Your Journey, Our Passion

Annual Report 2012

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 AND 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 ¥86.58 to $1, the prevailing exchange rate on December 31, 2012. 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 2012, the operating environment of the Company and its subsidiaries (the "Companies") was plagued by raw materials and feedstocks prices remaining at high levels and the continuing strength of the Japanese yen. While increased demand was brought on by re-building and rebounding sales of new vehicles following recovery from Great East Japan Earthquake, recovery of the domestic economy was stalling due to a slowdown in global economic growth. The United States economy was still on the seesaw of recovery and recession, and the financial crisis had a negative impact on the European economy. Asian economic expansion showed signs of a slowdown, particularly in China and India.

Net sales

Net sales rose 1%, or ¥15.4 billion ($178 million), to ¥3,039.7 billion ($35.1 billion). On a global basis, the Companies worked to expand sales of highly competitive products and to increase supply capacity. The Companies also responded promptly to changes in demand on a region-by-region basis. As a result, sales in the tire division were up year on year, and sales in the diversified products division were about the same as in the previous year.

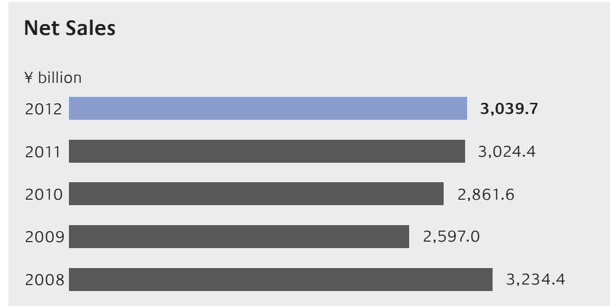
The average yen/dollar exchange rate in fiscal 2012 was ¥80, the same as in fiscal 2011, while the average yen/euro exchange rate in fiscal 2012 was ¥103, compared with ¥111 in the previous year.

Operating income

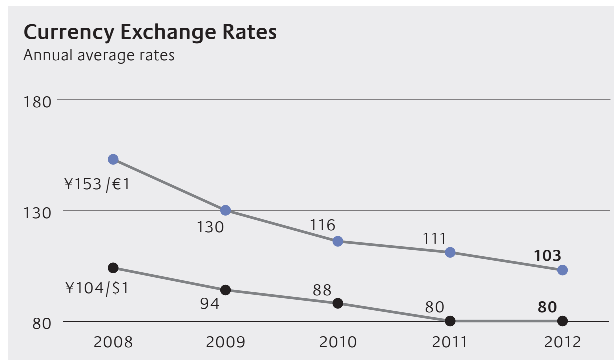
Due in large part to the decline in raw materials prices, operating income rose 49%, or ¥94.7 billion ($1,093 million), to ¥286.0 billion ($3,303 million). As a result, the operating margin increased by 3.1 percentage points, from 6.3% to 9.4%.

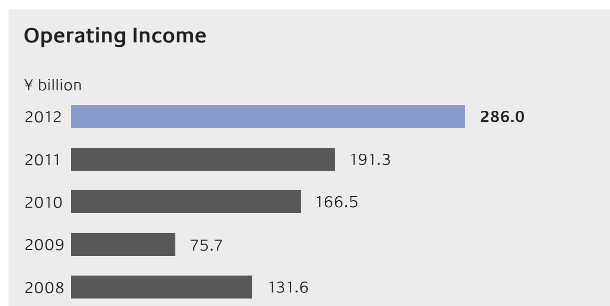
Operating Income Margin

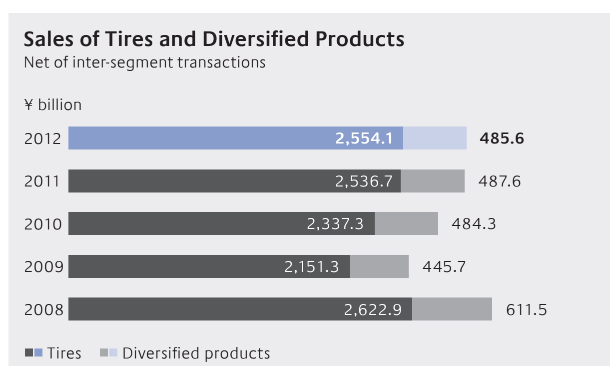
	2012	2011	2010	2009	2008
					% of sales
	9.4	6.3	5.8	2.9	4.1



Note: Net sales exclude inter-segment transactions.







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 2012 increased by 1% from the previous year, to ¥2,557.2 billion ($29.5 billion). Operating income also increased, rising by 40%, to ¥260.5 billion ($3,009 million).

In the tire segment, the Companies worked to maximize sales momentum by introducing appealing new products globally, enhancing strategic products and reinforcing fundamental competencies such as specification optimization, and responding promptly to demand fluctuation in each region.

In Japan, unit sales of tires for passenger cars and light trucks grew firmly compared to fiscal 2011. Total unit sales of tires for trucks and buses decreased due to a decline in sales of replacement tires.

In the Americas, unit sales of passenger and light truck tires in North America remained unchanged compared to fiscal 2011. Total unit sales of tires for trucks and buses decreased due to a decline in the sales of replacement tires.

In Europe, unit sales of tires for passenger cars and light trucks decreased substantially compared to fiscal 2011 due to a decline in the sales of replacement tires, as well as tires for trucks and buses.

In Asia Pacific, unit sales of passenger cars and light trucks increased substantially compared to fiscal 2011. Total unit sales of tires for trucks and buses firmly increased from fiscal 2011. In China, unit sales of passenger and light truck tires decreased, and unit sales of tires for trucks and buses decreased substantially compared to fiscal 2011.

In the specialty tire business, unit sales of large and ultra-large off-the-road radial tires for construction and mining vehicles increased steadily compared to fiscal 2011 due to expansion of production capacity.

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

In the diversified products segment, net sales totaled ¥499.1 billion ($5,764 million), about the same as in fiscal 2011. Due to the increasing profit of domestic business and BSAM's Diversified Products business, operating income was ¥25.5 billion ($295 million), an increase of 339% from fiscal 2011.

Composition of Sales by Business Segment

Net of inter-segment transactions

	2012	2011
		% of net sales
Tires	84.0	84.0
Diversified products	16.0	16.0
	100.0	100.0

Performance by market

In Japan, net sales totaled ¥696.2 billion ($8,041 million), remaining unchanged from fiscal 2011. In the Americas, net sales totaled ¥1,321.2 billion ($15.3 billion), an increase of 4%, from fiscal 2011. In Europe, net sales totaled to ¥348.2 billion ($4,021 million), a decrease of 17%, from fiscal 2011. In other regions, net sales totaled ¥674.1 billion ($7,786 million), an increase of 6%, from fiscal 2011.

Composition of Sales by Market

Net of inter-segment transactions

	2012	2011
		% of net sales
Japan	22.9	23.0
The Americas	43.5	42.1
Europe	11.5	13.8
Other	22.1	21.1
	100.0	100.0

Other income and expense

The total of other income and other expenses equaled a loss of ¥17.9 billion ($207 million), compared with the corresponding loss of ¥32.5 billion in the previous year.

Net interest-related expenses decreased by ¥0.7 billion ($8 million), to ¥7.6 billion ($87 million), gain on sales of property, plant and equipment was ¥3.0 billion ($35 million), and gain on sales of investment securities was ¥4.1 billion ($47 million). In the previous fiscal year, gain on sales of property, plant and equipment was ¥7.3 billion, impairment loss was ¥13.1 billion, loss on disposals of property, plant and equipment was ¥4.2 billion, losses from a natural disaster was ¥2.4 billion, loss on valuation of investments in securities was ¥3.5 billion, loss on adjustment for changes of accounting standard for asset retirement obligations was ¥2.5 billion, and loss related to US antitrust law and US Foreign Corrupt Practices Act was ¥2.1 billion. In fiscal 2012, under review, impairment loss was ¥14.0 billion ($162 million), dismantlement expenses was ¥4.1 billion ($48 million), loss on disposals of property, plant and equipment was ¥3.0 billion ($35 million), loss on business withdrawal was ¥2.9 billion ($34 million).

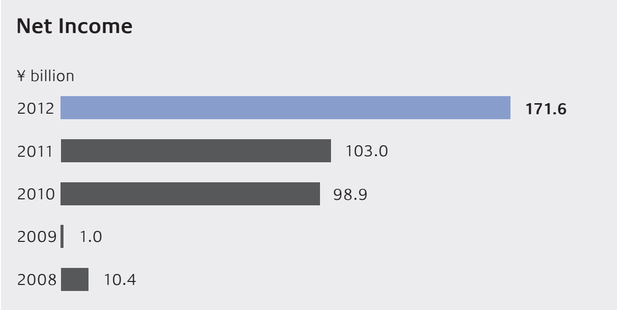
Income before income taxes and minority interests increased by ¥109.3 billion ($1,262 million), or 69%, to ¥268.1 billion ($3,096 million).

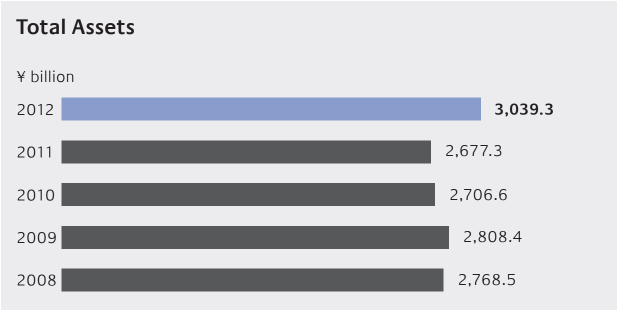
Net income

Net income increased by ¥68.6 billion ($793 million), to ¥171.6 billion ($1,982 million), from ¥103.0 billion in the previous fiscal year. Minority interests increased to ¥7.7 billion ($89 million). As a result, the net return on sales was up 2.3 percentage points, from 3.4% to 5.7%.

Net Return on Sales

	2012	2011	2010	2009	2008
					% of net sales
	5.7	3.4	3.5	0.04	0.3





Financial Condition

Assets

Current assets increased by ¥152.3 billion ($1,759 million) compared with the prior year-end, to ¥1,476.0 billion ($17.0 billion). Cash and cash equivalents increased ¥140.6 billion ($1,624 million), and merchandise and finished products rose by ¥6.6 billion ($76 million). Inventories were down ¥6.2 billion ($72 million).

In fixed assets, capital investments of ¥245.6 billion ($2,837 million) exceeded depreciation and amortization of ¥155.1 billion ($1,791 million). However, due to the influence of the depreciation of the yen on the conversion of foreign-currency amounts into yen, net property, plant and equipment increased by ¥137.6 billion ($1,589 million). As a result of an increase in the market value of stock holdings, investments in securities and investments in and advances to affiliated companies rose by ¥45.9 billion ($530 million).

Consequently, the total of "property, plant and equipment" and "investments and other assets" increased by ¥209.6 billion ($2,421 million), or 15%, compared with the previous fiscal year-end, to ¥1,563.2 billion ($18.1 billion).

Total assets increased by ¥361.9 billion ($4,180 million), or 14%, compared with the previous fiscal year-end, to ¥3,039.3 billion ($35.1 billion).

Liabilities

In current liabilities, notes and accounts payable decreased by ¥27.3 billion ($316 million). However, current portion of bonds, short-term debt and the current portion of long-term debt rose ¥54.1 billion ($625 million). Consequently, total current liabilities were up 12%, or ¥92.4 billion ($1,067 million), to ¥890.1 billion ($10.3 billion).

Long-term debt decreased by ¥36.6 billion ($423 million), and accrued pension and liability for retirement benefits increased by ¥42.9 billion ($495 million). Consequently, total long-term liabilities were up 2%, or ¥16.1 billion ($186 million), to ¥730.1 billion ($8,432 million).

Total interest-bearing debt, which is recorded in current liabilities and long-term liabilities, increased by ¥17.5 billion ($202 million), or 3%, compared with the prior fiscal year-end, to ¥620.1 billion ($7,162 million).

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

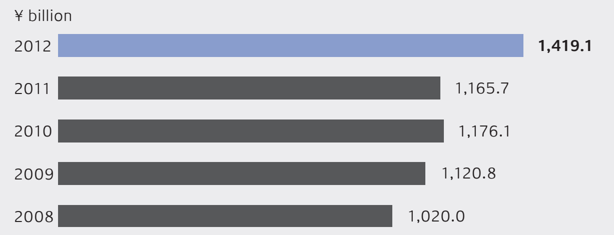
Equity

Total equity at December 31, 2012, amounted to ¥1,419.1 billion ($16.4 billion). This was ¥253.4 billion ($2,927 million), or 22%, higher than at the previous fiscal year-end. Cash dividends paid were ¥21.9 billion ($253 million), and post retirement benefit liability adjustments of foreign subsidiaries were ¥27.5 billion ($318 million). However, net income was ¥171.6 billion ($1,982 million), net unrealized gain on available-for-sale securities was ¥35.7 billion ($412 million), and foreign currency translation adjustments were ¥85.6 billion ($989 million).

The ratio of shareholders' equity, excluding stock acquisition rights and minority interests, to total assets at the end of December 2012 was 45.2%, an increase of 3.0 percentage points from the previous fiscal year-end. The ratio of total debt to debt and shareholders' equity was 31.1% at December 31, 2012, compared with a ratio of 34.8% at the previous fiscal year-end.

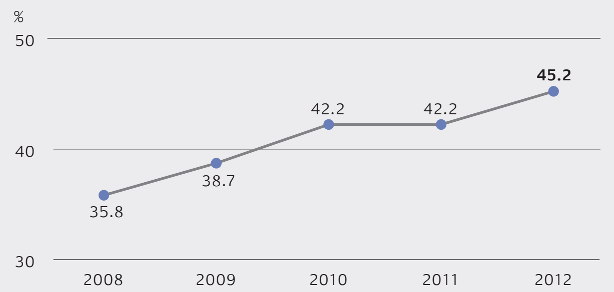
Net return on shareholders' equity (ROE) was 13.7%, an increase of 4.6 percentage points compared with the previous fiscal year. Net return on total assets (ROA) equaled 6.0%, an increase of 2.2 percentage points compared with the previous fiscal year.

Total Equity



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

	2012	2011	2010	2009
			Millions of yen, except per share data and financial ratios	
Net sales	¥ 3,039,738	¥ 3,024,356	¥ 2,861,615	¥ 2,597,002
Overseas sales	2,343,546	2,330,154	2,189,765	1,982,192
Tires (net of inter-segment transactions)	2,554,126	2,536,731	2,377,305	2,151,314
Diversified products (net of inter-segment transactions)	485,611	487,625	484,310	445,687
Operating income	285,995	191,322	166,450	75,712
Net income	171,605	102,970	98,914	1,044
Total equity	1,419,094	1,165,672	1,176,147	1,120,797
Total assets	3,039,251	2,677,344	2,706,640	2,808,439
Ratio of shareholders' equity to total assets	45.2	42.2	42.2	38.7
Per Share in Yen:				
Net income				
Basic	219.26	131.56	126.19	1.33
Diluted	219.10	131.50	126.16	1.33
Shareholders' equity	1,755.60	1,444.53	1,458.01	1,385.43
Cash dividends	32.00	22.00	20.00	16.00
Capital expenditure	245,644	201,390	182,648	178,204
Depreciation and amortization	155,065	158,044	170,663	180,547
Research and development costs	82,801	83,982	85,154	85,766

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 ¥86.58 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

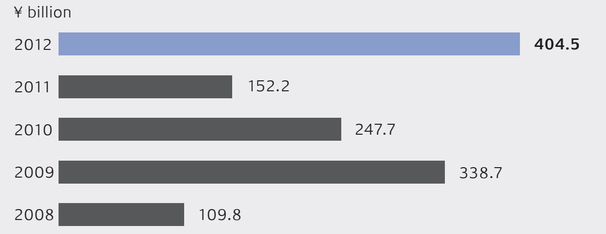
	2012	2011	2010	2009	2008
	% of simple average of year-end shareholders' equity				
	13.7	9.1	8.9	0.1	0.9

Net Return on Assets

	2012	2011	2010	2009	2008
	% of simple average of year-end total assets				
	6.0	3.8	3.6	0.04	0.3

Cash Flow

Net cash provided by operating activities



Cash flow

Consolidated cash and cash equivalents increased by ¥140.6 billion ($1,624 million) during 2012, to ¥269.4 billion ($3,112 million), compared with a decrease of ¥88.1 billion during the prior year.

Net cash provided by operating activities increased by ¥252.3 billion ($2,914 million) compared with the prior fiscal year, to ¥404.5 billion ($4,672 million).

The principal contributors in that cash provided included income before income taxes and minority interests of ¥268.1 billion ($3,096 million), compared with ¥158.8 billion during the prior year, depreciation and amortization of ¥155.1 billion ($1,791 million), compared with ¥158.0 billion during the prior year. These contributors offset a decrease in notes and

2008	2007	2006	2005	2004	2003	2002
					Millions of yen, except per share data and financial ratios	
¥ 3,234,406	¥ 3,390,219	¥ 2,991,275	¥ 2,691,376	¥ 2,416,685	¥ 2,303,917	¥ 2,247,769
2,448,300	2,589,006	2,213,880	1,945,283	1,700,599	1,593,863	1,508,112
2,622,890	2,750,374	2,393,165	2,152,950	1,927,989	1,836,395	1,797,598
611,516	639,845	598,110	538,426	488,696	467,522	450,171
131,551	249,962	190,876	213,851	197,697	183,294	183,862
10,412	131,630	85,121	180,796	114,453	88,720	45,379
1,019,996	1,410,225	1,221,846	1,128,597	934,981	887,987	796,013
2,768,470	3,359,255	3,053,440	2,709,962	2,333,708	2,220,613	2,143,928
35.8	40.8	38.6	41.6	40.1	40.0	37.1
13.33	168.69	109.10	226.92	138.96	102.75	51.97
13.33	168.65	109.07	226.86	138.94	102.56	51.89
1,263.30	1,757.23	1,511.43	1,443.43	1,163.82	1,056.54	924.48
24.00	26.00	24.00	24.00	19.00	16.00	16.00
275,301	272,381	261,335	203,670	191,000	155,742	116,764
187,420	173,585	145,349	127,609	111,491	104,383	119,466
93,252	86,748	86,687	79,415	72,898	70,967	68,161

accounts payable of ¥43.0 billion ($496 million), compared with a net increase of ¥20.9 billion in the prior year, income taxes paid of ¥56.0 billion ($646 million), compared with ¥31.6 billion in the prior year.

Net cash used in investing activities increased ¥60.8 billion ($703 million) compared with the prior year, to ¥237.9 billion ($2,748 million). Expenditures included payments of ¥240.1 billion ($2,774 million) for purchase of tangible assets, compared with payments of ¥187.9 billion during the prior year.

Net cash used in financing activities decreased ¥5.3 billion ($61 million) compared with the prior year, to ¥55.4 billion ($639 million). The principal contributors in that cash used included net decrease in short-term borrowings of ¥35.9 billion ($415 million), compared with a net increase of ¥63.4 billion during the prior year, repayments for long-term borrowings of ¥52.1 billion ($601 million), compared with ¥166.0 billion during the prior year, payments for redemption of bonds of ¥39.5 billion ($456 million), compared with ¥40.6 billion during the prior year, payments for cash dividends paid of ¥21.9 billion ($253 million), compared with ¥15.7 billion during the prior year. These contributors offset proceeds from long-term borrowings of ¥68.8 billion ($794 million), compared with ¥77.3 billion in the prior year, proceeds from issuance of bonds of ¥28.2 billion ($326 million), compared with ¥35.5 billion in the prior 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 ¥16.0 ($0.18) and year-end dividends of ¥16.0 ($0.18) per share, annual dividends for fiscal 2012 totaled ¥32.0 ($0.37) per share.

Projection for Fiscal 2013

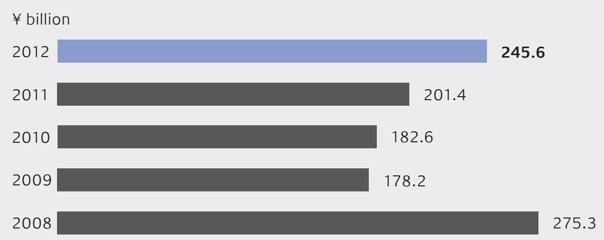
In 2012, the Companies’ operating environment will continue to require careful attention due to such factors as fluctuations in exchange rates and the prices of raw materials and feedstocks, an ongoing lack of clarity in the global economic situation, and international political conditions that remain unstable.

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

Management forecasts consolidated net sales in fiscal 2013 of ¥3,550.0 billion, an increase of 17% from fiscal 2012. Management expects operating income to increase 34%, to ¥382.0 billion, with net income rising to ¥235.0 billion. Projected annual dividends in fiscal 2013 are ¥54 per share.

These performance forecasts are based on assumed average exchange rates of ¥89 against the dollar and ¥119 against the euro, compared with the full-year average rates recorded in fiscal 2012 of ¥80 and ¥103, respectively.

Capital Expenditure



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 26, 2013.

Major Categories of Operational Risk

Demand and macroeconomic conditions

The Companies conduct research and development (R&D), purchasing, manufacturing, logistics, marketing, sales, procurement, and other functional activities on a global basis. Operating results and financial position are thus subject to trends in demand, interest rates, exchange rates, share prices, and other economic variables in different countries and regions. In the fiscal year ended December 31, 2012, the consolidated sales split by market (for external customers only) were 43% from operations in the Americas, 23% from Japan and 11% 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 84% of consolidated net sales. In addition, operations in the diversified products business segment also include a substantial volume of business in automotive products. The operating results and financial position of the Companies are thus heavily exposed to business conditions in the global automobile industry.

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

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.

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

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, boycotts, epidemics, energy supply problems, 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, because product defect could be occurred by unpredictable factors or the Companies believe customers' safety as highest priority. Any such defects or recalls could result in customer claims for damages, as well as associated litigation costs, replacement costs and damage to the Companies' reputation. Product liability claims, class-action 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 are supplied from Southeast Asia.

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

Bridgestone Corporation and Subsidiaries
December 31, 2012 and 2011

	Note	2012	2011	2012
	2		Millions of yen	Thousands of U.S. dollars
Assets				
Current Assets:				
Cash and cash equivalents	15	¥ 269,416	¥ 128,840	$ 3,111,758
Marketable securities	6,15	78,526	90,133	906,976
Notes and accounts receivable	7,15	444,670	438,765	5,135,943
Inventories	5,7	520,726	520,481	6,014,391
Deferred tax assets	14	79,333	75,157	916,297
Other current assets		91,417	78,449	1,055,868
Allowance for doubtful accounts		(8,075)	(8,109)	(93,266)
Total Current Assets		1,476,013	1,323,716	17,047,967
Property, Plant and Equipment:	7			
Land		142,408	140,168	1,644,814
Buildings and structures		771,332	710,685	8,908,894
Machinery and equipment		2,050,364	1,877,573	23,681,728
Construction in progress		185,129	120,507	2,138,242
Total		3,149,233	2,848,933	36,373,678
Accumulated depreciation		(2,030,297)	(1,867,602)	(23,449,954)
Net Property, Plant and Equipment		1,118,936	981,331	12,923,724
Investments and Other Assets:				
Investments in securities	6,15	213,398	170,252	2,464,749
Investments in and advances to affiliated companies		15,349	12,634	177,281
Long-term loans receivable		6,072	6,053	70,132
Deferred tax assets	14	110,275	94,641	1,273,678
Other assets		104,276	92,016	1,204,389
Allowance for doubtful accounts		(5,068)	(3,299)	(58,536)
Total Investments and Other Assets		444,302	372,297	5,131,693
Total Assets		¥ 3,039,251	¥ 2,677,344	$ 35,103,384

See notes to consolidated financial statements.

	Note	2012	2011	2012
	2		Millions of yen	Thousands of U.S. dollars
Liabilities and Equity				
Current Liabilities:				
Short-term debt	7,15	¥ 164,739	¥ 186,315	$ 1,902,737
Current portion of long-term debt	7,15	120,356	44,665	1,390,113
Notes and accounts payable	15	317,346	344,693	3,665,350
Income taxes payable		55,827	22,855	644,802
Accrued expenses		174,138	152,088	2,011,296
Deferred tax liabilities	14	1,580	1,613	18,249
Provision for sales returns		3,223	3,740	37,226
Other current liabilities		52,896	41,762	610,950
Total Current Liabilities		890,105	797,731	10,280,723
Long-term Liabilities:				
Long-term debt	7,15	334,999	371,615	3,869,242
Accrued pension and liability for retirement benefits	8	300,501	257,631	3,470,790
Deferred tax liabilities	14	30,769	23,882	355,382
Provision for environmental remediation		3,969	4,516	45,842
Other liabilities		59,814	56,297	690,853
Total Long-term Liabilities		730,052	713,941	8,432,109
Total Liabilities		1,620,157	1,511,672	18,712,832
Contingent Liabilities and Commitments	17			
Equity:	3,9			
Common stock Authorized—1,450,000,000 shares, issued—813,102,321 shares in 2012 and 2011		126,354	126,354	1,459,390
Capital surplus		122,630	122,630	1,416,378
Stock acquisition rights		1,099	771	12,693
Retained earnings		1,429,669	1,279,978	16,512,693
Treasury stock—at cost, 30,440,507 shares in 2012 and 30,441,046 shares in 2011		(57,247)	(57,249)	(661,204)
Accumulated other comprehensive income	20			
Net unrealized gain (loss) on available-for-sale securities		133,440	97,751	1,541,234
Deferred gain (loss) on derivative instruments		(948)	(891)	(10,949)
Foreign currency translation adjustments		(246,140)	(331,784)	(2,842,920)
Post retirement liability adjustments for foreign consolidated companies		(133,718)	(106,212)	(1,544,444)
Total		1,375,139	1,131,348	15,882,871
Minority interests		43,955	34,324	507,681
Total Equity		1,419,094	1,165,672	16,390,552
Total Liabilities and Equity		¥3,039,251	¥2,677,344	$35,103,384

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2012 and 2011

	Note	2012	2011	2012
	2		Millions of yen	Thousands of U.S. dollars
Net Sales	18	¥3,039,738	¥3,024,356	$35,109,009
Cost of Sales		2,017,238	2,091,719	23,299,122
Gross profit		1,022,500	932,637	11,809,887
Selling, General and Administrative Expenses		736,505	741,315	8,506,641
Operating income	18	285,995	191,322	3,303,246
Other Income (Expenses):				
Interest and dividend income		8,891	8,425	102,691
Foreign currency exchange gain (loss)		722	(2,146)	8,339
Interest expense		(16,462)	(16,710)	(190,136)
Gain on sales of property, plant and equipment	13	3,011	7,295	34,777
Gain on sales of investment securities		4,055	1,231	46,835
Impairment loss	13	(14,025)	(13,086)	(161,989)
Losses from a natural disaster	13	—	(2,427)	—
Dismantlement expenses		(4,118)	(2,630)	(47,563)
Loss on disposals of property, plant and equipment		(3,011)	(4,213)	(34,777)
Loss on valuation of investments in securities		—	(3,486)	—
Loss on business withdrawal	13	(2,903)	—	(33,530)
Loss on adjustment for changes of accounting standard for asset retirement obligations		—	(2,471)	—
Loss related to US antitrust law and US Foreign Corrupt Practices Act	13	—	(2,150)	—
Other—net		5,897	(175)	68,111
Total		(17,943)	(32,543)	(207,242)
Income before Income Taxes and Minority Interests		268,052	158,779	3,096,004
Income Taxes:	14			
Current		86,482	45,937	998,868
Deferred		2,254	5,126	26,034
Total		88,736	51,063	1,024,902
Income before minority interests		179,316	107,716	2,071,102
Minority Interests		(7,710)	(4,746)	(89,051)
Net Income		¥ 171,606	¥ 102,970	$ 1,982,051

	2		Yen	U.S. dollars
Per Share of Common Stock:				
Basic	11	¥219.26	¥131.56	$2.53
Diluted	11	219.10	131.50	2.53
Cash dividends applicable to the year		32.00	22.00	0.37

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Bridgestone Corporation and Subsidiaries
Year ended December 31, 2012 and 2011

	Note	2012	2011	2012
	2		Millions of yen	Thousands of U.S. dollars
Income before minority interests		¥179,316	¥ 107,716	$2,071,102
Other comprehensive income	20			
Unrealized gain (loss) on available-for-sale securities		35,688	(14,319)	412,197
Deferred gain (loss) on derivative instruments		—	(695)	—
Foreign currency translation adjustments		88,097	(57,780)	1,017,521
Post retirement liability adjustment for foreign consolidated companies		(27,507)	(25,139)	(317,706)
Share of other comprehensive income in affiliates		1,519	(2,387)	17,544
Total Other Comprehensive Income		97,797	(100,320)	1,129,556
Comprehensive income	20	¥277,113	¥ 7,396	$3,200,658
Comprehensive income attribute to:				
Shareholders of Bridgestone Corporation		¥265,375	¥ 5,100	$3,065,084
Minority interests		11,738	2,296	135,574

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2012 and 2011

								Accumulated other comprehensive income						
	Note	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated companies	Total	Minority interests	Total equity
	2	Thousands												Millions of yen
Balance at January 1, 2011		782,663	¥126,354	¥122,630	¥515	¥1,111,589	¥(57,246)	¥112,064	¥(236)	¥(274,026)		¥1,141,644	¥34,503	¥1,176,147
Reclassification of post retirement liability adjustments for foreign consolidated companies						81,073					(81,073)			
Net income for the year						102,970						102,970		102,970
Cash dividends						(15,654)						(15,654)		(15,654)
Purchase of treasury stock		(2)		0			(3)					(3)		(3)
Disposal of treasury stock		0												
Net change in the year					256			(14,313)	(655)	(57,758)	(25,139)	(97,609)	(179)	(97,788)
Balance at December 31, 2011		782,661	¥126,354	¥122,630	¥771	¥1,279,978	¥(57,249)	¥ 97,751	¥(891)	¥(331,784)	¥(106,212)	¥1,131,348	¥34,324	¥1,165,672
Net income for the year						171,606						171,606		171,606
Cash dividends						(21,915)						(21,915)		(21,915)
Purchase of treasury stock		(5)					(10)					(10)		(10)
Disposal of treasury stock		6		0			12					12		12
Net change in the year					328			35,689	(57)	85,644	(27,506)	94,098	9,631	103,729
Balance at December 31, 2012		**782,662**	**¥126,354**	**¥122,630**	**¥1,099**	**¥1,429,669**	**¥(57,247)**	**¥133,440**	**¥(948)**	**¥(246,140)**	**¥(133,718)**	**¥1,375,139**	**¥43,955**	**¥1,419,094**

							Accumulated other comprehensive income						
	Note	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivative instruments	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated companies	Total	Minority interests	Total equity
	2												Thousands of U.S. dollars
Balance at December 31, 2011		$1,459,390	$1,416,378	$8,905	$14,783,761	$(661,227)	$1,129,025	$(10,291)	$(3,832,109)	$(1,226,749)	$13,067,083	$396,443	$13,463,526
Net income for the year					1,982,051						1,982,051		1,982,051
Cash dividends					(253,119)						(253,119)		(253,119)
Purchase of treasury stock						(116)					(116)		(116)
Disposal of treasury stock						139					139		139
Net change in the year				3,788			412,209	(658)	989,189	(317,695)	1,086,833	111,238	1,198,071
Balance at December 31, 2012		**$1,459,390**	**$1,416,378**	**$12,693**	**$16,512,693**	**$(661,204)**	**$1,541,234**	**$(10,949)**	**$(2,842,920)**	**$(1,544,444)**	**$15,882,871**	**$507,681**	**$16,390,552**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Bridgestone Corporation and Subsidiaries
Years ended December 31, 2012 and 2011

	Note	2012	2011	2012
	2		Millions of yen	Thousands of U.S. dollars
Cash Flows from Operating Activities:				
Income before income taxes and minority interests		¥ 268,052	¥ 158,779	$ 3,096,004
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization		155,066	158,045	1,791,014
Amortization of goodwill		1,446	1,622	16,701
Increase (decrease) in accrued pension and liability for retirement benefits		(3,796)	(17,949)	(43,844)
Interest and dividend income		(8,891)	(8,425)	(102,691)
Interest expense		16,462	16,710	190,136
Gain on sales of property, plant and equipment		(3,011)	(7,295)	(34,777)
Gain on sales of investments in securities		(4,055)	(1,231)	(46,835)
Impairment loss		14,025	13,086	161,989
Dismantlement expenses		4,118	2,630	47,563
Loss on disposals of property, plant and equipment		3,011	4,213	34,777
Loss on business withdrawal		2,903	—	33,530
Losses from a natural disaster		—	2,427	—
Loss on valuation of investments in securities		—	3,486	—
Loss on adjustment for changes of accounting standard for asset retirement obligations		—	2,471	—
Loss related to US antitrust law and US Foreign Corrupt Practices Act		—	2,150	—
Change in assets and liabilities:				
Decrease (increase) in notes and accounts receivable		43,792	(35,282)	505,798
Decrease (increase) in inventories		47,596	(122,890)	549,734
Increase (decrease) in notes and accounts payable		(42,986)	20,912	(496,489)
Other		(25,552)	1,239	(295,126)
Subtotal		468,180	194,698	5,407,484
Interest and dividends received		8,944	8,541	103,304
Interest paid		(16,701)	(17,359)	(192,897)
Payments related to US antitrust law and US Foreign Corrupt Practices Act		—	(2,150)	—
Income taxes paid		(55,956)	(31,573)	(646,292)
Net Cash Provided by Operating Activities		404,467	152,157	4,671,599
Cash Flows from Investing Activities:				
Payments for purchase of property, plant and equipment		(240,145)	(187,854)	(2,773,678)
Proceeds from sales of property, plant and equipment		11,178	12,239	129,106
Purchase of intangible assets		(4,845)	(858)	(55,960)
Proceeds from sales of investments in securities		4,823	3,023	55,706
Payments of loans receivable		(1,271)	(519)	(14,680)
Proceeds from collection of loans receivable		1,071	1,514	12,370
Other		(8,739)	(4,625)	(100,935)
Net Cash Used in Investing Activities		(237,928)	(177,080)	(2,748,071)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		(38,019)	71,987	(439,120)
Proceeds from long-term debt		68,786	84,051	794,479
Repayments of long-term debt		(61,250)	(186,529)	(707,438)
Cash dividends paid		(21,912)	(15,657)	(253,084)
Cash dividends paid to minority		(2,117)	(2,383)	(24,451)
Other		(839)	(1,544)	(9,691)
Net Cash Used in Financing Activities		(55,351)	(50,075)	(639,305)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		29,388	(13,087)	339,431
Net Increase (Decrease) in Cash and Cash Equivalents		140,576	(88,085)	1,623,654
Cash and Cash Equivalents at Beginning of Year		128,840	216,925	1,488,104
Cash and Cash Equivalents at End of Year		¥ 269,416	¥ 128,840	$ 3,111,758

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Bridgestone Corporation and Subsidiaries

NOTE 1

Nature of operations

Bridgestone Corporation and its subsidiaries (hereinafter referred to collectively as the "Companies") engage in developing, manufacturing and marketing tires and diversified products. The Companies market their products worldwide and operate manufacturing plants in every principal market. Development activities take place primarily in Japan, the United States of America (the "U.S.") and Europe.

Tire operations include retread business, automotive maintenance and repairs, retail business and raw material supplies, as well as tire development, manufacturing and marketing. Diversified products include industrial products, chemical products, automotive components, construction materials, electronic equipment, bicycles and sporting goods.

NOTE 2

Basis of presentation of consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards and the accounting principles generally accepted in the U.S. ("U.S. GAAP").

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Bridgestone Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥86.58 to $1, the approximate rate of exchange at December 31, 2012. 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 also eliminated.

Investments in affiliated companies, primarily those owned 20% to 50%, are accounted for under the equity method with appropriate adjustments for intercompany profits and dividends. 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 2012 and 2011 is summarized below:

	2012	2011
Consolidated subsidiaries	316	332
Affiliated companies	148	152

(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; and 5) exclusion of minority interests from net income, if contained in net income.

(c) Unification of accounting policies applied to foreign associated companies for the equity method

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 be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 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; and 5) exclusion of minority interests from net income, if contained in net income.

(d) 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.

(e) 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.

(f) 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.

(g) 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 and loss are included in earnings; (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 and 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.

(h) 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.

(i) 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.

(j) 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.

(k) Provision for sales returns

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

(l) 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.

(m) 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.

(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 exceeds 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 (8 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 under accumulated other comprehensive income in a separate component of equity on the balance sheet.

(o) Asset Retirement Obligations

In March 2008, the ASBJ published 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 the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(p) 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.

(q) Income taxes

The provision for income taxes is computed based on income before income taxes included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are measured by applying currently enacted 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.

(r) 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 the consolidated statement of income.

(s) Foreign currency financial statements

The balance sheet accounts of the Company's overseas subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as foreign currency translation adjustments under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the Company's overseas subsidiaries are translated into Japanese yen at the average annual exchange rate.

(t) 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 the consolidated statement of income; and (ii) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, 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 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 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 are 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.

(u) 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.

(v) Reclassification

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 consolidated financial statements to conform to the classifications used in 2012.

(w) Changes in presentation

Consolidated Statement of Income

Prior to January 1, 2012, the “Gain on sales of investment securities” and the “Dismantlement expenses” were included in “other-net” within the other income (expenses) section of the consolidated statement of income. Since during this fiscal year ended December 31, 2012 the materiality of these amounts increased, such amounts are now disclosed separately in the other income (expenses) section of the consolidated statement of income for the year ended December 31, 2012. The amounts of the “Gain on sales of investment securities” and the “Dismantlement expenses” included in “other-net” for the year ended December 31, 2011 were ¥1,231 million and ¥2,630 million, respectively.

Consolidated Statement of Cash Flows

Prior to January 1, 2012, the “Amortization of goodwill” was included in the “Depreciation and amortization” within the cash flows from operating activities section of the consolidated statement of cash flows. The amount is now disclosed separately in the cash flows from operating activities section of the consolidated statement of cash flows for the year ended December 31, 2012. The amount included in the “Depreciation and amortization” for the year ended December 31, 2011 was ¥1,622 million.

Prior to January 1, 2012, the “Gain on sales of investment securities” and the “Dismantlement expenses” were included in “other” within the cash flows from operating activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2012 the materiality of these amounts increased, such amounts are now disclosed separately in the cash flows from operating activities section of the consolidated statement of cash flows for the year ended December 31, 2012. The amounts of the “Gain on sales of investment securities” and the “Dismantlement expenses” included in “other” for the year ended December 31, 2011 were ¥1,231 million and ¥2,630 million, respectively.

Prior to January 1, 2012, the “Foreign exchange loss and gain” was disclosed separately in the cash flows from operating activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2012 the materiality of the amount was decreased, such amount is now included in “other” within the cash flows from operating activities section of the consolidated statement of cash flows. The amount included in “other” for the year ended December 31, 2011 was ¥4,818 million.

Prior to January 1, 2012, the “Purchase of intangible assets” and the “Payments of loans receivable” were included in “other” within the cash flows from investing activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2012 the materiality of these amounts increased, such amounts are now disclosed separately in the cash flows from investing activities section of the consolidated statement of cash flows for the year ended

December 31, 2012. The amounts of the "Purchase of intangible assets" and the "Payments of loans receivable" included in "other" for the year ended December 31, 2011 were ¥858 million and ¥519 million, respectively.

Prior to January 1, 2012, "Repayments of obligations under finance leases" were disclosed separately in the cash flows from financing activities section of the consolidated statement of cash flows. Since during this fiscal year ended December 31, 2012 the materiality of the amount was decreased, such amount is now included in "other" within the cash flows from financing activities section of the consolidated statement of cash flows. The amount included in "other" for the year ended December 31, 2011 was ¥1,541 million.

(x) Accounting Changes and Error Corrections

In December 2009, the 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, the 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.

(y) New accounting pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(1) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on January 1, 2014 and is in the process of measuring the effects of applying the revised accounting standard for the year ending December 31, 2014.

NOTE 4

Business combination

On January 1, 2012, a merger was implemented among five broad area sales companies that were consolidated subsidiaries of the Company. On the same date, another merger was implemented among Bridgestone FVS CO., LTD and five retail companies whose equity were owned by five broad area sales companies. The details are as follows;

1. Outline of the transaction

(1) Merger of five broad area sales companies

a. Names and major businesses of the merged companies
Name of the surviving company: BRIDGESTONE TIRE SALES KANTO CO., LTD.
Major business: Sales of automobile tires
Names of dissolved companies:
BRIDGESTONE TIRE SALES KITANIHON CO., LTD.
BRIDGESTONE TIRE SALES CHUBU CO., LTD.
BRIDGESTONE TIRE SALES KINKISHIKOKU CO., LTD.
BRIDGESTONE TIRE SALES NISHINIHON CO., LTD.
Major businesses: Sales of automobile tires

b. Date of the merger: January 1, 2012

c. Legal form of the merger:
An absorption-type merger with BRIDGESTONE TIRE SALES KANTO CO., LTD. as the surviving company

d. Name of the entity after the merger:
BRIDGESTONE TIRE JAPAN CO., LTD.

(2) Merger of Bridgestone FVS Co., Ltd., and five retail companies in which equity was owned by five broad area sales companies

a. Names and major businesses of the merged companies
Name of the surviving company:
BRIDGESTONE FVS CO., LTD.
Major business: Sales of automobile parts components
Names of dissolved companies:
BRIDGESTONE RETAIL KITANIHON CO., LTD.
BRIDGESTONE RETAIL KANTO CO., LTD.
BRIDGESTONE RETAIL CHUBU CO., LTD.
BRIDGESTONE RETAIL KINKISHIKOKU CO., LTD.
BRIDGESTONE RETAIL NISHINIHON CO., LTD.
Major business: Sales of automobile tires

b. Date of the merger: January 1, 2012

c. Legal form of the merger:
An absorption-type merger with BRIDGESTONE FVS CO., LTD., as the surviving company

d. Name of the entity after the merger:
BRIDGESTONE RETAIL JAPAN CO., LTD.

2. Other information related to the outline of the transactions

The Companies are aiming to establish a true “vertically integrated sales business model” through the transfer to two companies of the majority of the functions of domestic replacement tire sales divisions and the integration of the domestic replacement tire sales divisions, wholly owned sales companies, and directly operated stores.

3. Outline of accounting treatments implemented

The transactions were implemented as a business combination under common control, based on the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008) and “Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

NOTE 5

Inventories

Inventories at December 31, 2012 and 2011 consist of the following:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Finished products	¥321,013	¥314,455	$3,707,704
Work in process	34,525	34,615	398,764
Raw materials and supplies	165,188	171,411	1,907,923
Total	¥520,726	¥520,481	$6,014,391

NOTE 6

Marketable and investment securities

Information regarding each category of available-for-sale securities at December 31, 2012 and 2011 is as follows:

	Cost	Unrealized gain	Unrealized loss	Fair value	Cost	Unrealized gain	Unrealized loss	Fair value
				2012				2011
								Millions of yen
Securities Classified as:								
Available-for-sale:								
Equity securities	¥38,850	¥169,597	¥ (72)	¥208,375	¥38,366	¥127,595	¥ (907)	¥165,054
Debt securities	11,256	60	(1,037)	10,279	8,521	71	(1,127)	7,465
				Thousands of U.S. dollars				
Securities Classified as:								
Available-for-sale:								
Equity securities	$448,718	$1,958,847	$ (832)	$2,406,733				
Debt securities	130,007	693	(11,977)	118,723				

In addition to the above, the Companies have available-for-sale securities classified as marketable securities under US GAAP by ¥71,307 million ($823,596 thousand).

Available-for-sale securities whose fair values are not readily determinable at December 31, 2012 and 2011 are mainly as follows:

	2012	2011	2012
Carrying amount		Millions of yen	Thousands of U.S. dollars
Available-for-sale:			
Equity securities	¥1,963	¥2,127	$22,673

Proceeds from sales of available-for-sale securities for the years ended December 31, 2012 and 2011 are ¥4,745 million ($54,805 thousand) and ¥2,976 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, are ¥4,055 million ($46,835 thousand) and ¥12 million ($139 thousand), respectively, for the year ended December 31, 2012, ¥1,227 million and ¥0.2 million, respectively, for the year ended December 31, 2011.

The information of available-for-sale securities which were sold during the year ended December 31, 2012 is as follows:

	Proceeds	Realized gain	Realized loss	Proceeds	Realized gain	Realized loss
						2012
			Millions of yen			Thousands of U.S. dollars
Securities Classified as:						
Available-for-sale:						
Equity securities	¥4,723	¥4,055	¥10	$54,551	$46,835	$116
Debt securities	22	—	2	254	—	23

NOTE 7

Short-term and long-term debt

Short-term debt at December 31, 2012 and 2011 consists of the following:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Short-term bank loans, weighted average interest rate of 1.9% at December 31, 2012 and 2.4% at December 31, 2011	¥124,304	¥163,212	$1,435,712
Commercial paper, weighted average interest rate of 0.5% at December 31, 2012 and 1.6% at December 31, 2011	40,435	18,934	467,025
Euro unsecured medium term notes due 2012 with interest rates ranging from 0.1% to 0.8% at December 31, 2011	—	4,169	—
Total	¥164,739	¥186,315	$1,902,737

Long-term debt at December 31, 2012 and 2011 consists of the following:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Borrowings from banks, insurance companies and others, weighted average interest rate of 2.7% at December 31, 2012 and 3.2% at December 31, 2011 denominated mainly in Japanese yen, U.S. dollars and Euros:			
Secured	¥ 4,484	¥ 190	$ 51,790
Unsecured	316,364	273,188	3,654,008
0.9% yen unsecured straight bonds, due 2013	50,000	50,000	577,501
0.8% yen unsecured straight bonds, due 2014	60,000	60,000	693,001
Euro unsecured medium term notes due 2013—2014 with interest rates ranging from 0.4% to 1.2% at December 31, 2012 and due 2012—2014 with interest rates ranging from 0.4% to 1.4% at December 31, 2011	14,094	22,086	162,786
Obligations under finance leases	10,413	10,816	120,269
Total	455,355	416,280	5,259,355
Less current portion	(120,356)	(44,665)	(1,390,113)
Long-term Debt, Less Current Portion	¥ 334,999	¥371,615	$ 3,869,242

Annual maturities of long-term debt at December 31, 2012 are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2013	¥120,356	$1,390,113
2014	148,038	1,709,841
2015	75,959	877,327
2016	39,961	461,550
2017	31,133	359,587
2018 and thereafter	39,908	460,937
Total	¥455,355	$5,259,355

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 ¥1,065 million ($12,301 thousand) and long-term bank loans of ¥4,484 million ($51,790 thousand) at December 31, 2012 is ¥18,144 million ($209,563 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 2013, Bridgestone Americas, Inc. ("BSAM") and its major subsidiaries in the U.S. entered into separate eleventh 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 2014. 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. causes an event of default under the BSAM eleventh amended and restated revolving credit agreements. The above agreements replace the separate tenth amended and restated revolving credit agreements expired on January 2013, of which the terms were substantially the same as those of the eleventh agreements discussed above.

NOTE 8

Retirement and pension plans

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

Employees serving with certain of the Company's overseas subsidiaries are entitled to either 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, 2012 and 2011 consist of the following:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥ 615,258**	¥ 536,356	**$ 7,106,237**
Fair value of plan assets	**(388,490)**	(339,932)	**(4,487,064)**
Unrecognized prior service cost	**4,332**	6,790	**50,035**
Unrecognized actuarial gain (loss)	**(12,044)**	(25,139)	**(139,108)**
Prepaid benefit cost	**12,864**	15,340	**148,579**
Other	**(1,592)**	(834)	**(18,388)**
Net Liability	**¥ 230,328**	¥ 192,581	**$ 2,660,291**

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 ¥70,173 million ($810,499 thousand) and ¥65,050 million is included in the consolidated balance sheets at December 31, 2012 and 2011, respectively.

The components of the net periodic benefit costs for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 17,060**	¥ 15,322	**$ 197,043**
Interest cost	**19,404**	19,800	**224,117**
Expected return on plan assets	**(19,374)**	(19,565)	**(223,770)**
Recognized actuarial loss	**16,144**	10,984	**186,463**
Amortization of prior service cost	**(1,791)**	(1,901)	**(20,686)**
Net Periodic Benefit Costs	**¥ 31,443**	¥ 24,640	**$ 363,167**

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 ¥5,945 million ($68,665 thousand) and ¥5,962 million for the years ended December 31, 2012 and 2011, respectively.

Assumptions used in actuarial calculations for the years ended December 31, 2012 and 2011 are set forth as follows:

	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries
		2012		2011
Discount rate	**1.7 to 2.5%**	**3.1 to 4.1%**	1.7 to 2.5%	3.8 to 4.8%
Expected rate of return on plan assets	**2.5%**	**5.5 to 9.0%**	2.5%	5.5 to 9.0%
Amortization period of prior service cost	**10 years**	**3 to 12 years**	10 years	3 to 12 years
Recognized period of actuarial gain or loss	**10 years**	**8 to 12 years**	10 years	8 to 12 years

NOTE 9

Equity

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

(i) Dividends: The Act allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For Japanese companies that meet certain criteria such as having a Board of Directors, having independent auditors, having a 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(iii) Treasury stock and treasury stock acquisition rights: The Act also provides for Japanese companies to repurchase/dispose of treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Act, stock acquisition rights are presented as a separate component of equity. The Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

NOTE 10

Stock-based compensation

The stock options outstanding as of December 31, 2012 are as follows:

Date of approval	Persons granted		Number of options granted (Thousands of shares)	Date of grant	Exercise price	Exercise period
March 30, 2005 at the general shareholders meeting	Directors Selected employees	10 58	258	May 2, 2005	¥2,114 ($24.42)	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 ($32.05)	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 ($29.41)	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 ($22.36)	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
March 29, 2011 at the general shareholders meeting and the board of directors	Directors Corporate officers not doubling as directors	9 36	154.5	May 2, 2011	¥1 ($0.01)	from May 2, 2011 to April 30, 2031
March 27, 2012 at the general shareholders meeting and the board of directors	Directors Corporate officers not doubling as directors	9 35	202	May 1, 2012	¥1 ($0.01)	from May 1, 2012 to April 30, 2032

The stock option activity is as follows:

	March 30, 2005	March 30, 2006	March 29, 2007	March 27, 2008	March 26, 2009	March 30, 2010	March 29, 2011	March 27, 2012
Non-vested (Thousands of shares)								
Outstanding at December 31, 2011	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	202
Expired	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	202
Outstanding at December 31, 2012	—	—	—	—	—	—	—	—
Vested (Thousands of shares)								
Outstanding at December 31, 2011	252	280	260	234.5	110	118.5	154.5	—
Vested	—	—	—	—	—	—	—	202
Exercised	—	—	—	4	2	—	—	—
Expired	252	—	—	—	—	—	—	—
Outstanding at December 31, 2012	—	280	260	230.5	108	118.5	154.5	202
Exercise price	¥2,114 ($24.42)	¥2,775 ($32.05)	¥2,546 ($29.41)	¥1,936 ($22.36)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise	—	—	—	¥1,935 ($22.35)	¥1,910 ($22.06)	—	—	—
Fair value price at grant date	—	—	¥447 ($5.16)	¥399 ($4.61)	¥1,264 ($14.60)	¥1,400 ($16.17)	¥1,656 ($19.13)	¥1,648 ($19.03)

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

	March 27, 2012
Volatility of stock price	33.020%
Estimated remaining outstanding period	10 years
Estimated dividend per share	¥22 ($0.25)
Risk-free interest rate	0.869%

NOTE 11

Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2012 and 2011 is as follows:

	Net income	Weighted-average shares	EPS	
	For the year ended December 31, 2012			
	Millions of yen	Thousands of shares	Yen	U.S. dollars
Basic EPS Net income available to common shareholders	**¥171,606**	**782,662**	**¥219.26**	**$2.53**
Effect of dilutive securities Stock options		**583**		
Diluted EPS Net income for computation	**¥171,606**	**783,245**	**¥219.10**	**$2.53**

	Net income	Weighted-average shares	EPS	
	For the year ended December 31, 2011			
	Millions of yen	Thousands of shares	Yen	U.S. dollars
Basic EPS Net income available to common shareholders	¥102,970	782,662	¥131.56	
Effect of dilutive securities Stock options		383		
Diluted EPS Net income for computation	¥102,970	783,045	¥131.50	

NOTE 12

Research and development costs

Research and development costs are charged to income as incurred.

Research and development costs are ¥82,801 million ($956,353 thousand), and ¥83,982 million for the years ended December 31, 2012 and 2011, respectively.

NOTE 13

Other income (expenses)

Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the year ended December 31, 2012 and 2011 mainly consists of gain on sales of land.

Impairment Loss

The Companies group their operating assets in accordance with the classifications used for internal management. Assets to be disposed (assets that the Companies plan to dispose of through scrapping or sale) and idle assets are grouped on an individual basis.

For assets for business which profitability has declined, assets to be disposed through planned scrapping or sale, and idle assets that are not expected to be used in the future, the carrying amounts were reduced to the recoverable amounts, and the amounts of these reductions were recorded under Other Expenses as impairment loss of ¥14,025 million ($161,989 thousand) and ¥13,086 million during the years ended December 31, 2012 and 2011 respectively. That total included ¥4,261 million ($49,215 thousand) for machinery, equipment, and vehicles, ¥3,431 million ($39,628 thousand) for buildings and structures, and ¥6,333 million ($73,146 thousand) for others for the year ended December 31, 2012.

				2012
USE	Classification	Location	Amount (Millions of yen)	Amount (Thousands of U.S.dollars)
Assets for business	Machinery and equipments, buildings and structures, other	Japan, United States of America, other	¥4,654	$53,754
Assets to be disposed	Machinery and equipments, buildings and structures, other	Japan	6,066	70,062
Idle assets	Machinery and equipments, other	Japan, other	3,305	38,173

That total included ¥5,618 million for buildings and structures, ¥3,057 million for machinery, equipment, and vehicles, ¥2,670 million for land, and ¥1,741 million for others for the year ended December 31, 2011.

			2011
USE	Classification	Location	Amount (Millions of yen)
Assets for business	Buildings and structures, machinery and equipments, other	Japan	¥ 1,382
Assets to be disposed	Buildings and structures, land, other	Japan, United States of America, other	10,979
Idle assets	Buildings and structures, machinery and equipments, other	Japan	725

The recoverable amount of assets for business is measured by value in use, which is calculated by discounting future cash flows at a discount rate of 4.3% to 7.5% and 7.5% for the years ended December 31, 2012 and 2011 respectively. The recoverable amounts of assets to be disposed and idle assets are measured at the net selling price. Assets to be scrapped are evaluated at memorandum value, and assets to be sold and idle assets are evaluated at the estimated selling price and other.

Losses from a natural disaster

Losses from a natural disaster for the year ended December 31, 2011 consists of restoration expenses for property, plant and equipment, and scrapping expenses for inventories as a result of the Great East Japan Earthquake, which occurred on March 11, 2011.

Loss on business withdrawal

During the year ended December 31, 2012, the Company has recorded the related expenses, as a result of the decision to withdraw from the electronic paper business.

Loss Related to US antitrust law and US Foreign Corrupt Practices Act

During the year ended December 31, 2011, the Company has recorded the expense in connection with guilty to an antitrust conspiracy and a conspiracy to violate the Foreign Corrupt Practices Act regarding the sale of marine hoses, as a result of the finalized penalty by the U.S. Department of Justice.

NOTE 14

Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for each of the years ended December 31, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012	2011	2012
		Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:			
Accrued pension and liability for retirement benefits	¥102,997	¥85,814	$1,189,617
Accrued expenses	24,420	27,548	282,051
Unrealized intercompany profits	24,394	16,447	281,751
Net operating loss carryforwards for tax purposes	41,551	39,855	479,915
Other	68,483	70,370	790,979
Less valuation allowance	(23,298)	(22,689)	(269,092)
Total	238,547	217,345	2,755,221
Deferred Tax Liabilities:			
Reserve for deferred gain related fixed assets for tax purposes	(13,330)	(13,047)	(153,962)
Unrealized gain on available-for-sale securities	(37,933)	(30,034)	(438,127)
Depreciation	(17,743)	(21,483)	(204,932)
Other	(12,283)	(8,478)	(141,868)
Total	(81,289)	(73,042)	(938,889)
Net deferred tax assets	¥157,258	¥144,303	$1,816,332

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, 2012 and 2011 is as follows:

	2012	2011
		%
Normal effective statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes and income not taxable-net	0.7	0.8
Lower income tax rates applicable to income in certain consolidated subsidiaries	(6.3)	(9.3)
Tax credit for research and development costs of domestic companies	(2.1)	(2.7)
Change in valuation allowance for deferred tax assets	0.5	3.7
Other—net	(0.3)	(0.9)
Actual Effective Tax Rate	33.1%	32.2%

NOTE 15

Financial instruments

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

The Companies raise the necessary funds mainly by bank borrowings or issuance of bonds based on funding requirements of 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 loans receivable, 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. (t) "Derivatives and Hedging Activities" and Note 16 "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, 2012 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 loans receivable, borrowings and bonds in foreign currencies, interest rate swap contracts are used to hedge interest rate fluctuation risk on borrowings and, commodity swap contracts are used to hedge commodity price fluctuation risk on raw materials.

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 16 "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, 2012 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)
			2012			2012
			Millions of yen			Thousands of U.S. dollars
(1) Cash and cash equivalents	¥269,416	¥ 269,416	¥ —	$ 3,111,758	$ 3,111,758	$ —
(2) Notes and accounts receivable	444,670			5,135,943		
Allowance for doubtful accounts*1	8,075			93,266		
	436,595	436,595	—	5,042,677	5,042,677	—
(3) Marketable and investment securities	289,961	289,961	—	3,349,053	3,349,053	—
Total	¥995,972	¥ 995,972	¥ —	$11,503,488	$11,503,488	$ —
(1) Short-term debt	¥164,739	¥ 164,739	¥ —	$ 1,902,737	$ 1,902,737	$ —
(2) Current portion of long-term debt	120,356	120,476	(120)	1,390,113	1,391,499	(1,386)
(3) Notes and accounts payable	317,346	317,346	—	3,665,350	3,665,350	—
(4) Income taxes payable	55,827	55,827	—	644,802	644,802	—
(5) Long-term debt	334,999	346,416	(11,417)	3,869,242	4,001,109	(131,867)
Total	¥993,267	¥1,004,804	¥(11,537)	$11,472,244	$11,605,497	$(133,253)
Derivative transactions*2	¥ (7,412)	¥ (7,412)	¥ —	$ (85,609)	$ (85,609)	$ —

	Carrying amount	Fair value	Unrealized gain (loss)
			2011
			Millions of yen
(1) Cash and cash equivalents	¥128,840	¥128,840	¥ —
(2) Notes and accounts receivable	438,764		
Allowance for doubtful accounts*1	8,109		
	430,655	430,655	—
(3) Marketable and investment securities	258,259	258,259	—
Total	¥817,754	¥817,754	¥ —
(1) Short-term debt	¥186,315	¥186,315	¥ —
(2) Current portion of long-term debt	44,665	44,665	—
(3) Notes and accounts payable	344,693	344,693	—
(4) Income taxes payable	22,855	22,855	—
(5) Long-term debt	371,615	379,089	(7,474)
Total	¥970,143	¥977,617	¥(7,474)
Derivative transactions*2	¥ 6,332	¥ 6,332	¥ —

*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 is 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 6 "MARKETABLE AND INVESTMENT SECURITIES."

Liabilities

(1) Short-term debt, (2) Current portion of long-term debt, (4) Income taxes payable
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.

(5) 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 16 "DERIVATIVES."

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

	Carrying amount		
	2012	2011	2012
	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities			
Unlisted equity securities	¥1,963	¥2,127	$22,673

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 2013	Due 2014 to 2017	Due 2018 to 2022	Due 2023 and thereafter
	2012			
	Millions of yen			
Cash and cash equivalents	¥269,416	¥ —	¥ —	¥ —
Notes and accounts receivable	444,670	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	182	4,275	1,976	—
Corporate bonds	—	2	3,000	—
Other	45,484	—	—	—
	Thousands of U.S. dollars			
Cash and cash equivalents	$3,111,758	$ —	$ —	$ —
Notes and accounts receivable	5,135,943	—	—	—
Marketable and investment securities				
Available-for-sale securities with contractual maturities				
Public bonds	2,102	49,376	22,823	—
Corporate bonds	—	23	34,650	—
Other	525,341	—	—	—

4. Please see Note 7 "SHORT-TERM AND LONG-TERM DEBT" for annual maturities of long-term debt.

NOTE 16

Derivatives

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

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

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

The outstanding balance of derivative contracts which do not qualify for hedge accounting at December 31, 2012 is as follows:

	Contract amount	Fair value	Unrealized gain (loss)
			2012
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥39,419	¥(2,114)	¥(2,114)
Euro	19,261	(1,758)	(1,758)
Russian ruble	17,188	(2,254)	(2,254)
Australian dollar	14,517	(731)	(731)
Other	13,127	(657)	(657)
Buy:			
U.S. dollar	11,438	29	29
Japanese yen	1,230	(81)	(81)
Australian dollar	953	(6)	(6)
Singapore dollar	122	—	—
Other	1,029	(4)	(4)
Currency Swap Contracts:			
Indonesia rupiah receipt, U.S. dollar payment	¥ 7,760	¥ 159	¥ 159
Euro receipt, U.S. dollar payment	7,293	(257)	(257)
Euro receipt, Japanese yen payment	4,196	(165)	(165)
Thai baht receipt, Japanese yen payment	2,749	(75)	(75)
U.S. dollar receipt, Japanese yen payment	1,637	(97)	(97)
Indian rupee receipt, Japanese yen payment	26	4	4
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	¥ 3,600	¥ (30)	¥ (30)

	Contract amount	Fair value	Unrealized gain (loss)
			2011
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	¥53,022	¥ (125)	¥ (125)
Euro	27,414	1,059	1,059
Russian ruble	16,542	1,519	1,519
Australian dollar	15,651	(235)	(235)
Other	11,742	99	99
Buy:			
U.S. dollar	18,828	296	296
Japanese yen	705	(1)	(1)
Australian dollar	2,665	40	40
Singapore dollar	1,498	(6)	(6)
Other	1,059	(33)	(33)
Currency Swap Contracts:			
U.S. dollar receipt, Japanese yen payment	¥ 3,040	¥ (42)	¥ (42)
Japanese yen receipt, Indian rupee payment	580	171	171
Indian rupee receipt, U.S. dollar payment	520	91	91
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	¥ 3,637	¥ (49)	¥ (49)

	Contract amount	Fair value	Unrealized gain (loss)
			2012
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	$455,290	$(24,417)	$(24,417)
Euro	222,465	(20,305)	(20,305)
Russian ruble	198,522	(26,034)	(26,034)
Australian dollar	167,672	(8,443)	(8,443)
Other	151,617	(7,588)	(7,588)
Buy:			
U.S. dollar	132,109	335	335
Japanese yen	14,207	(936)	(936)
Australian dollar	11,007	(69)	(69)
Singapore dollar	1,409	—	—
Other	11,885	(46)	(46)
Currency Swap Contracts:			
Indonesia rupiah receipt, U.S. dollar payment	$ 89,628	$ 1,836	$ 1,836
Euro receipt, U.S. dollar payment	84,234	(2,968)	(2,968)
Euro receipt, Japanese yen payment	48,464	(1,906)	(1,906)
Thai baht receipt, Japanese yen payment	31,751	(866)	(866)
U.S. dollar receipt, Japanese yen payment	18,907	(1,120)	(1,120)
Indian rupee receipt, Japanese yen payment	300	46	46
Interest Rate Swap Contracts:			
Floating rate receipt, fixed rate payment	$ 41,580	$ (347)	$ (347)

The outstanding balance of derivative contracts which qualify for hedge accounting at December 31, 2012 is as follows:

	Primary hedged item	Contract amount	Fair value
			2012
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	¥15,238	¥(1,048)
Euro		6,879	(763)
Australian dollar		3,844	(296)
Other		28	(2)
Buy:			
U.S. dollar	Accounts payable	18,347	1,581
Other		1	—
Currency Swap Contracts:			
Euro receipt, U.S. dollar payment	Bonds and debts	¥11,631	¥ 416
Euro receipt, Japanese yen payment		4,323	272
South African rand receipt, U.S. dollar payment		3,820	463

	Primary hedged item	Contract amount	Fair value
			2011
			Millions of yen
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	¥20,188	¥ (37)
Euro		8,987	441
Australian dollar		6,154	(37)
Other		1,768	31
Buy:			
U.S. dollar	Accounts payable	262	(5)
Thai baht		1,410	(25)
Czech koruna		499	1
Hungarian forint		491	(6)
Other		241	2
Currency Swap Contracts:			
Euro receipt, U.S. dollar payment	Bonds and debts	¥10,211	¥ 430
Euro receipt, Japanese yen payment		10,325	3,122
South African rand receipt, U.S. dollar payment		1,889	(369)

	Primary hedged item	Contract amount	Fair value
			2012
			Thousands of U.S. dollars
Foreign Currency Forward Contracts:			
Sell:			
U.S. dollar	Accounts receivable	$175,999	$(12,104)
Euro		79,453	(8,813)
Australian dollar		44,398	(3,419)
Other		323	(23)
Buy:			
U.S. dollar	Accounts payable	211,908	18,261
Other		12	—
Currency Swap Contracts:			
Euro receipt, U.S. dollar payment	Bonds and debts	$134,338	$ 4,805
Euro receipt, Japanese yen payment		49,931	3,142
South African rand receipt, U.S. dollar payment		44,121	5,348

NOTE 17

Contingent liabilities and commitments

(a) Contingent liabilities

At December 31, 2012, the Companies have the following contingent liabilities:

	2012	2012
	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥1,380	$15,939
Guarantees and similar items of bank borrowings	11	127
Total	¥1,391	$16,066

(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, 2012 are as follows:

	2012	2012
	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 33,217	$ 383,657
Due after one year	146,841	1,696,015
Total	¥180,058	$2,079,672

NOTE 18

Segment information

For the year ended December 31, 2012 and 2011

Under the ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Companies' reportable segments are components of the Companies whose separate financial information is obtainable, and the Board of Directors and the Management Committee regularly consider these segments in order to decide the allocation of business resources and evaluate business performance.

The Companies composes of Tire business that comprises of the manufacture and sale of tires and tubes, sale of wheels and accessories, the manufacture and sale of retread material and services, auto maintenance, and Diversified products business that comprises Chemical and Industrial Products, BSAM Diversified Products*, sporting goods, bicycles, etc. Thus, the Companies have two reporting segments: Tires and Diversified products.

* BSAM Diversified Products: A business under BRIDGESTONE AMERICAS, INC. supplying commercial roofing materials and others.

2. Methods of measurement for the amounts of sales and income (loss), assets and other items for each reportable segment

The accounting policies for each reportable business segment are consistent to those outlined in Note 3 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." Reportable segment income figures are on an operating income basis. Internal sales and transfers between segments are mainly based on prices for third-party transactions.

3. Information about sales and income (loss), assets and other items by reportable segment

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2012
					Millions of yen
Net Sales:					
External customers	¥2,554,126	¥485,612	¥3,039,738	¥ —	¥3,039,738
Inter-segment	3,090	13,456	16,546	(16,546)	—
Total	2,557,216	499,068	3,056,284	(16,546)	3,039,738
Segment income (Operating income)	¥ 260,488	¥ 25,515	¥ 286,003	¥ (8)	¥ 285,995
Segment assets	¥2,672,319	¥368,872	¥3,041,191	¥ (1,940)	¥3,039,251
Other					
Depreciation and amortization	¥ 136,514	¥ 18,552	¥ 155,066	¥ —	¥ 155,066
Amortization of goodwill	961	485	1,446	—	1,446
Investment for equity-method affiliates	14,614	207	14,821	(5)	14,816
Increase in property, plant and equipment and intangible assets	223,672	22,460	246,132	—	246,132

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2011
					Millions of yen
Net Sales:					
External customers	¥2,536,731	¥487,625	¥3,024,356	¥ —	¥3,024,356
Inter-segment	3,055	12,945	16,000	(16,000)	—
Total	2,539,786	500,570	3,040,356	(16,000)	3,024,356
Segment income (Operating income)	¥ 185,476	¥ 5,812	¥ 191,288	¥ 34	¥ 191,322
Segment assets	¥2,295,947	¥384,217	¥2,680,164	¥ (2,820)	¥2,677,344
Other					
Depreciation and amortization	¥ 136,336	¥ 21,709	¥ 158,045	¥ —	¥ 158,045
Amortization of goodwill	1,502	120	1,622	—	1,622
Investment for equity-method affiliates	11,988	299	12,287	(3)	12,284
Increase in property, plant and equipment and intangible assets	174,779	26,790	201,569	—	201,569

	Tires	Diversified products	Total	Reconciliations*	Consolidated
					Year ended December 31, 2012
					Thousands of U.S. dollars
Net Sales:					
External customers	$29,500,185	$5,608,824	$35,109,009	$ —	$35,109,009
Inter-segment	35,689	155,417	191,106	(191,106)	—
Total	29,535,874	5,764,241	35,300,115	(191,106)	35,109,009
Segment income (Operating income)	$ 3,008,639	$ 294,699	$ 3,303,338	$ (92)	$ 3,303,246
Segment assets	$30,865,315	$4,260,476	$35,125,791	$ (22,407)	$35,103,384
Other					
Depreciation and amortization	$ 1,576,738	$ 214,276	$ 1,791,014	$ —	$ 1,791,014
Amortization of goodwill	11,099	5,602	16,701	—	16,701
Investment for equity-method affiliates	168,792	2,391	171,183	(58)	171,125
Increase in property, plant and equipment and intangible assets	2,583,414	259,413	2,842,827	—	2,842,827

* The reconciliations are as follows.
1 Reconciliations of segment income refer to elimination of inter segment transactions.
2 Reconciliations of segment assets refer to elimination of inter segment receivables and payables.

4. Related information

1. Information about product and services

Information has been omitted, as the classification is the same as that for reportable segment.

2. Information about geographical areas

(1) Sales

Japan	The Americas	United States	Europe	Other	Total
					Year ended December 31, 2012
					Millions of yen
¥696,192	**¥1,321,248**	**¥995,394**	**¥348,173**	**¥674,125**	**¥3,039,738**
					Thousands of U.S. dollars
$8,041,026	**$15,260,430**	**$11,496,812**	**$4,021,402**	**$7,786,151**	**$35,109,009**

Japan	The Americas	United States	Europe	Other	Total
					Year ended December 31, 2011
					Millions of yen
¥694,202	¥1,273,312	¥993,805	¥418,813	¥638,029	¥3,024,356

* Sales are classified in countries or region based on location of customers.

(2) Property, plant and equipment

Japan	The Americas	United States	Europe	Other	Total
					Year ended December 31, 2012
					Millions of yen
¥374,950	**¥339,622**	**¥211,787**	**¥131,947**	**¥272,417**	**¥1,118,936**
					Thousands of U.S. dollars
$4,330,677	**$3,922,638**	**$2,446,142**	**$1,523,989**	**$3,146,420**	**$12,923,724**

Japan	The Americas	United States	Europe	Other	Total
					Year ended December 31, 2011
					Millions of yen
¥409,058	¥269,898	¥156,356	¥109,579	¥192,796	¥981,331

3. Information about major customers

The Companies are not required to disclose information on external customers, since there are no sales to a single external customer amounting to 10% or more of the Companies' net sales.

5. Information about Impairment Losses of property, plant and equipment

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2012
				Millions of yen
Impairment Losses of Assets	**¥1,770**	**¥12,255**	**¥ —**	**¥14,025**
				Thousands of U.S. dollars
Impairment Losses of Assets	**$20,444**	**$141,545**	**$ —**	**$161,989**

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2011
				Millions of yen
Impairment Losses of Assets	¥3,796	¥9,290	¥ —	¥13,086

6. Information about Amortization of Goodwill and Unamortized Balance

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2012
				Millions of yen
Amortization	¥961	¥485	¥ —	¥1,446
Unamortized Balance	4,074	—	—	4,074
				Thousands of U.S. dollars
Amortization	$11,099	$5,602	$ —	$16,701
Unamortized Balance	47,055	—	—	47,055

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2011
				Millions of yen
Amortization	¥1,502	¥120	¥ —	¥1,622
Unamortized Balance	4,548	—	—	4,548

Amortization of negative goodwill and unamortized balance due to business combination before April 1, 2010 were as follows:

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2012
				Millions of yen
Amortization	¥943	¥ —	¥ —	¥943
Unamortized Balance	816	—	—	816
				Thousands of U.S. dollars
Amortization	$10,892	$ —	$ —	$10,892
Unamortized Balance	9,425	—	—	9,425

	Tires	Diversified products	Reconciliations	Consolidated
				Year ended December 31, 2011
				Millions of yen
Amortization	¥1,187	¥ —	¥ —	¥1,187
Unamortized Balance	1,759	—	—	1,759

NOTE 19

Subsequent events

(a) Cash dividend and stock option plan

On March 26, 2013, the shareholders of the Company approved payment of a cash dividend of ¥16.0 ($0.18) per share, or a total of ¥12,523 million ($144,641 thousand), to shareholders of record at December 31, 2012. A stock option plan for directors as remuneration was also approved by the shareholders of the Company. In addition, a stock option plan for selected employees was approved at the Board of Directors on the same date. These stock option plans provide options to purchase a maximum of 196.0 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 1, 2013 to April 30, 2033.

(b) Closure of passenger car tire plant in Bari, Italy

On March 4, 2013, Bridgestone Europe NV/SA (BSEU), with headquarters in Zaventem (Brussels, Belgium) made an announcement of its decision to close down its passenger car tire production facility in Modugno (Bari), Italy, to respond to changes in the demand structure and decline in tire demand. The plant is fully owned by Bridgestone Italia S.P.A., a 100% subsidiary of BSEU.

It will not have any effect on the other existing Companies in Italy, one of the key markets in Europe, including Bridgestone Technical Centre Europe S.P.A. near Rome and the sales office of Bridgestone Italia S.P.A., in Agrate Brianza (Monza).

BSEU expects the close down of plant operations within the first half of 2014.

The impact on the business is now under consideration.

Outline of the Bari Plant

1. Location	: Suburb of Bari, Italy
2. Products	: Passenger car tires
3. Number of employees	: Approximately 950 (as of December 31, 2012)
4. Production capacity	: Approximately 21,000 tires/day (as of December 31, 2012)

(c) Construction of Passenger Car Tire Plant in Russia

On April 12, 2013, the Company entered into an investment contract with co-investor Mitsubishi Corporation and with the Ulyanovsk Oblast government and Ulyanovsk Region Development Corporation.

1. Purpose

Construction of a tire plant in order to meet the increasing demand in Russia/CIS region

2. Overview of new plant

Location	: Ulyanovsk Oblast in Russia
Products	: Passenger car radial tires
Total investment	: Approximately ¥37.5 billion ($433 million)

3. Start of operation

First half of 2016 (planned)

4. Production capability

Approximately 12,000 tires/day (planned for second half of 2018)

5. Other

The plant will be operated by the Bridgestone Tire Manufacturing C.I.S. LLC (BMCIS), a tire manufacturing company jointly established by the Company and Mitsubishi Corporation. The Company will have 90% equity ownership, and Mitsubishi Corporation will have 10%.

(d) Issuance of bonds

The Company issued bonds under the following conditions:

1. 6th unsecured straight corporate bond with inter–bond pari passu clause

Total amount of issue	: ¥30,000 million ($346,500 thousand)
Issue date	: April 24th, 2013
Issue price	: ¥100 ($1.16) with a par value of ¥100
Interest rate	: 0.247% per annum
Maturity date	: April 22nd, 2016
Redemption at maturity	: The bonds will be redeemed in full upon maturity. The bonds may also be repurchased and redeemed at any time commencing from the first day following the payment date.
Use of funds	: Redemption of bonds

2. 7th unsecured straight corporate bond with inter–bond pari passu clause

Total amount of issue	: ¥20,000 million ($213,000 thousand)
Issue date	: April 24th, 2013
Issue price	: ¥100 ($1.16) with a par value of ¥100
Interest rate	: 0.345% per annum
Maturity date	: April 24th, 2018
Redemption at maturity	: The bonds will be redeemed in full upon maturity. The bonds may also be repurchased and redeemed at any time commencing from the first day following the payment date.
Use of funds	: Redemption of bonds

NOTE 20

Comprehensive income

The components of other comprehensive income for the year ended December 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
Net Unrealized Gain (Loss) on Available-for-sale Securities:		
Gains arising during the year	¥47,621	$550,023
Reclassification adjustment to profit or loss	(4,034)	(46,593)
Amount before income tax effect	43,587	503,430
Income tax effect	(7,899)	(91,233)
Total	¥35,688	$412,197

	Millions of yen	Thousands of U.S. dollars
Deferred Gain (Loss) on Derivative Instruments:		
Gains arising during the year	¥(2,965)	$(34,246)
Reclassification adjustment to profit or loss	1,625	18,769
Reclassification adjustment to acquisition cost of assets	1,128	13,028
Amount before income tax effect	(212)	(2,449)
Income tax effect	212	2,449
Total	¥ —	$ —

	Millions of yen	Thousands of U.S. dollars
Foreign Currency Translation Adjustment:		
Adjustments arising during the year	88,097	1,017,521
Total	¥88,097	$1,017,521

	Millions of yen	Thousands of U.S. dollars
Post Retirement Liability Adjustments for Foreign Consolidated Companies:		
Gains arising during the year	¥(55,947)	$(646,188)
Reclassification adjustment to profit or loss	13,220	152,691
Amount before income tax effect	(42,727)	(493,497)
Income tax effect	15,220	175,791
Total	¥(27,507)	$(317,706)

	Millions of yen	Thousands of U.S. dollars
Share of Other Comprehensive Income in Affiliates:		
Gains arising during the year	¥ 1,816	$ 20,975
Reclassification adjustment to profit or loss	(282)	(3,257)
Reclassification adjustment to acquisition cost of assets	(15)	(174)
Total	¥ 1,519	$ 17,544
Total Other Comprehensive Income	¥97,797	$1,129,556

The corresponding information for the year ended December 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bridgestone Corporation:

We have audited the accompanying consolidated balance sheet of Bridgestone Corporation and subsidiaries as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgestone Corporation and subsidiaries as of December 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in 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 26, 2013
(May 13, 2013 as to Note 19)

Member of
Deloitte Touche Tohmatsu Limited

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May 2013