POISED FOR SUSTAINED GROWTH

2007 business review
Despite an increasingly difficult business environment caused by changes in the global structure of demand and competition, consolidated net sales increased by 13% to ¥3,390.2 billion. Gains were recorded across all geographical segments. The primary reasons for this growth were company-wide efforts to reinforce strategic product lines from development to production and sales, the introduction of appealing new products worldwide and the enhancement of our portfolio of highly competitive products and businesses. Operating income was up 31% to ¥250.0 billion, due in particular to initiatives aimed at mitigating the impact of increasing raw material costs, while net income surged 55% to ¥131.6 billion. The results for both net sales and operating income represent historic highs for the Bridgestone Group.

Based on these results, we are well on track to achieve the targets set out in the Mid-term Management Plan, which will be described later.

For a more detailed review of our performance in 2007, please refer to the Management’s Discussion & Analysis section (pp. 46-51).

Reflections on progress to date
When I became president two years ago, I set a goal for the Bridgestone Group to be recognized as the world’s undisputed No. 1 tire and rubber company in both name and substance. The progress that we have made since then has afforded me greater insight into the challenges that we face in attaining this goal.

One thing is clear: size is critical for achieving sustained growth in a business such as tires where products are internationally standardized. In the 20 years since we acquired Firestone — a move that catapulted the Bridgestone Group into the top three of the tire industry — our efforts to blend the best of each firm into an integrated whole have helped to forge a new company culture. In terms of scale of operations we have become one of the world leaders today.

Yet the rapidly changing global market in which we operate differs vastly from the conditions back in 1988. Tire demand has shifted to either side of the spectrum, away from the middle. Today, the market segments that are growing are state-of-the-art high-performance tires and low-priced general-purpose tires. The gains in market share being made by low-priced tires from low-cost manufacturers point to fundamental shifts in the structure of competition. The earnings structure of the tire industry has undergone wrenching change as well, due to the pressures applied by inexorably rising raw material costs.

To succeed in the face of such change, I see my role as one of creating a strong Bridgestone Group with a robust earnings structure capable of generating sustained growth into the future. I believe that this goal translates into three aims. First, we must develop a trim global structure that can react swiftly to change. Second, our performance targets for the short, medium and long term — as well as all other aspects of business performance — must be owned by the whole Bridgestone Group. Third, we must find the correct balance. Developing advanced technology to lead market change is, of course, vital. At the same time, however, we must also strive to overcome the competition by providing customers with value-added solutions, rather than merely making and selling tires and other consumable goods.

Finally, we cannot regard the quest to be the world leader in both name and substance as merely a question of achieving the highest sales and profits. To be the best company, the Bridgestone Group must also display leadership in areas such as the environment, quality, product safety, compliance, risk management (inclusive of fire prevention and occupational safety), internal controls, human resource development and corporate citizenship activities. That is why we have positioned corporate social responsibility (“CSR”) activities at the heart of what we do. In short, we must aim to be a world leader in all aspects of our activities as a company. By achieving a productive balance among these various elements, I believe that the Bridgestone Group has the strength to build on these healthy foundations to create a truly global and sustainably successful enterprise.

Toward optimized global operations
Among the risks that large-scale international operations face is lowered earnings due to individual parts of the group merely pursuing sales expansion. It is therefore
critical that we optimize the use of global management resources and strive to eliminate waste. We refer to this as the “total optimization” of Bridgestone Group operations. The ultimate goal is that organizations, systems and processes are all engineered to create maximum value, to avoid waste and to react to change quickly.

There are two things involved in realizing this goal. First, we need to create optimal global coordination. Second, we must ensure that the Mid-term Management Plan is completely integrated across the Bridgestone Group. Structure and planning are essential to the formulation of clear targets and policies to achieve these objectives. These two tasks have been my priority since my appointment. With the announcement of our latest plan in October 2007, I believe that our organization and planning are now working well together and in tandem.

**A reformed and optimized global structure**

Our organizational reforms have involved the establishment of eight strategic business units (SBUs) supported by a Global Management Platform (GMP). Six SBUs focus mainly on the tire business in different geographic regions and the other two SBUs consist of our specialty tire and diversified product operations. In addition, the Global Head Office (GHO) sets policy for the Bridgestone Group and plays an organizational and visionary role in optimizing global operations.

Within the GMP framework, we have also created an entity called the GLC (Global Logistics Center) to set high-level policy for core functions such as product planning, business development, materials purchasing, facility procurement, and global tire supply chain planning. The GLC enables the Bridgestone Group to improve its response to market trends by analyzing and approaching projects beginning at the product planning stage, helping the Group make optimal decisions from a global perspective about what raw materials to buy, where to produce and which markets to supply with which products. Beginning in 2008, I am confident that the practical benefits of our reconfigured organization will start to emerge in terms of accelerated product introductions.

**Globally integrated business planning**

The details of the five-year Mid-term Management Plan that we released in October 2007 are discussed elsewhere in this Annual Report. Just as important as the numbers in the plan is the process by which we formulated it.
The plan summarizes where the Bridgestone Group wants to be throughout the period up to 2012, along with the measures that we will implement to get there. This plan was not a top-down, target-setting exercise. Instead, it involved extensive discussions with managers throughout the Group to ensure that targets are feasible and that, more importantly, the measures developed will optimize the global operations of the Bridgestone Group. We also developed a series of Key Performance Indicators (KPIs) to track progress within each business.

Each SBU and GMP function has full management responsibility and functional ownership. Each also retains organizational autonomy to enable an effective yet flexible response to business conditions and performance. The structure is thus one of independently operating SBUs and GMP functions working within a GHQ-defined policy framework, based on a coherent and optimized business plan and close communication between these three parts of the overall organization. I believe that this arrangement allows an optimal mix of motivation, accountability and flexibility across all Group operations.

One final aspect of our business planning is the fact that we will update the plan each year to take account of changes in the business environment. The purpose of this rolling plan mechanism is not to keep moving the goalposts but rather to allow us to revise our measures where necessary to respond to changes as they arise. The integrated revision of measures is a critical part of making sure that our global operations are fully optimized and remain that way going forward.

Targeting the pinnacle of development to ensure enhanced products and services

The Bridgestone Group is currently developing various measures in line with this structure and plan. A particular focus concerns the continuing enhancement of Bridgestone products as a means to drive sustained growth. To this end, we continue to focus our efforts on certain strategic areas based on our concept of “aiming for the higher level.”

Our goals in strategic product development are basically threefold. First, we aim to reinforce our competitive advantage in those areas where the Bridgestone Group has preceded its competitors, such as runflat tires, winter tires, ultra-high-performance tires and ultra-low-profile GREATEC tires for commercial vehicles. Our second aim is to gain an overwhelming competitive edge through advanced technology and sophisticated business models to ensure our competitiveness over the long term. This is the case in many specialty tire areas, including radial tires for construction and mining vehicles, aircraft and motorcycles. Third, we are continuing to develop environment-friendly products, both in our tire and diversified product operations. Examples of these strategic products include runflat tires, ECOPIA brand tires for better fuel economy, electronic paper displays and EVA (ethylene vinyl acetate) film for solar modules. We are also focusing attention on strengthening the Diversified Products business and increasing our fundamental competitiveness in raw materials development and production technology.

By focusing development resources on these strategic areas, we aim to expand our global business while also promoting greater vertical integration within the Bridgestone Group, which is one of our competitive strengths. Although our development is primarily product-focused, we are also seeking to build our reputation as a “solutions provider”. In May 2007, the Bridgestone Group acquired US-based Bandag, Incorporated, a leading company within the retreading industry. We will now provide even better service to our customers by offering a comprehensive tire maintenance solution, backed by a complete line of new and retread truck tire offerings.

Antimonopoly investigation and improper payments to foreign agents

In news releases on May 4, 2007 and February 12, 2008, Bridgestone Corporation disclosed that Japanese, US, European and other authorities have been investigating the Company and certain of its employees in connection with international cartel activities and/or improper money payments to foreign agents respectively. We have appointed an Investigation Committee consisting of our external attorneys who have been involved in the ongoing investigation of these matters. This investigation is continuing and may expand. The Company will investigate the whole picture of these improper activities and will take this opportunity to speedily resolve the fundamental problems and issues presented by any misconduct that we may uncover. In addition, the Company will employ our best efforts to establish preventive measures to stop future misconduct.

Enhancing shareholder value

The Bridgestone Group is committed to generating value for its shareholders through improved financial returns based on sustained business expansion. Our policy is to maintain a stable and steady dividend, taking into account
growth in earnings and any changes in financial condition. We also seek to balance the level of shareholder return against the accumulation of capital reserves required to invest in the reinforcement of the business base for the long term. This requires investments in domestic and overseas production facilities, sales and marketing systems and R&D programs, among other things. For the fiscal year ended December 2007 we will pay a final dividend of ¥13 per share, bringing total dividends for the year to ¥26 per share.

The Bridgestone Group has always had immense potential by virtue of the talent within its individual functions. In the future, we will look to maximize returns by optimizing our global operations. I hope to harness all of the Group’s resources more efficiently so that we can boost returns by quickening our response and increasing our competitiveness. Our goal is to create an organization with a truly global structure, supported by genuinely global planning capabilities. This management formula is rare within corporate Japan — so rare that we hope others will strive to emulate the “Bridgestone model” of global development.

I ask for your continued support and understanding as we work to raise the value of the Bridgestone brand worldwide.

April 2008

Shoshi Arakawa
Chairman of the Board, CEO and President