

MANAGEMENT'S DISCUSSION & ANALYSIS

Unless otherwise noted, all figures are taken from the consolidated financial statements and notes. The U.S. dollar figures have been translated solely for the convenience of readers outside Japan at ¥91.03 to \$1, the prevailing exchange rate on December 31, 2008. 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 2008, the operating environment of the Company and its consolidated subsidiaries ("the Companies") was challenging. Although the prices of raw materials and crude oil declined in the latter part of the fiscal year, prices were generally high for the full fiscal year. In this setting, business conditions in Japan slowed, with consumer spending weakening and growth in exports sluggish. Overseas, the U.S. economy showed signs of a recession, such as declines in housing starts and consumer spending. In addition, business conditions worsened in Europe, with declines in consumer spending and exports. In Asia, business conditions began to decline in China and other markets.

The fourth quarter, in particular, was marked by the rapid progress of a global economic recession, which began with the financial problems in the United States. This recession had a major influence on the Companies' operations and results.

Net Sales

Consolidated net sales decreased by ¥155.8 billion (\$1,712 million), or 5% year-over-year, to ¥3,234.4 billion (\$35.5 billion), due in part to the exchange impact of the stronger Japanese yen and a decline in unit sales. Sales decreased in both business segments (tires and diversified products). In geographic segment, sales decreased in Japan, the Americas, and Europe.

The average yen/dollar exchange rate in fiscal 2008 was ¥104, compared with ¥118 in fiscal 2007, while the average yen/euro exchange rate in fiscal 2008 was ¥153, compared with ¥162 in the previous year.

Operating Income

With a significant impact from such factors as sharply higher prices for raw materials and sales decline, consolidated operating income decreased by ¥118.4 billion (\$1,301 million), or 47%, to ¥131.6 billion (\$1,445 million). The operating margin decreased by 3.3 percentage points, from 7.4% to 4.1%.

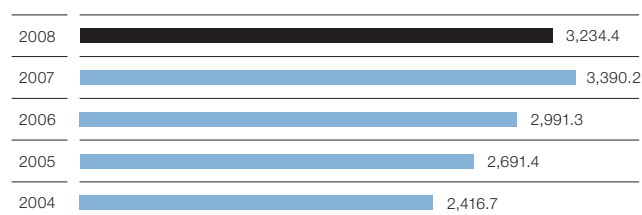
Operating Income Margin

	2008	2007	2006	2005	2004
	4.1	7.4	6.4	7.9	8.2

% of sales

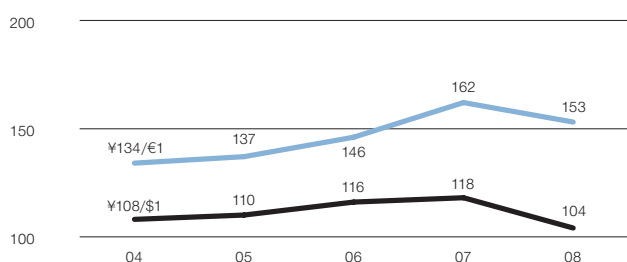
Net Sales

¥ billion



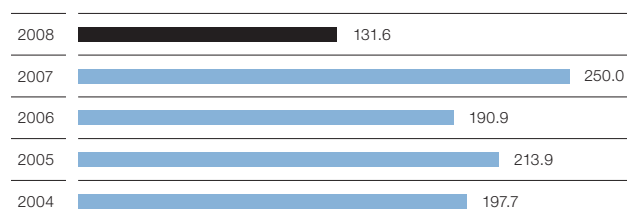
Currency Exchange Rates

Annual average rates



Operating Income

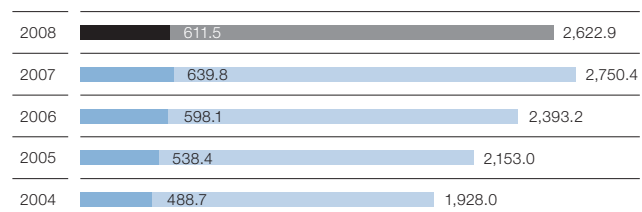
¥ billion



Sales of Tires and Diversified Products

Net of inter-segment transactions

¥ billion



■ Diversified Products ■ Tires

Performance by Business Segment

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

Including inter-segment transactions, in the tire segment, sales in fiscal 2008 decreased by 5% from the previous year, to ¥2,629.2 billion (\$28.9 billion), while operating income decreased by 52%, to ¥92.8 billion (\$1,019 million). The Companies worked to maximize its sales momentum by introducing appealing new products worldwide, while at the same time improving and expanding certain production sites around the world in support of the respective product domains, particularly those that have been identified as strategic products for the Companies. However, the fourth quarter, in particular, was marked by a decline in global automotive production and by sluggish demand in the replacement market, which had a major effect on sales.

In Japan, unit sales of tires were down in both the original equipment and replacement sectors from the previous year.

In the Americas, the North American tire business saw a decline in unit sales of tires for passenger cars, light trucks, trucks and buses in both the original equipment and replacement sectors, but there was a large increase from fiscal 2007 in replacement sector sales of UHP (ultra-high-performance) tires and other strategic products.

In Europe, unit sales of passenger car and light truck tires were down year-over-year, due in part to the significant effect of a decline in sales of original equipment tires, but there was a year-over-year increase in unit sales of strategic products, led by runflat tires* and UHP tires, in the replacement sector. In truck and bus tires, unit sales in the original equipment sector increased from the previous year, but unit sales in the replacement sector decreased from the previous year due to a significant impact from weak demand.

In the specialty tire business, unit sales of large and ultralarge off-the-road radial tires rose significantly from the previous year as a result of continued strong demand.

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

Including inter-segment transactions, in the diversified products segment, sales in fiscal 2008 decreased by 5% from the previous year, to ¥625.5 billion (\$6.9 billion), due in part to the exchange impact of the stronger Japanese yen and with a significant impact from such factors as sharply higher prices for raw materials, operating income in fiscal 2008 was down 29% from the previous year, to ¥38.7 billion (\$425 million).

*Runflat tires are tires that continue to function safely at a specified speed for a specified mileage even after a loss of air pressure.

Composition of Sales by Business Segment

Net of inter-segment transactions

	2008	2007
	% of net sales	
Tires	81.1	81.0
Diversified products	18.9	19.0
	100.0	100.0

Performance by Geographic Segment

Including inter-segment transactions, sales in Japan decreased by 4% relative to the previous year, to ¥1,321.9 billion (\$14.5 billion), due in part to the exchange impact of the stronger Japanese yen. Additionally, due to a significant impact from such factors as sharply higher prices for raw materials, operating income was down 53%, to ¥69.0 billion (\$758 million). Unit sales in the tire segment were lower than in fiscal 2007. In the diversified products segment, sales of such products as precision electronic components increased, while sales of such products as the related products to civil engineering and construction materials & equipment.

In the Americas, sales decreased by 6% from the previous year, to ¥1,417.3 billion (\$15.6 billion), due in part to the exchange impact of the stronger Japanese yen. With a significant impact from such factors as sharply higher prices for raw materials, operating income decreased by 58%, to ¥21.6 billion (\$238 million).

In Europe, sales decreased by 8% from the previous year, to ¥474.8 billion (\$5.2 billion), due in part to the exchange impact of the stronger Japanese yen in addition to decrease of unit sales of tires. With a significant impact from such factors as sharply higher prices for raw materials and an increase in selling expenses, operating loss came to ¥4.9 billion (\$53 million).

In other regions, strong sales were recorded in China and the rest of Asia. As a result, sales increased by 9%, to ¥599.4 billion (\$6.6 billion). With a significant impact from such factors as sharply higher prices for raw materials, operating income was down 6%, to ¥35.4 billion (\$389 million).

Composition of Sales by Geographic Segment

Net of inter-segment transactions

	2008	2007
	% of net sales	
Japan	26.7	27.8
The Americas	43.4	44.2
Europe	14.6	15.1
Other	15.3	12.9
	100.0	100.0

Other Income and Expenses

Total of other income and expenses equaled a loss of ¥78.1 billion (\$857 million), compared with the corresponding loss of ¥34.3 billion in the prior year. Gain on sales of property, plant and equipment was ¥10.0 billion (\$110 million), but foreign currency exchange loss increased by ¥19.5 billion (\$215 million), to ¥23.1 billion (\$253 million). Furthermore, impairment loss on assets was ¥10.6 billion (\$117 million), loss related to EU competition law case was ¥7.5 billion (\$82 million), loss on valuation of investments in securities was ¥6.5 billion (\$71 million), loss on disposals of property, plant and equipment was ¥4.3 billion (\$48 million), and plant restructuring costs in the Americas were ¥2.1 billion (\$23 million).

Income before income taxes and minority interests decreased by ¥162.2 billion (\$1,782 million), or 75%, to ¥53.5 billion (\$588 million).

Net Income

Income taxes decreased by 48% relative to fiscal 2007, declining to ¥40.0 billion (\$439 million). Minority interests decreased to ¥3.1 billion (\$34 million).

As a result, net income was down ¥121.2 billion (\$1,332 million), or 92%, to ¥10.4 billion (\$114 million). The net return on sales was down 3.6 percentage points, from 3.9% to 0.3%.

Net Return on Sales

	2008	2007	2006	2005	2004
% of net sales	0.3	3.9	2.8	6.7	4.7

FINANCIAL CONDITION

Assets

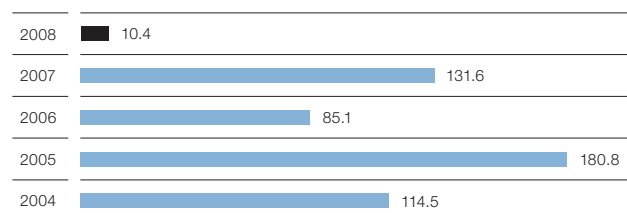
Current assets decreased by ¥243.5 billion (\$2,675 million), or 16%, compared with the prior year-end, to ¥1,322.1 billion (\$14.5 billion). The major components of this decrease were declines of ¥136.5 billion (\$1,499 million) in cash and cash equivalents and of ¥120.8 billion (\$1,327 million) in notes and accounts receivable, due in part to the exchange impact of the stronger Japanese yen.

Capital expenditures of ¥275.3 billion (\$3,024 million) exceeded depreciation and amortization, which equaled ¥187.4 billion (\$2,059 million). But net property, plant and equipment decreased by ¥121.6 billion (\$1,336 million) compared with the previous year-end, mainly reflecting the exchange impact of the stronger Japanese yen.

Due in part to lower stock prices, investments in securities decreased by ¥193.8 billion (\$2,129 million), and consequently investments and other assets were down ¥225.7 billion (\$2,479 million) compared with the prior year-end, to ¥392.7 billion (\$4,314 million).

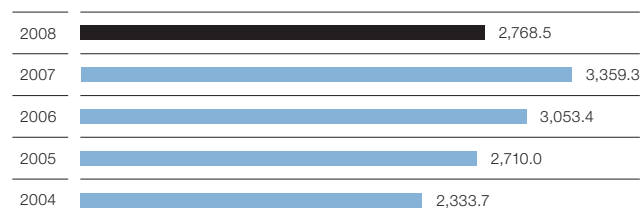
Net Income

¥ billion



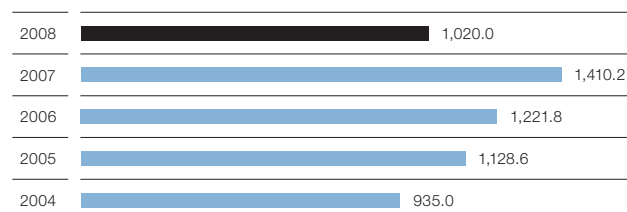
Total Assets

¥ billion



Total Equity

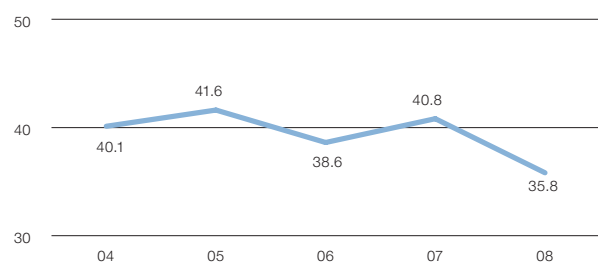
¥ billion



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

Ratio of Shareholders' Equity to Total Assets

%



The total of "property, plant and equipment" and "investments and other assets" decreased by ¥347.3 billion (\$3,815 million), or 19%, compared with the previous year-end, to ¥1,446.3 billion (\$15.9 billion).

Total assets decreased by ¥590.8 billion (\$6.5 billion), or 18%, compared with the previous year-end, to ¥2,768.5 billion (\$30.4 billion).

Liabilities

Current liabilities decreased by ¥148.1 billion (\$1,627 million), or 14%, compared with the previous year-end, to ¥940.0 billion (\$10.3 billion). Due in part to the exchange impact of the stronger Japanese yen, short-term debt and the current portion of long-term debt decreased by ¥35.4 billion (\$389 million), accrued expenses decreased by ¥40.4 billion (\$444 million), and notes and accounts payable decreased by ¥49.3 billion (\$541 million).

Total long-term liabilities were ¥808.5 billion (\$8.9 billion), a decline of 6% from the previous fiscal year-end. Mainly by the influence of a change in the fair market value of pension assets, accrued pension and liability for retirement benefits increased ¥31.5 billion (\$346 million). However, due primarily to a decline in net unrealized gain on available-for-sale securities, deferred tax liabilities were down ¥53.8 billion (\$591 million). Moreover, due in part to the exchange impact of the stronger Japanese yen, long-term debt decreased by ¥15.6 billion (\$172 million).

Including commercial paper and corporate bonds, total interest-bearing debt decreased by ¥51.0 billion (\$560 million), or 6%, compared with the prior year-end, to ¥776.0 billion (\$8.5 billion).

Equity

Total equity at December 31, 2008 amounted to ¥1,020.0 billion (\$11,205 million). This was a decline of ¥390.2 billion (\$4,287 million), or 28%, from the previous year-end. Net income was ¥10.4 billion (\$114 million), but cash dividends paid were ¥20.3 billion (\$223 million). Foreign currency translation adjustments decreased by ¥211.2 billion (\$2,321 million). Net unrealized gain on available-for-sale securities was down ¥138.1 billion (\$1,517 million).

The ratio of shareholders' equity, excluding stock acquisition rights and minority interests, to total assets at the end of December 2008 was 35.8%, a decrease of 5.0 percentage points from the previous year-end.

The ratio of total debt to debt and shareholders' equity was 0.44 at December 31, 2008 compared with a ratio of 0.38 at the previous year-end.

Net return on shareholders' equity (ROE) was 0.9%, compared with 10.3% in fiscal 2007. Net return on total assets (ROA) equaled 0.3%, a decrease of 3.8 percentage points compared with the previous year.

ELEVEN-YEAR SUMMARY

Bridgestone Corporation and Subsidiaries
Years ended December 31

	2008	2007	2006	2005
	Millions of yen, except per share data and financial ratios			
Net Sales	¥ 3,234,406	¥ 3,390,219	¥ 2,991,275	¥ 2,691,376
Overseas Sales	2,448,300	2,589,006	2,213,880	1,945,283
Tires (net of inter-segment transactions)	2,622,890	2,750,374	2,393,165	2,152,950
Diversified Products (net of inter-segment transactions)	611,516	639,845	598,110	538,426
Operating Income	131,551	249,962	190,876	213,851
Net Income	10,412	131,630	85,121	180,796
Total Equity	1,019,996	1,410,225	1,221,846	1,128,597
Total Assets	2,768,470	3,359,255	3,053,440	2,709,962
Ratio of Shareholders' Equity to Total Assets	35.8	40.8	38.6	41.6
Per Share in Yen				
Net Income				
Basic	13.33	168.69	109.10	226.92
Diluted	13.33	168.65	109.07	226.86
Shareholders' Equity	1,263.30	1,757.23	1,511.43	1,443.43
Cash Dividends	24.00	26.00	24.00	24.00
Capital Expenditure	275,301	272,381	261,335	203,670
Depreciation and Amortization	187,420	173,585	145,349	127,609
Research and Development Costs	93,252	86,748	86,687	79,415

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 ¥91.03 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

	2008	2007	2006	2005	2004
	% of simple average of year-end shareholders' equity				
	0.9	10.3	7.4	17.5	12.6

Net Return on Assets

	2008	2007	2006	2005	2004
	% of simple average of year-end total assets				
	0.3	4.1	3.0	7.2	5.0

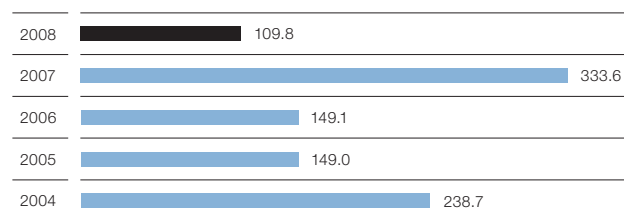
Cash Flow

Consolidated cash and cash equivalents decreased by ¥136.5 billion (\$1,499 million) during 2008, to ¥114.1 billion (\$1,253 million), compared with an increase of ¥52.3 billion during the prior year.

Net cash provided by operating activities decreased by ¥223.8 billion (\$2,459 million) compared with the prior year, to ¥109.8 billion (\$1,206 million). The principal contributors in that cash provided included income before income taxes and minority interests of ¥53.5 billion (\$588 million), compared with ¥215.7 billion during the prior year; depreciation and amortization of ¥187.4 billion (\$2,059 million), compared with ¥173.6 billion

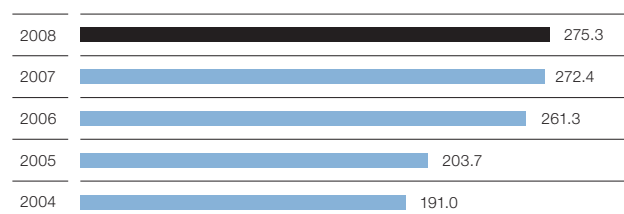
Cash Flow

Net cash provided by operating activities
¥ billion



Capital Expenditure

¥ billion



	2004	2003	2002	2001	2000	1999	1998
	Millions of yen, except per share data and financial ratios						
	¥ 2,416,685	¥ 2,303,917	¥ 2,247,769	¥ 2,133,825	¥ 2,006,902	¥ 2,085,720	¥ 2,236,699
	1,700,599	1,593,863	1,508,112	1,377,433	1,248,185	1,322,914	1,480,044
	1,927,989	1,836,395	1,797,598	1,687,235	1,560,182	1,638,304	1,772,226
	488,696	467,522	450,171	446,590	446,720	447,416	464,473
	197,697	183,294	183,862	118,023	161,785	236,777	248,318
	114,453	88,720	45,379	17,389	17,741	88,690	104,626
	934,981	887,987	796,013	835,144	778,713	743,069	697,424
	2,333,708	2,220,613	2,143,928	2,443,793	2,038,578	1,792,744	1,830,149
	40.1	40.0	37.1	34.2	38.2	41.4	38.1
	138.96	102.75	51.97	20.20	20.60	103.98	126.28
	138.94	102.56	51.89	20.19	20.59	102.96	123.01
	1,163.82	1,056.54	924.48	970.20	904.40	862.80	831.36
	19.00	16.00	16.00	16.00	16.00	14.00	14.00
	191,000	155,742	116,764	104,313	137,772	175,495	220,625
	111,491	104,383	119,466	132,920	119,925	118,464	107,474
	72,898	70,967	68,161	62,755	61,116	N.A.	N.A.

during the prior year; and a decrease in notes and accounts receivable of ¥31.6 billion (\$347 million), compared with an increase of ¥11.8 billion in the prior year. Those contributors offset both an increase in inventories of ¥144.6 billion (\$1,589 million), compared with a decrease of ¥8.3 billion in the prior year, and income taxes paid of ¥57.7 billion (\$633 million), compared with ¥57.1 billion in the prior year.

Net cash used in investing activities decreased by ¥112.2 billion (\$1,233 million) compared with the prior year, to ¥265.3 billion (\$2,915 million). Expenditures included payments of ¥268.3 billion (\$2,948 million) for purchase of property, plant and equipment, compared with payments of ¥268.6 billion during the prior year. Expenditures in the prior year also included payments of ¥109.6 billion for the acquisition of newly consolidated subsidiaries.

Net cash provided by financing activities decreased by ¥17.7 billion (\$194 million) compared with the prior year, to ¥76.4 billion (\$839 million). The major contributors included a net increase of 107.7 billion (\$1,183 million) in short-term debt, compared with a net decrease of ¥20.0 billion in the prior year; and proceeds from long-term debt of ¥86.1 billion (\$946 million), compared with ¥175.1 billion in the prior year. These increases offset payments from long-term debt of ¥103.5 billion (\$1,136 million), compared with ¥38.8 billion in the prior year; and cash dividends paid of ¥20.3 billion (\$223 million), compared with ¥19.5 billion in the prior year.

Capital Financing and Liquidity

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

Management believes that liquidity remains ample. In addition to cash and cash equivalents totaling approximately ¥110 billion, the Company also has access to various commitment lines and overdraft facilities.

DIVIDENDS

Comprising interim dividends of ¥13.0 (\$0.14) and final dividends of ¥11.0 (\$0.12) per share, annual dividends for fiscal 2008 totaled ¥24.0 (\$0.26) per share.

PROJECTIONS FOR FISCAL 2008

For fiscal 2009, the Companies' operating environment is extremely difficult to predict due to the rapid deterioration in global business conditions. In this setting, each country is implementing economic countermeasures and financial policies, but some time will likely be required before these measures take effect and economies begin to recover. This situation, together with the rapid changes in the worldwide structure of demand and competition that the Companies is now facing, will likely have a significant effect on the Companies' sales.

In Japan, the Companies expects a year-over-year decline in unit sales of tires. In diversified products, sales of such products as those related to civil engineering and construction materials & equipment are expected to decline year-over-year.

In the Americas, unit sales of tires in North America are expected to decline year-over-year.

In Europe, unit sales of tires are expected to decline year-over-year.

Management forecasts consolidated net sales in fiscal 2009 of ¥2,530.0 billion, a decline of 22% from fiscal 2008. Management also expects operating income to decline 66%, to ¥45.0 billion, with net income falling 71%, to ¥3.0 billion. Projected annual dividends in fiscal 2009 are ¥16 per share.

These performance forecasts are based on assumed average exchange rates of ¥85 against the dollar and ¥115 against the euro, compared with the full-year average rates recorded in fiscal 2008 of ¥104 and ¥153, respectively.