return on Shareholders' Equity

	2010	2009	2008	2007	2006
		% of simple average of year-end shareholders' equity			
	8.9	0.1	0.9	10.3	7.4

Net Return on Assets

	2010	2009	2008	2007	2006
		% of simple average of year-end total assets			
	3.6	0.04	0.3	4.1	3.0

Cash Flow
Net cash provided by operating activities
¥ billion



Cash Flow

Consolidated cash and cash equivalents decreased by ¥19.3 billion ($237 million) during 2010, to ¥216.9 billion ($2,662 million), compared with an increase of ¥122.2 billion during the prior year.

Net cash provided by operating activities decreased by ¥90.9 billion ($1,116 million) compared with the prior fiscal year, to ¥247.7 billion ($3,040 million).

The principal items included income before income taxes and minority interests of ¥141.7 billion ($1,739 million), compared with ¥35.4 billion during the prior fiscal year, and depreciation and amortization of ¥170.7 billion ($2,094 million), compared with ¥180.5 billion during the prior fiscal year. These items offset income taxes paid of ¥22.4 billion ($275 million), compared with ¥19.7 billion in the previous fiscal year.

2006	2005	2004	2003	2002	2001	2000
						Millions of yen, except per share data and financial ratios
¥ 2,991,275	¥ 2,691,376	¥ 2,416,685	¥ 2,303,917	¥ 2,247,769	¥ 2,133,825	¥ 2,006,902
2,213,880	1,945,283	1,700,599	1,593,863	1,508,112	1,377,433	1,248,185
2,393,165	2,152,950	1,927,989	1,836,395	1,797,598	1,687,235	1,560,182
598,110	538,426	488,696	467,522	450,171	446,590	446,720
190,876	213,851	197,697	183,294	183,862	118,023	161,785
85,121	180,796	114,453	88,720	45,379	17,389	17,741
1,221,846	1,128,597	934,981	887,987	796,013	835,144	778,713
3,053,440	2,709,962	2,333,708	2,220,613	2,143,928	2,443,793	2,038,578
38.6	41.6	40.1	40.0	37.1	34.2	38.2
109.10	226.92	138.96	102.75	51.97	20.20	20.60
109.07	226.86	138.94	102.56	51.89	20.19	20.59
1,511.43	1,443.43	1,163.82	1,056.54	924.48	970.20	904.40
24.00	24.00	19.00	16.00	16.00	16.00	16.00
261,335	203,670	191,000	155,742	116,764	104,313	137,772
145,349	127,609	111,491	104,383	119,466	132,920	119,925
86,687	79,415	72,898	70,967	68,161	62,755	61,116

Net cash used in investing activities decreased by ¥17.7 billion ($217 million) compared with the previous fiscal year, to ¥170.6 billion ($2,093 million). Expenditures included payments for purchase of property, plant and equipment of ¥178.0 billion ($2,184 million), compared with payments of ¥191.2 billion during the previous fiscal year.

Net cash used in financing activities increased by ¥48.9 billion ($600 million), compared with the previous fiscal year, to ¥82.5 billion ($1,013 million). The major items included a net decrease of ¥39.8 billion ($489 million) in payment for short-term debt, compared with a net decrease ¥195.7 billion during the previous fiscal year, and repayments of long-term debt of ¥44.9 billion ($551 million), compared with ¥ 52.8 billion during the previous fiscal year.

Capital Financing and Liquidity

In addition to the borrowing from financial institution, the Companies continue to seek to diversify the financial instruments through direct financing such as domestic straight bond, commercial paper, medium-term notes in overseas markets and securitization of receivables and leases as well to diversify risks and to minimize the interest cost.

Dividend

Comprising interim dividends of ¥10.0 ($0.12) and year-end dividends of ¥10.0 ($0.12) per share, annual dividends for fiscal 2010 totaled ¥20.0 ($0.25) per share.

Projection for Fiscal 2011

In 2011, although a moderate recovery has become apparent, the Companies will likely experience challenging conditions because of the continuing economic uncertainties and the rising prices of raw materials and materials. In addition, the Group is expected to face rapid changes in the structures of demand and competition worldwide.

Despite such a challenging business environment, management predicts that unit sales of tires in Japan will increase over the previous fiscal year. In the diversified products segment, sales are forecasted to increase over fiscal 2010.

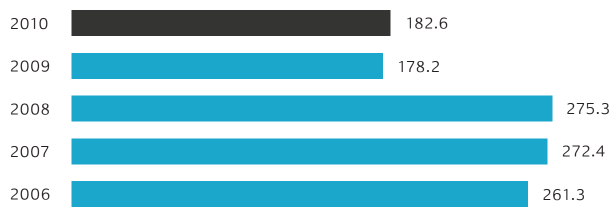
In the Americas, management anticipates that unit sales of tires in the North American tire business will increase over the previous fiscal year, and in Europe it also forecasts that unit sales of tires will increase over fiscal 2010.

Management forecasts consolidated net sales in fiscal 2011 of ¥3,180.0 billion, an increase of 11% from fiscal 2010. However, management expects operating income to decrease 16%, to ¥140.0 billion, with net income declining to ¥82.0 billion. Projected annual dividends in fiscal 2011 are ¥20 per share.

These performance forecasts are based on assumed average exchange rates of ¥84 against the dollar and ¥110 against the euro, compared with the full-year average rates recorded in fiscal 2010 of ¥88 and ¥116, respectively.

Capital Expenditure

¥ billion



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 29, 2011.

Major categories of operational risk

Demand and macroeconomic conditions

The Companies conduct 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, 2010, the consolidated sales split by geographic segment (for external customers only) was 42% from operations in the Americas, 26% from Japan and 13% 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.

In recent years, laws and regulations that affect the Companies' business activities have been established and introduced. These include labeling systems and regulations regarding tire performance in Japan and overseas and the REACH Regulation in Europe. Accordingly, 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 18: Information about the Company and certain of its subsidiaries' alleged cartel activities regarding the sale of marine hoses and improper monetary payments" on page 34.

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

Despite 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 have instituted comprehensive measures to safeguard IT and computing systems and related data, and to upgrade network security on an ongoing basis in order to prevent systemic failures.

Industrial action

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

Corporate and brand image

The Companies strive to enhance 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 employ 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 encounter 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 face a constant risk of demands for price reductions from large corporate clients.

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

The Companies' strategy is based on maintaining a highly competitive technological edge. The Companies target the development and introduction of products equipped with new and advanced technologies, and then 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 invest considerable resources in establishing and maintaining high quality standards for all products manufactured and sold. Management is particularly sensitive to the importance of quality assurance in tires and other products intimately associated with human safety. The Companies have honed 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 use 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 rely 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 treat intellectual property as an important business resource. Systematic efforts are made to employ intellectual property effectively in improving the competitive position of the Companies, to protect intellectual property rights from infringement, and to avoid infringing the intellectual property rights of other parties.

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

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

Consolidated balance sheets

Bridgestone Corporation and Subsidiaries
December 31, 2010 and 2009

	Note	2010	2009	2010
	2		Millions of yen	Thousands of U.S. dollars
Assets				
Current Assets:				
Cash and cash equivalents	14	**¥ 216,925**	¥ 236,270	**$ 2,661,983**
Marketable securities	5,14	**84,929**	3,516	**1,042,201**
Notes and accounts receivable, less allowance for doubtful accounts of ¥9,884 million ($121,291 thousand) in 2010 and ¥18,419 million in 2009	6,14	**417,051**	465,542	**5,117,818**
Inventories	4,6	**427,586**	435,284	**5,247,098**
Deferred tax assets	13	**61,487**	58,558	**754,534**
Other current assets		**68,991**	75,287	**846,620**
Total Current Assets		**1,276,969**	1,274,457	**15,670,254**
Property, Plant and Equipment:	6			
Land		**147,094**	150,512	**1,805,056**
Buildings and structures		**717,528**	724,023	**8,805,105**
Machinery and equipment		**1,908,098**	1,935,441	**23,415,118**
Construction in progress		**89,555**	86,133	**1,098,969**
		2,862,275	2,896,109	**35,124,248**
Accumulated depreciation		**(1,855,650)**	(1,819,507)	**(22,771,505)**
Net Property, Plant and Equipment		**1,006,625**	1,076,602	**12,352,743**
Investments and Other Assets:				
Investments in securities	5,14	**202,978**	198,857	**2,490,833**
Investments in and advances to affiliated companies		**14,731**	15,966	**180,771**
Long-term loans receivable, less allowance for doubtful accounts of ¥1,588 million ($19,487 thousand) in 2010 and ¥747 million in 2009		**4,797**	7,923	**58,866**
Deferred tax assets	13	**103,201**	134,307	**1,266,425**
Other assets		**97,339**	100,327	**1,194,490**
Total Investments and Other Assets		**423,046**	457,380	**5,191,385**
Total Assets		**¥ 2,706,640**	¥ 2,808,439	**$ 33,214,382**

See notes to consolidated financial statements.

	Note	2010	2009	2010
	2		Millions of yen	Thousands of U.S. dollars
Liabilities and Equity				
Current Liabilities:				
Short-term debt	6,14	**¥ 132,564**	¥ 140,586	**$ 1,626,752**
Current portion of long-term debt	6,14	**207,365**	101,790	**2,544,668**
Notes and accounts payable	14	**326,493**	299,968	**4,006,541**
Income taxes payable		**15,113**	11,290	**185,458**
Accrued expenses		**150,372**	160,226	**1,845,282**
Deferred tax liabilities	13	**903**	1,198	**11,081**
Provision for sales returns		**3,693**	—	**45,318**
Other current liabilities		**40,549**	47,639	**497,595**
Total Current Liabilities		**877,052**	762,697	**10,762,695**
Long-term Liabilities:				
Long-term debt	6,14	**323,237**	543,950	**3,966,585**
Accrued pension and liability for retirement benefits	7	**237,194**	284,758	**2,910,713**
Deferred tax liabilities	13	**39,000**	37,335	**478,586**
Provision for environmental remediation		**4,780**	3,921	**58,658**
Provision for recall of merchandise		**1,367**	—	**16,775**
Other liabilities		**47,863**	54,981	**587,348**
Total Long-term Liabilities		**653,441**	924,945	**8,018,665**
Total Liabilities		**1,530,493**	1,687,642	**18,781,360**
Contingent Liabilities and Commitments	16			
Equity:	3,8			
Common stock Authorized—1,450,000,000 shares, issued—813,102,321 shares in 2010 and 2009		**126,354**	126,354	**1,550,546**
Capital surplus		**122,630**	122,647	**1,504,847**
Stock acquisition rights		**515**	337	**6,320**
Retained earnings		**1,111,589**	1,006,859	**13,640,803**
Net unrealized gain (loss) on available-for-sale securities		**112,064**	100,697	**1,375,187**
Deferred gain (loss) on derivative instruments		**(236)**	(845)	**(2,896)**
Foreign currency translation adjustments		**(274,026)**	(214,264)	**(3,362,695)**
Treasury stock—at cost, 30,439,281 shares in 2010 and 28,797,299 shares in 2009		**(57,246)**	(54,847)	**(702,491)**
Total		**1,141,644**	1,086,938	**14,009,621**
Minority interests		**34,503**	33,859	**423,401**
Total Equity		**1,176,147**	1,120,797	**14,433,022**
Total Liabilities and Equity		**¥2,706,640**	¥2,808,439	**$33,214,382**

See notes to consolidated financial statements.

Consolidated statements of income

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2010, 2009, and 2008

	Note	2010	2009	2008	2010
	2			Millions of yen	Thousands of U.S. dollars
Net Sales	17	**¥2,861,615**	¥2,597,002	¥3,234,406	**$35,116,149**
Cost of Sales		**1,936,309**	1,766,950	2,216,530	**23,761,308**
Gross profit		**925,306**	830,052	1,017,876	**11,354,841**
Selling, General and Administrative Expenses		**758,856**	754,340	886,325	**9,312,259**
Operating income	17	**166,450**	75,712	131,551	**2,042,582**
Other Income (Expenses):					
Interest and dividend income		**6,922**	6,117	10,814	**84,943**
Gain on sales of property, plant and equipment	12	**2,955**	4,056	10,034	**36,262**
Interest expense		**(18,765)**	(26,065)	(33,901)	**(230,274)**
Foreign currency exchange loss		**(4,596)**	(3,286)	(23,050)	**(56,399)**
Loss on disposals of property, plant and equipment		**(4,011)**	(5,483)	(4,327)	**(49,221)**
Impairment loss	12	**—**	—	(10,632)	**—**
Loss on valuation of investments in securities		**—**	(3,767)	(6,502)	**—**
Loss on recall of merchandise	12	**(2,217)**	—	—	**(27,206)**
Loss on provision for environmental remediation	12	**—**	(3,279)	—	**—**
Plant restructuring costs in Oceania	12	**—**	(10,618)	—	**—**
Plant restructuring costs in the Americas	12	**—**	—	(2,079)	**—**
Loss related to EU competition law case	12	**—**	—	(7,486)	**—**
Other—net		**(5,061)**	1,979	(10,925)	**(62,106)**
Total		**(24,773)**	(40,346)	(78,054)	**(304,001)**
Income before Income Taxes and Minority Interests		**141,677**	35,366	53,497	**1,738,581**
Income Taxes:	13				
Current		**32,634**	21,694	41,346	**400,466**
Deferred		**3,920**	7,524	(1,350)	**48,104**
Total		**36,554**	29,218	39,996	**448,570**
Income before minority interests		**105,123**	6,148	13,501	**1,290,011**
Minority Interests		**(6,209)**	(5,104)	(3,089)	**(76,193)**
Net Income		**¥ 98,914**	¥ 1,044	¥ 10,412	**$ 1,213,818**

	Note	2010	2009	2008	2010
	2			Yen	U.S. dollars
Per Share of Common Stock:					
Basic	10	**¥126.19**	¥ 1.33	¥13.33	**$1.55**
Diluted	10	**126.16**	1.33	13.33	**1.55**
Cash dividends applicable to the year		**20.00**	16.00	24.00	**0.25**

See notes to consolidated financial statements.

Consolidated statements of changes in equity

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2010, 2009, and 2008

	Note	Outstanding number of shares of common stock	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											Millions of yen
Balance at January 1, 2008		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
Net income for the year						**98,914**					**98,914**		**98,914**
Cash dividends						**(14,118)**					**(14,118)**		**(14,118)**
Retirement benefit obligations						**19,934**					**19,934**		**19,934**
Purchase of treasury stock		**(1,683)**								**(2,476)**	**(2,476)**		**(2,476)**
Disposal of treasury stock		**41**		**(17)**						**77**	**60**		**60**
Net change in the year					**178**		**11,367**	**609**	**(59,762)**		**(47,608)**	**644**	**(46,964)**
Balance at December 31, 2010		**782,663**	**¥126,354**	**¥122,630**	**¥515**	**¥1,111,589**	**¥112,064**	**¥(236)**	**¥(274,026)**	**¥(57,246)**	**¥1,141,644**	**¥34,503**	**¥1,176,147**

	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
	2											Thousands of U.S. dollars
Balance at December 31, 2009		$1,550,546	$1,505,056	$4,135	$12,355,614	$1,235,698	$(10,369)	$(2,629,329)	$(673,052)	$13,338,299	$ 415,499	$13,753,798
Net income for the year					**1,213,818**					**1,213,818**		**1,213,818**
Cash dividends					**(173,248)**					**(173,248)**		**(173,248)**
Retirement benefit obligations					**244,619**					**244,619**		**244,619**
Purchase of treasury stock									**(30,384)**	**(30,384)**		**(30,384)**
Disposal of treasury stock			**(209)**						**945**	**736**		**736**
Net change in the year				**2,185**		**139,489**	**7,473**	**(733,366)**		**(584,219)**	**7,902**	**(576,317)**
Balance at December 31, 2010		**$1,550,546**	**$1,504,847**	**$6,320**	**$13,640,803**	**$1,375,187**	**$ (2,896)**	**$(3,362,695)**	**$(702,491)**	**$14,009,621**	**$423,401**	**$14,433,022**

See notes to consolidated financial statements.

Consolidated statements of cash flows

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2010, 2009, and 2008

	Note	2010	2009	2008	2010
	2			Millions of yen	Thousands of U.S. dollars
Cash Flows from Operating Activities:					
Income before income taxes and minority interests		**¥141,677**	¥ 35,366	¥ 53,497	**$ 1,738,581**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:					
Depreciation and amortization		**170,663**	180,547	187,420	**2,094,282**
Increase (decrease) in allowance for doubtful accounts		**(4,952)**	1,214	3,756	**(60,768)**
Increase (decrease) in accrued pension and liability for retirement benefits		**(3,291)**	(3,593)	1,500	**(40,385)**
Increase in provision for sales returns		**3,693**	—	—	**45,318**
Interest and dividend income		**(6,922)**	(6,117)	(10,814)	**(84,943)**
Interest expense		**18,765**	26,065	33,901	**230,274**
Foreign exchange loss and gain		**—**	—	14,465	**—**
Gain on sales of property, plant and equipment		**(2,955)**	(4,056)	(10,034)	**(36,262)**
Impairment loss		**—**	—	10,632	**—**
Loss on disposals of property, plant and equipment		**4,011**	5,483	4,327	**49,221**
Loss on valuation of investments in securities		**—**	3,767	6,502	**—**
Loss on recall of merchandise		**2,217**	—	—	**27,206**
Loss on provision for environmental remediation		**—**	3,279	—	**—**
Plant restructuring costs in Oceania		**—**	10,618	—	**—**
Plant restructuring costs in the Americas		**—**	—	2,079	**—**
Loss related to EU competition law case		**—**	—	7,486	**—**
Change in assets and liabilities:					
Decrease (increase) in notes and accounts receivable		**(62,457)**	7,021	31,580	**(766,438)**
Decrease (increase) in inventories		**(32,665)**	163,668	(144,615)	**(400,847)**
Increase (decrease) in notes and accounts payable		**42,562**	(54,163)	(11,115)	**522,297**
Other		**12,418**	15,915	10,720	**152,387**
Subtotal		**282,764**	385,014	191,287	**3,469,923**
Interest and dividends received		**6,844**	6,162	10,836	**83,985**
Interest paid		**(19,461)**	(25,366)	(34,700)	**(238,815)**
Payments related to EU competition law case		**—**	(7,421)	—	**—**
Income taxes paid		**(22,411)**	(19,707)	(57,650)	**(275,015)**
Net Cash Provided by Operating Activities		**247,736**	338,682	109,773	**3,040,079**
Cash Flows from Investing Activities:					
Payments for purchase of property, plant and equipment		**(177,972)**	(191,241)	(268,334)	**(2,183,973)**
Proceeds from sales of property, plant and equipment		**4,491**	6,793	15,812	**55,111**
Payments for investments in securities, subsidiaries and affiliated companies		**(2,003)**	(8,064)	(18,105)	**(24,580)**
Proceeds from sales of investments in securities		**5,922**	4,138	—	**72,671**
Proceeds from redemption of investments in securities		**—**	3,000	—	**—**
Other		**(995)**	(2,883)	5,319	**(12,210)**
Net Cash Used in Investing Activities		**(170,557)**	(188,257)	(265,308)	**(2,092,981)**
Cash Flows from Financing Activities:					
Net increase (decrease) in short-term debt		**(39,844)**	(195,730)	107,678	**(488,943)**
Proceeds from long-term debt		**22,015**	231,873	86,106	**270,156**
Repayments of long-term debt		**(44,861)**	(52,768)	(103,452)	**(550,509)**
Cash dividends paid		**(14,120)**	(14,905)	(20,336)	**(173,273)**
Proceeds from sale of treasury stock		**—**	—	8,092	**—**
Payments for purchase of treasury stock		**(2,476)**	—	—	**(30,384)**
Repayments of obligations under finance leases		**—**	—	(1,499)	**—**
Other		**(3,242)**	(2,080)	(226)	**(39,785)**
Net Cash Provided by (Used in) Financing Activities		**(82,528)**	(33,610)	76,363	**(1,012,738)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		**(13,996)**	5,380	(57,306)	**(171,751)**
Net Increase (Decrease) in Cash and Cash Equivalents		**(19,345)**	122,195	(136,478)	**(237,391)**
Cash and Cash Equivalents at Beginning of Year		**236,270**	114,075	250,553	**2,899,374**
Cash and Cash Equivalents at End of Year		**¥216,925**	¥ 236,270	¥ 114,075	**$ 2,661,983**

See notes to consolidated financial statements.

Notes to consolidated financial statements

Bridgestone Corporation and Subsidiaries

Note 1

Nature of operations

Bridgestone Corporation and its subsidiaries (hereinafter referred to collectively as the "Companies") engage in developing, manufacturing and marketing tires and diversified products. The Companies market their products worldwide and operate manufacturing plants in every principal market. Development activities take place primarily in Japan, the United States of America (the "U.S.") and Europe. Tire operations include retread business, automotive maintenance and repairs, retail business and raw material supplies, as well as tire development, manufacturing and marketing. Diversified products include industrial products, chemical products, automotive components, construction materials, electronic equipment, bicycles and sporting goods.

Note 2

Basis of 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. ("US GAAP").

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Bridgestone Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥81.49 to $1, the approximate rate of exchange at December 31, 2010. 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 2010 and 2009 is summarized below:

	2010	2009
Consolidated subsidiaries	**340**	404
Affiliated companies	**157**	159

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or US GAAP tentatively may be used for the consolidation process, (3) 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; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was 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. In addition, the Company adjusted the beginning balance of retained earnings at January 1, 2009 as if this accounting standard had been retrospectively applied.

(c) 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.

(d) 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.

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

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

(f) Marketable and investment 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.

(g) 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.

(h) 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.

(i) 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.

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

Losses on returned snow tires were subtracted from sales in the period in which the returns occurred for the years ended on December 31, 2009 and 2008. However, following the integration of domestic tire sales companies, historical data has been accumulated and the accuracy of analyses has improved, making it possible to rationally calculate the return rate. Accordingly, the amount of future return-related losses is estimated based on the historical return rate, and that amount is recorded as provision for sales returns.

Consequently, in comparison with the previous method, the use of the new method has resulted in a decrease of ¥3,693 million ($45 million) in each of gross profit, operating income and income before income taxes and minority interests.

(k) 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.

(l) 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.

(m) Provision for recall of merchandise
The provision for recall of merchandise is estimated and recorded to provide for future potential costs related to an announced recall of merchandise in the bicycle business.

(n) 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 are 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.

On March 30, 2010, the general shareholders meeting of the Company resolved to abolish a lump-sum payment at retirement to corporate auditors, and 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) Derivatives and hedging activities

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

Derivative financial instruments 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 swap contracts in a hedge to fluctuations of commodity prices is recognized currently in income.

(t) 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.

(u) 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.

(v) Accounting change

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 former 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 accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The former accounting standard requires that the research and development costs be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.

(3) The former 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. The Company applied this accounting standard effective July 1, 2010.

(w) New accounting pronouncements

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

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows for application of the equity method to the financial statements of a foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments 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 such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or US GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 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; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009. The Company will adapt the standard prospectively as of January 1, 2011. It does not believe that the adoption of the standard will have a material impact on the Company's consolidated financial position, results from operations, and cash flows.

Asset Retirement Obligations

In March, 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. The Companies will adapt the standard prospectively as of January 1, 2011. It does not believe that the adoption of the standard will have a material impact on the Company's consolidated financial position, results from operations, and cash flows.

Accounting Changes and Error Corrections

In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies:

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011. The Companies will adapt the standard prospectively as of January 1, 2012. It does not believe that the adoption of the standard will have a material impact on the Company's consolidated financial position, results from operations, and cash flows.

Segment Information Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010. The Company will adapt the standard prospectively for the fiscal years beginning on January 1, 2011.

Note 4
Inventories

Inventories at December 31, 2010 and 2009 consist of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Finished products	**¥253,909**	¥271,935	**$3,115,830**
Work in process	**31,363**	30,214	**384,869**
Raw materials and supplies	**142,314**	133,135	**1,746,399**
Total	**¥427,586**	¥435,284	**$5,247,098**

Note 5
Marketable and investment securities

Information regarding each category of available-for-sale securities at December 31, 2010 and 2009 is as follows:

	Cost	Unrealized gain	Unrealized loss	Fair value	Cost	Unrealized gain	Unrealized loss	Fair value
				2010				2009
								Millions of yen
Securities Classified as:								
Available-for-sale:								
Equity securities	**¥43,418**	**¥154,841**	**¥(1,112)**	**¥197,147**	¥46,605	¥147,606	¥(1,663)	¥192,548
Debt securities	**7,153**	**101**	**(2,144)**	**5,110**	6,578	56	(62)	6,572
				Thousands of U.S. dollars				
Securities Classified as:								
Available-for-sale:								
Equity securities	**$532,802**	**$1,900,122**	**$(13,646)**	**$2,419,278**				
Debt securities	**87,778**	**1,239**	**(26,310)**	**62,707**				

In addition to the above, the Companies have available-for-sale securities classified as marketable securities under US GAAP by ¥82,920 million ($1,017,548 thousand).

Available-for-sale securities whose fair values are not readily determinable at December 31, 2010 and 2009 are mainly as follows:

	2010	2009	2010
Carrying amount		Millions of yen	Thousands of U.S. dollars
Available-for-sale:			
Equity securities	**¥2,730**	¥3,253	**$33,501**

Proceeds from sales of available-for-sale securities for the years ended December 31, 2010, 2009 and 2008 are ¥3,073 million ($37,710 thousand), ¥4,559 million and ¥254 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, are ¥237 million ($2,908 thousand) and ¥43 million ($528 thousand), respectively, for the year ended December 31, 2010, ¥1,986 million and ¥3 million, respectively, for the year ended December 31, 2009 and ¥197 million and ¥0.2 million, respectively, for the year ended December 31, 2008.

The information of available-for-sale securities which were sold during the year ended December 31, 2010 was as follows:

	Proceed	Realized gain	Realized loss	Proceed	Realized gain	Realized loss
						2010
			Millions of yen			Thousands of U.S. dollars
Securities Classified as:						
Available-for-sale:						
Equity securities	**¥2,042**	**¥232**	**¥ —**	**$25,058**	**$2,847**	**$ —**
Debt securities	**1,031**	**5**	**43**	**12,652**	**61**	**528**

Note 6

Short-term and long-term debt

Short-term debt at December 31, 2010 and 2009 consists of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Short-term bank loans, weighted average interest rate of 1.8% at December 31, 2010 and 3.2% at December 31, 2009	**¥110,760**	¥136,672	**$1,359,185**
Commercial paper, weighted average interest rate of 1.0% at December 31, 2010 and 0.8% at December 31, 2009	**20,609**	1,914	**252,902**
From 0.3% to 0.4% yen unsecured medium term note, due 2010	**—**	2,000	**—**
0.2% euro unsecured medium term note, due 2011	**1,195**	—	**14,665**
Total	**¥132,564**	¥140,586	**$1,626,752**

Long-term debt at December 31, 2010 and 2009 consists of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Borrowings from banks, insurance companies and others, weighted average interest rate of 2.8% at December 31, 2010 and 3.1% at December 31, 2009 denominated mainly in Japanese yen, U.S. dollars and Euros:			
Secured	**¥ 295**	¥ 186	**$ 3,620**
Unsecured	**377,495**	432,139	**4,632,409**
2.0% yen unsecured straight bonds, due 2010	**—**	30,000	**—**
0.6% yen unsecured straight bonds, due 2010	**—**	30,000	**—**
0.9% yen unsecured straight bonds, due 2013	**50,000**	50,000	**613,572**
0.8% yen unsecured straight bonds, due 2014	**60,000**	60,000	**736,287**
Euro unsecured medium term notes due 2011—2013 with interest rates ranging from 0.4% to 1.4% at December 31, 2010 and due 2010—2012 with interest rates ranging from 1.1% to 1.4% at December 31, 2009	**35,888**	37,277	**440,398**
Obligations under finance leases	**6,924**	6,138	**84,967**
Total	**530,602**	645,740	**6,511,253**
Less current portion	**(207,365)**	(101,790)	**(2,544,668)**
Long-term Debt, Less Current Portion	**¥ 323,237**	¥ 543,950	**$ 3,966,585**

Annual maturities of long-term debt at December 31, 2010 are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2011	**¥207,365**	**$2,544,668**
2012	**48,637**	**596,846**
2013	**128,338**	**1,574,893**
2014	**103,394**	**1,268,794**
2015	**32,261**	**395,889**
2016 and thereafter	**10,607**	**130,163**
Total	**¥530,602**	**$6,511,253**

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 ¥1,654 million ($20,297 thousand) and long-term bank loans of ¥295 million ($3,620 thousand) at December 31, 2010 is ¥8,872 million ($108,872 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 2011, Bridgestone Americas, Inc. ("BSAM") and its major subsidiaries in the U.S. entered into separate ninth 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 2012. 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 ninth amended and restated revolving credit agreements. The above agreements replace the separate eighth amended and restated revolving credit agreements expired on January 2011, of which the terms were substantially the same as those of the ninth agreements discussed above.

Note 7
Retirement and pension plans

Employees serving with the Company and its domestic subsidiaries are generally entitled to a lump-sum payment at retirement and, in certain cases, annuity payments at retirement, provided by funded defined benefit pension plans based on the rate of pay at the time of termination, years of service and certain other factors. There are defined contribution pension plans available for the employees as well provided by the Company and certain of its domestic subsidiaries. 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 corporate pension 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, 2010 and 2009 consist of the following:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥ 512,058**	¥ 541,060	**$ 6,283,691**
Fair value of plan assets	**(344,374)**	(336,232)	**(4,225,966)**
Unrecognized prior service cost	**9,253**	11,712	**113,548**
Unrecognized actuarial gain (loss)	**(23,654)**	(27,585)	**(290,269)**
Unrecognized transitional obligation	**—**	(1,060)	**—**
Prepaid benefit cost	**14,748**	12,734	**180,979**
Other	**(871)**	(1,081)	**(10,688)**
Net Liability	**¥ 167,160**	¥ 199,548	**$ 2,051,295**

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 ¥70,034 million ($859,418 thousand) and ¥85,210 million is included in the consolidated balance sheets at December 31, 2010 and 2009, respectively.

The components of the net periodic benefit costs for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008	2010
			Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 14,977**	¥ 16,078	¥ 19,306	**$ 183,789**
Interest cost	**22,115**	23,053	23,975	**271,383**
Expected return on plan assets	**(18,919)**	(15,815)	(24,556)	**(232,163)**
Amortization of transitional obligation	**1,059**	1,059	1,083	**12,995**
Recognized actuarial loss	**14,990**	20,410	4,463	**183,949**
Amortization of prior service cost	**(1,846)**	(1,617)	(1,147)	**(22,653)**
Net periodic benefit costs	**¥ 32,376**	¥ 43,168	¥ 23,124	**$ 397,300**

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 ¥6,095 million ($74,794 thousand), ¥6,091 million and ¥6,567 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Assumptions used in actuarial calculations for the years ended December 31, 2010, 2009 and 2008 are set forth as follows:

	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries
		2010		2009		2008
Discount rate	**1.9 to 2.5%**	**4.7 to 5.5%**	2.5%	5.5 to 6.2%	2.5%	5.5 to 6.3%
Expected rate of return on plan assets	**3.0%**	**5.5 to 9.0%**	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 8

Equity

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

(i) Dividends: The Act allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. 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 9

Stock-based compensation

The stock options outstanding as of December 31, 2010 are as follows:

Date of approval	Persons granted		Number of options granted (Thousands of shares)	Date of grant	Exercise price	Exercise period
March 28, 2003 at the general shareholders meeting	Directors Selected employees	10 52	262	May 1, 2003	¥1,479 ($18.15)	from April 1, 2005 to March 31, 2010
March 30, 2004 at the general shareholders meeting	Directors Selected employees	9 59	264	May 6, 2004	¥1,864 ($22.87)	from April 1, 2006 to March 31, 2011
March 30, 2005 at the general shareholders meeting	Directors Selected employees	10 58	258	May 2, 2005	¥2,114 ($25.94)	from April 1, 2007 to March 31, 2012
March 30, 2006 at the general shareholders meeting	Directors Selected employees	10 68	280	April 28, 2006	¥2,775 ($34.05)	from April 1, 2008 to March 31, 2013
March 29, 2007 at the general shareholders meeting	Directors Selected employees	9 65	260	May 1, 2007	¥2,546 ($31.24)	from April 1, 2009 to March 31, 2014
March 27, 2008 at the general shareholders meeting and the board of directors	Directors Selected employees	7 80	234.5	May 1, 2008	¥1,936 ($23.76)	from April 1, 2010 to March 31, 2015
March 26, 2009 at the general shareholders meeting and the board of directors	Directors Corporate officers not doubling as directors	9 20	110	May 1, 2009	¥1 ($0.01)	from May 1, 2009 to April 30, 2029
March 30, 2010 at the general shareholders meeting and the board of directors	Directors Corporate officers not doubling as directors	8 25	118.5	May 6, 2010	¥1 ($0.01)	from May 6, 2010 to April 30, 2030

The stock option activity for the year ended December 31, 2010 is as follows:

	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006	March 29, 2007	March 27, 2008	March 26, 2009	March 30, 2010
Non-Vested (Thousands of shares)								
Outstanding at December 31, 2009	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	118.5
Expired	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	118.5
Outstanding at December 31, 2010	—	—	—	—	—	—	—	—
Vested (Thousands of shares)								
Outstanding at December 31, 2009	94	225	252	280	260	234.5	110	—
Vested	—	—	—	—	—	—	—	118.5
Exercised	40	—	—	—	—	—	—	—
Expired	54	—	—	—	—	—	—	—
Outstanding at December 31, 2010	—	225	252	280	260	234.5	110	118.5
Exercise price	¥1,479 ($18.15)	¥1,864 ($22.87)	¥2,114 ($25.94)	¥2,775 ($34.05)	¥2,546 ($31.24)	¥1,936 ($23.76)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	¥1,552 ($19.05)	—	—	—	—	—	—	—
Fair value price at grant date	—	—	—	—	¥447 ($5.49)	¥399 ($4.90)	¥1,264 ($15.51)	¥1,400 ($17.18)

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

	March 30, 2010
Volatility of stock price	39.056%
Estimated remaining outstanding period	10 years
Estimated dividend per share	¥16 ($0.20)
Risk-free interest rate	1.278%

Note 10

Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2010, 2009 and 2008 is as follows:

	Net income	Weighted-average shares	EPS	
	For the year ended December 31, 2010			
	Millions of yen	Thousands of shares	Yen	U.S. dollars
Basic EPS Net income available to common shareholders	**¥98,914**	**783,818**	**¥126.19**	**$1.55**
Effect of dilutive securities Stock options		**229**		
Diluted EPS Net income for computation	**¥98,914**	**784,047**	**¥126.16**	**$1.55**
	For the year ended December 31, 2009			
Basic EPS Net income available to common shareholders	¥1,044	784,287	¥1.33	
Effect of dilutive securities Stock options		110		
Diluted EPS Net income for computation	¥1,044	784,397	¥1.33	
	For the year ended December 31, 2008			
Basic EPS Net income available to common shareholders	¥10,412	781,275	¥13.33	
Effect of dilutive securities Stock options		22		
Diluted EPS Net income for computation	¥10,412	781,297	¥13.33	

Note 11

Research and development costs

Research and development costs are charged to income as incurred.

Research and development costs are ¥85,154 million ($1,044,963 thousand), ¥85,766 million and ¥93,252 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 12

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 recall of merchandise

During the year ended December 31, 2010, in the bicycle business, an estimated cost of outlays for recall of merchandise has been recorded.

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 charges in 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 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.

Note 13

Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for each of the years ended December 31, 2010, 2009 and 2008, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:			
Accrued pension and liability for retirement benefits	**¥ 80,303**	¥111,465	**$ 985,434**
Accrued expenses	**29,584**	30,152	**363,038**
Unrealized intercompany profits	**17,548**	20,062	**215,339**
Net operating loss carryforwards for tax purposes	**47,095**	52,450	**577,924**
Other	**56,549**	52,460	**693,938**
Less valuation allowance	**(21,945)**	(37,249)	**(269,297)**
Total	**209,134**	229,340	**2,566,376**
Deferred Tax Liabilities:			
Reserve for deferred gain related fixed assets for tax purposes	**(14,960)**	(14,425)	**(183,581)**
Unrealized gain on available-for-sale securities	**(41,651)**	(45,184)	**(511,118)**
Depreciation	**(21,670)**	(6,765)	**(265,922)**
Other	**(6,068)**	(8,634)	**(74,463)**
Total	**(84,349)**	(75,008)	**(1,035,084)**
Net deferred tax assets	**¥124,785**	¥154,332	**$ 1,531,292**

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, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
			%
Normal effective statutory tax rate	**40.6%**	40.6%	40.6%
Expenses not deductible for income tax purposes and income not taxable-net	**(0.2)**	15.7	18.6
Lower income tax rates applicable to income in certain consolidated subsidiaries	**(5.5)**	(11.4)	(3.8)
Tax credit for research and development costs of domestic companies	**(2.4)**	—	(5.0)
Tax adjustment of overseas companies	**—**	8.4	4.3
Change in valuation allowance for deferred tax assets	**(7.2)**	30.9	18.7
Other—net	**0.5**	(1.6)	1.4
Actual Effective Tax Rate	**25.8%**	82.6%	74.8%

Note 14

Financial instruments

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No. 19, “Guidance on Disclosures about Fair Value of Financial Instruments.” This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Company applied the revised accounting standard and the new guidance effective December 31, 2010.

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

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

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

Receivables such as notes and accounts receivable are exposed to customer credit risk. Receivables in foreign currencies are exposed to foreign currency exchange fluctuation risk. Marketable securities consist primarily of the reservation of receivables liquidation regarded as marketable securities in US GAAP, which are exposed to customer credit risk. Investments in securities consist primarily of equity securities of business partners, and are exposed to market price fluctuation risk.

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

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

(3) Risk management of financial instruments

a. Management of credit risk

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

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

The maximum credit risk in December 31, 2010 is represented by the book value of the financial instruments exposed to credit risk on the consolidated balance sheets.

b. Management of market risk

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

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

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

c. Management of liquidity risk in financing activities

The Companies practice effective money management by identifying the funding requirements beforehand based on the cash flow projection. The Companies also strive to diversify their sources of financing in order to reduce liquidity risk.

(4) Supplementary explanation on fair value of financial instruments

Fair values of financial instruments include market prices and values calculated reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, it may change depending on the different assumptions. The contract amounts described in “Note 15: Derivatives” don’t indicate the amounts of market risk related to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of December 31, 2010 are as follows:
Financial instruments whose fair values are not readily determinable are excluded from the following table:

	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
						2010
			Millions of yen			Thousands of U.S. dollars
(1) Cash and cash equivalents	¥216,925	¥ 216,925	¥ —	$ 2,661,983	$ 2,661,983	$ —
(2) Notes and accounts receivable	426,935			5,239,109		
Allowance for doubtful accounts*1	9,884			121,291		
	417,051	417,051	—	5,117,818	5,117,818	—
(3) Marketable and investment securities	285,177	285,177	—	3,499,533	3,499,533	—
Total	¥919,153	¥ 919,153	¥ —	$11,279,334	$11,279,334	$ —
(1) Short-term debt	¥132,564	¥ 132,564	¥ —	$ 1,626,752	$ 1,626,752	$ —
(2) Current portion of long-term debt	207,365	207,365	—	2,544,668	2,544,668	—
(3) Notes and accounts payable	326,493	326,493	—	4,006,541	4,006,541	—
(4) Long-term debt	323,237	335,413	(12,176)	3,966,585	4,116,002	(149,417)
Total	¥989,659	¥1,001,835	¥(12,176)	$12,144,546	$12,293,963	$(149,417)
Derivative transactions*2	¥ 11,214	¥ 11,214	¥ —	$ 137,612	$ 137,612	$ —

*1 It comprises the allowance for doubtful accounts in respect to notes and accounts receivable, short-term loan receivable and others.
*2 Receivables and payables arising from derivative transactions are presented net. If the net amount is a liability, it is written in parentheses ( ).

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

Assets
(1) Cash and cash equivalents, (2) Notes and accounts receivable
The fair values approximate book values because of their short-term maturities.

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

Liabilities
(1) Short-term debt, (2) Current portion of long-term debt
The fair values of bonds with the market prices are based on the market prices. The fair values of others approximate book values because of their short-term maturities.

(3) Notes and accounts payable
The fair values approximate book values because of their short-term maturities.

(4) Long-term debt
The fair values of bonds with the market prices are based on the market prices. The fair values of bonds without the market prices and long-term bank borrowings are determined by discounting the aggregated values of the principal and interest using an assumed interest rate if the same type of them were newly made.

Derivative transactions
The information of derivative transactions is described in "Note 15: Derivatives."

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

	Carrying amount	
		2010
	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities		
Unlisted equity securities	¥2,730	$33,501

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

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

	Due 2011	Due 2012 to 2015	Due 2016 to 2020	Due 2021 and thereafter
				2010
				Millions of yen
Cash and cash equivalents	¥216,925	¥ —	¥ —	¥—
Notes and accounts receivable	426,935	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	—	921	1,219	—
Corporate bonds	—	2	3,000	—
				Thousands of U.S. dollars
Cash and cash equivalents	$2,661,983	$ —	$ —	$—
Notes and accounts receivable	5,239,109	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	—	11,302	14,959	—
Corporate bonds	—	25	36,814	—

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

Note 15
Derivatives

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

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

As noted in Note 14, the Companies applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

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 which do not qualify for hedge accounting at December 31, 2010 is as follows:

	Contract amount	Fair value	Unrealized gain (loss)
	2010		
	Millions of yen		
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥49,896	¥ 803	¥803
Euro	23,200	847	847
Australian dollar	15,467	(495)	(495)
Other	23,464	385	385
Buy:			
U.S. dollar	16,657	40	40
Japanese yen	949	31	31
Polish zloty	5,409	26	26
Other	5,418	(18)	(18)
Currency Swap Contracts:			
Japanese yen receipt, Indian rupee payment	¥ 1,175	¥ 69	¥ 69
U.S. dollar receipt, Japanese yen payment	1,150	43	43
Indian rupee receipt, U.S. dollar payment	495	(3)	(3)
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	¥ 3,830	¥ (70)	¥ (70)

	Contract amount	Fair value	Unrealized gain (loss)
			2010
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	$612,296	$ 9,854	$ 9,854
Euro	284,698	10,394	10,394
Australian dollar	189,802	(6,074)	(6,074)
Other	287,937	4,725	4,725
Buy:			
U.S. dollar	204,405	491	491
Japanese yen	11,646	368	368
Polish zloty	66,376	319	319
Other	66,487	(221)	(221)
Currency Swap Contracts:			
Japanese yen receipt, Indian rupee payment	$ 14,419	$ 847	$ 847
U.S. dollar receipt, Japanese yen payment	14,112	528	528
Indian rupee receipt, U.S. dollar payment	6,074	(37)	(37)
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	$ 47,000	$ (859)	$ (859)

The outstanding balance of derivative contracts which qualify for hedge accounting at December 31, 2010 is as follows:

	Primary hedged item	Contract amount	Fair value
			2010
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
Euro	**Accounts receivable**	¥10,987	¥ 376
Australian dollar		5,341	(148)
Other		86	2
Buy:			
U.S. dollar	**Accounts payable**	333	2
Other		4	—
Currency Swap Contracts:			
Euro receipt, Japanese yen payment	**Long-term debt**	¥24,436	¥8,711
Japanese yen receipt, U.S. dollar payment		5,000	1,435
South African rand receipt, U.S. dollar payment		2,429	(888)
Euro receipt, U.S. dollar payment		2,320	66
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
Euro	**Accounts receivable**	$134,826	$ 4,614
Australian dollar		65,542	(1,816)
Other		1,055	25
Buy:			
U.S. dollar	**Accounts payable**	4,086	25
Other		49	—
Currency Swap Contracts:			
Euro receipt, Japanese yen payment	**Long-term debt**	$299,865	$106,897
Japanese yen receipt, U.S. dollar payment		61,357	17,610
South African rand receipt, U.S. dollar payment		29,807	(10,897)
Euro receipt, U.S. dollar payment		28,470	810

The following is the outstanding balance of derivative contracts at December 31, 2009. Derivative contracts which qualify for hedge accounting are excluded from the information below.

	Contract amount	Fair value	Unrealized gain (loss)
			2009
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥56,533	¥(1,095)	¥(1,095)
Euro	26,820	123	123
Australian dollar	11,280	(281)	(281)
Other	12,889	(297)	(297)
Buy:			
U.S. dollar	10,187	174	174
Japanese yen	592	(8)	(8)
Polish zloty	10,261	185	185
Other	2,446	(14)	(14)
Currency Swap Contracts:			
U.S. dollar receipt, Singapore dollar payment	¥ 660	¥ (3)	¥ (3)
Japanese yen receipt, Indian rupee payment	1,022	(55)	(55)
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	¥ 4,050	¥ (82)	¥ (82)

Note 16

Contingent liabilities and commitments

(a) Contingent liabilities

At December 31, 2010 and 2009, the Companies have the following contingent liabilities:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Trade notes discounted	**¥1,388**	¥1,585	**$17,033**
Guarantees and similar items of bank borrowings	**196**	222	**2,405**
Total	**¥1,584**	¥1,807	**$19,438**

(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, 2010 and 2009 are as follows:

	2010	2009	2010
		Millions of yen	Thousands of U.S. dollars
Due within one year	**¥ 30,405**	¥ 32,324	**$ 373,113**
Due after one year	**143,095**	164,343	**1,755,983**
Total	**¥173,500**	¥196,667	**$2,129,096**

Note 17
Segment information

Information by business segments, geographic segments and overseas sales, for the years ended December 31, 2010, 2009 and 2008, is as follows:

(a) Information by business segment

	Tires	Diversified products	Total	Elimination or corporate	Consolidated
					Year ended December 31, 2010
					Millions of yen
Net Sales:					
External customers	**¥2,377,305**	**¥484,310**	**¥2,861,615**	**—**	**¥2,861,615**
Inter-segment	**2,267**	**10,377**	**12,644**	**¥(12,644)**	**—**
Total	**2,379,572**	**494,687**	**2,874,259**	**(12,644)**	**2,861,615**
Operating expenses	**2,226,443**	**481,322**	**2,707,765**	**(12,600)**	**2,695,165**
Operating income	**¥ 153,129**	**¥ 13,365**	**¥ 166,494**	**¥ (44)**	**¥ 166,450**
Identifiable assets	**¥2,321,574**	**¥388,061**	**¥2,709,635**	**¥ (2,995)**	**¥2,706,640**
Depreciation and amortization	**¥ 148,695**	**¥ 21,968**	**¥ 170,663**	**¥ —**	**¥ 170,663**
Capital expenditures	**¥ 159,972**	**¥ 22,861**	**¥ 182,833**	**¥ —**	**¥ 182,833**
					Year ended December 31, 2009
Net Sales:					Millions of yen
External customers	¥2,151,314	¥445,688	¥2,597,002	—	¥2,597,002
Inter-segment	1,652	8,488	10,140	¥ (10,140)	—
Total	2,152,966	454,176	2,607,142	(10,140)	2,597,002
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
Net Sales:					Millions of yen
External customers	¥2,622,890	¥611,516	¥3,234,406	—	¥3,234,406
Inter-segment	6,260	13,993	20,253	¥ (20,253)	—
Total	2,629,150	625,509	3,254,659	(20,253)	3,234,406
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, 2010
					Thousands of U.S. dollars
Net Sales:					
External customers	**$29,172,966**	**$5,943,183**	**$35,116,149**	**—**	**$35,116,149**
Inter-segment	**27,819**	**127,341**	**155,160**	**$(155,160)**	**—**
Total	**29,200,785**	**6,070,524**	**35,271,309**	**(155,160)**	**35,116,149**
Operating expenses	**27,321,671**	**5,906,516**	**33,228,187**	**(154,620)**	**33,073,567**
Operating income	**$ 1,879,114**	**$ 164,008**	**$ 2,043,122**	**$ (540)**	**$ 2,042,582**
Identifiable assets	**$28,489,066**	**$4,762,069**	**$33,251,135**	**$ (36,753)**	**$33,214,382**
Depreciation and amortization	**$ 1,824,702**	**$ 269,579**	**$ 2,094,281**	**$ —**	**$ 2,094,281**
Capital expenditures	**$ 1,963,087**	**$ 280,537**	**$ 2,243,624**	**$ —**	**$ 2,243,624**

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, 2010
							Millions of yen
Net Sales:							
External customers	**¥ 755,648**	**¥1,212,797**	**¥380,873**	**¥512,297**	**¥2,861,615**	**—**	**¥2,861,615**
Inter-segment	**398,991**	**11,146**	**3,011**	**99,692**	**512,840**	**¥(512,840)**	**—**
Total	**1,154,639**	**1,223,943**	**383,884**	**611,989**	**3,374,455**	**(512,840)**	**2,861,615**
Operating expenses	**1,092,958**	**1,175,551**	**376,755**	**567,015**	**3,212,279**	**(517,114)**	**2,695,165**
Operating income	**¥ 61,681**	**¥ 48,392**	**¥ 7,129**	**¥ 44,974**	**¥ 162,176**	**¥ 4,274**	**¥ 166,450**
Identifiable assets	**¥1,195,171**	**¥ 799,356**	**¥432,737**	**¥507,621**	**¥2,934,885**	**¥(228,245)**	**¥2,706,640**
							Year ended December 31, 2009
Net Sales:							Millions of yen
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)	—
Total	1,011,952	1,132,863	362,564	511,587	3,018,966	(421,964)	2,597,002
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
Net Sales:							Millions of yen
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)	—
Total	1,321,947	1,417,288	474,821	599,372	3,813,428	(579,022)	3,234,406
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, 2010
							Thousands of U.S. dollars
Net Sales:							
External customers	**$9,272,892**	**$14,882,771**	**$4,673,862**	**$6,286,624**	**$35,116,149**	**—**	**$35,116,149**
Inter-segment	**4,896,196**	**136,778**	**36,949**	**1,223,365**	**6,293,288**	**$(6,293,288)**	**—**
Total	**14,169,088**	**15,019,549**	**4,710,811**	**7,509,989**	**41,409,437**	**(6,293,288)**	**35,116,149**
Operating expenses	**13,412,173**	**14,425,709**	**4,623,328**	**6,958,093**	**39,419,303**	**(6,345,736)**	**33,073,567**
Operating income	**$ 756,915**	**$ 593,840**	**$ 87,483**	**$ 551,896**	**$ 1,990,134**	**$ 52,448**	**$ 2,042,582**
Identifiable assets	**$14,666,474**	**$ 9,809,253**	**$5,310,308**	**$6,229,243**	**$36,015,278**	**$(2,800,896)**	**$33,214,382**

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 the related percentage of consolidated net sales for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Amount				Percentage		
	2010	2009	2008	2010	2010	2009	2008
			Millions of yen	Thousands of U.S. dollars			%
Areas:							
The Americas	**¥1,212,926**	¥1,125,660	¥1,386,319	**$14,884,354**	**42.4%**	43.3%	42.9%
Europe	**387,974**	363,012	489,654	**4,761,001**	**13.6**	14.0	15.1
Other	**588,865**	493,520	572,327	**7,226,224**	**20.5**	19.0	17.7
Overseas Sales	**¥2,189,765**	¥1,982,192	¥2,448,300	**$26,871,579**	**76.5%**	76.3%	75.7%
Net Sales	**¥2,861,615**	¥2,597,002	¥3,234,406	**$35,116,149**	**100.0%**	100.0%	100.0%

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

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 recorded ¥7,485 million as an expense related to the European Commission fine in the fiscal year ended December 31, 2008. 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. Proceedings in the other countries which have investigated have already been finalized.

Further, in addition to the above-mentioned issue, the Company becomes aware 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 19

Subsequent events

On March 29, 2011, the shareholders of the Company approved payment of a cash dividend of ¥10.0 ($0.12) per share, or a total of ¥7,827 million ($96,049 thousand), to shareholders of record at December 31, 2010. 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 by the Board of Directors on the same date. These stock option plans provide options to purchase a maximum of 154.5 thousand shares of the Company's common stock. The exercise price of these stock options is ¥1 ($0.01). The exercise period is from May 2, 2011 to April 30, 2031.

The 2011 off the Pacific coast of Tohoku Earthquake and Tsunami took place on March 11, 2011. This natural disaster caused damage to Japanese plants located in the Kanto region and north of that region; specifically Tochigi Factory, Nasu Factory, Kuroiso Factory, Tokyo Factory and Yokohama Factory, as well as domestic sales companies and retail companies. The Companies recorded ¥2,261 million as other expenses related to the repair and reconstruction of facilities and the scrap cost of inventories in the first quarter of fiscal 2011. The Companies do not believe the impact of disaster will have a material impact on its operating activities, although unit sales in Japan will decrease.

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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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 18 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 29, 2011 (May 11, 2011 as to Note 19)

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May 2011