

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Bridgestone Corporation and Subsidiaries

## NOTE 1: NATURE OF OPERATIONS

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

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

## NOTE 2: BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Bridgestone Corporation ("the Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥91.03 to \$1, the approximate rate of exchange at December 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which the Company has effective control. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

Investments in affiliated companies, primarily those owned 20% to 50%, are accounted for under the equity method with appropriate adjustments for intercompany profits and dividends. Equity in earnings of the affiliated companies is included in other income (expenses) in the consolidated statements of income.

The number of consolidated subsidiaries and affiliated companies for 2008 and 2007 is summarized below:

	2008	2007
Consolidated subsidiaries	437	449
Affiliated companies	170	182

### (b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include highly liquid investments with original maturities of three months or less.

### (c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is established in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

### (d) Inventories

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

### (e) Investments in Securities

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

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

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

The Companies do not hold securities for trading purposes.

#### **(f) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment of the Company's overseas subsidiaries. Maintenance, repair and minor renewals are charged to income as incurred.

#### **(g) Impairment of Assets**

Assets are reviewed for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of an asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group, or the net selling price at disposition.

The impairment of assets for certain overseas subsidiaries is accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and SFAS No. 142, "Goodwill and Other Intangible Assets," or International Accounting Standard No. 36, "Impairment of Assets," which requires long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

#### **(h) Goodwill**

Goodwill recorded by subsidiaries and, the excess of cost of the Company's investments in subsidiaries and affiliated companies over its equity at the respective dates of acquisition, is mainly being amortized on a straight-line basis over reasonable economical life up to twenty years.

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

The provision for product warranties, included in other liabilities, is estimated and recorded at the time of sale to provide for future potential

costs, such as costs related to after-sales services, in amounts considered to be appropriate based on the Companies' past experience.

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

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

#### **(k) Retirement and Pension Plans**

Employees serving with the Company and its domestic subsidiaries are generally entitled to a lump-sum payment at retirement and, in certain cases, annuity payments, provided by funded defined benefit pension plans based on the rates of pay at the time of termination, years of service and certain other factors. The Company and its domestic subsidiaries account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation, prior service costs, and actuarial gain or loss are being amortized over ten years, respectively.

Employees serving with certain of the Company's overseas subsidiaries are entitled to funded defined benefit pension plans which are accounted for primarily in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

Postretirement benefits other than pensions for health care and life insurance provided by the Company's overseas subsidiaries in the Americas are accounted for in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Certain of the Company's overseas subsidiaries adopt SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements, No. 87, 88, 106 and 132 (R)" for fiscal years ending on or after December 31, 2006. The liability for a lump-sum payment at retirement to directors (members of the Board of Directors) and corporate auditors is provided by the Company and its domestic subsidiaries for at the amount which would be required, based on the Company's regulations, in the event that all directors and corporate auditors terminated their offices at the balance sheet date. Any amounts payable to directors and corporate auditors at retirement are subject to approval at the general shareholders meeting.

#### **(l) Presentation of Equity and Consolidated Statements of Change in Equity**

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for presentation of equity, which is effective for fiscal years ending on or after May 1, 2006. Under this

accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain on derivative instruments.

On December 27, 2005, the ASBJ published another new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed the "consolidated statement of changes in equity."

#### **(m) 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.

#### **(n) Income Taxes**

The provision for income taxes is computed based on income before income taxes included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets where it is considered more likely than not that they will not be realized.

#### **(o) 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 and loss from translation are recognized in income.

#### **(p) Foreign Currency Financial Statements**

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

#### **(q) Derivatives and Hedging Activities**

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

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

The foreign currency forward contracts which are designated as hedging exposure to variable cash flows of forecasted transactions are measured at the fair value, and the unrealized gain or loss is deferred until the underlying transactions are completed. Other foreign currency forward contracts, currency swap contracts and currency option contracts employed to hedge foreign currency exchange exposures to changes in fair value and in cash flow are also measured at the fair value but the unrealized gain or loss is recognized in income. Short-term and long-term debt denominated in foreign currencies for which foreign currency forward contracts and currency swap contracts are used to hedge the foreign currency fluctuations 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 future contracts in a hedge to fluctuations of commodity prices is recognized currently in income.

#### **(r) 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.

#### **(s) 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.

#### **(t) New Accounting Pronouncements**

##### **Measurement of Inventories**

Under Japanese GAAP accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

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

Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: (i) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (ii) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the U.S. tentatively may be used for the

consolidation process, (iii) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gain and loss of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

##### **Construction Contracts**

Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

#### NOTE 4: BUSINESS COMBINATION

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

operations for Bandag, Incorporated, are included in the consolidated financial statements of income from June 1, 2007 to December 31, 2007.

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

#### NOTE 5: INVENTORIES

Inventories at December 31, 2008 and 2007 consist of the following:

	2008	2007	2008
		Millions of yen	Thousands of U.S. dollars
Finished products	¥368,586	¥356,550	\$4,049,061
Work in process	36,481	39,784	400,758
Raw materials and supplies	172,507	167,346	1,895,056
<b>Total</b>	<b>¥577,574</b>	<b>¥563,680</b>	<b>\$6,344,875</b>

#### NOTE 6: INVESTMENTS IN SECURITIES

Information regarding each category of available-for-sale securities at December 31, 2008 and 2007 is as follows:

	Cost	Unrealized gain	Unrealized loss	Fair value	Cost	Unrealized gain	Unrealized loss	Fair value
	2008				2007			
					Millions of yen			
<b>Securities classified as Available-for-sale</b>								
Equity securities	¥57,068	¥71,288	¥(7,922)	¥120,434	¥51,411	¥262,506	¥(87)	¥313,830
Debt securities	4,990	166	(7)	5,149	4,913	76	(3)	4,986
					Thousands of U.S. dollars			
<b>Securities classified as Available-for-sale</b>								
Equity securities	\$626,914	\$783,126	\$(87,026)	\$1,323,014				
Debt securities	54,817	1,824	(77)	56,564				

Available-for-sale securities whose fair value is not readily determinable at December 31, 2008 and 2007 are mainly as follows:

	2008	2007	2008
		Millions of yen	Thousands of U.S. dollars
Carrying amount			
<b>Securities classified as</b>			
Equity securities	¥4,113	¥4,545	\$45,183

Proceeds from sales of available-for-sale securities for the years ended December 31, 2008, 2007 and 2006 are ¥254 million (\$2,790 thousand), ¥552 million and ¥2,404 million, respectively. Gross realized gain and loss on these sales, computed on the moving average cost basis, are ¥197

million (\$2,175 thousand) and ¥0.2 million (\$2.2 thousand), respectively, for the year ended December 31, 2008, ¥245 million and ¥3 million, respectively, for the year ended December 31, 2007 and ¥1,710 million and ¥0.1 million, respectively, for the year ended December 31, 2006.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at December 31, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Available-for-sale</b>		
<b>Debt securities</b>		
Due 2009	¥ —	\$ —
Due 2010 to 2013	228	2,505
Due 2014 to 2018	4,465	49,050
Due 2019 and thereafter	456	5,009
<b>Total</b>	<b>¥5,149</b>	<b>\$56,564</b>

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

Short-term debt at December 31, 2008 and 2007 consists of the following:

	2008	2007	2008
	Millions of yen		Thousands of U.S. dollars
Short-term bank loans, weighted average interest rate of 4.5% at December 31, 2008 and 5.1% at December 31, 2007	¥301,100	¥247,080	\$3,307,701
Commercial paper, weighted average interest rate of 2.2% at December 31, 2008 and 4.7% at December 31, 2007	17,730	19,749	194,771
0.8% yen unsecured medium term note, due 2008	—	5,000	—
1.1% yen unsecured medium term note, due 2009	2,000	—	21,971
Euro unsecured medium term notes due 2008-2009 with interest rate of 0.7% at December 31, 2008 and interest rates ranging from 0.8% to 1.0% at December 31, 2007	3,007	10,075	33,032
<b>Total</b>	<b>¥323,837</b>	<b>¥281,904</b>	<b>\$3,557,475</b>

Long-term debt at December 31, 2008 and 2007 consists of the following:

	2008	2007	2008
	Millions of yen		Thousands of U.S. dollars
Borrowings from banks, insurance companies and others, weighted average interest rate of 4.2% at December 31, 2008 and 4.5% at December 31, 2007 denominated mainly in Japanese yen, U.S. dollars and Euros			
Secured	¥ 183	¥ 460	\$ 2,010
Unsecured	303,855	412,435	3,337,965
2.0% yen unsecured straight bonds, due 2010	30,000	30,000	329,562
0.6% yen unsecured straight bonds, due 2010	30,000	30,000	329,562
0.9% yen unsecured straight bonds, due 2013	50,000	50,000	549,269
Euro unsecured medium term notes due 2009—2012 with interest rates ranging from 1.0% to 1.4% at December 31, 2008 and due 2008—2010 with interest rates ranging from 0.3% to 1.2% at December 31, 2007	38,086	22,166	418,390
<b>Total</b>	<b>452,124</b>	<b>545,061</b>	<b>4,966,758</b>
Less current portion	(30,524)	(107,839)	(335,318)
<b>Long-term debt, less current portion</b>	<b>¥421,600</b>	<b>¥ 437,222</b>	<b>\$4,631,440</b>

Annual maturities of long-term debt at December 31, 2008 are as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 30,524	\$ 335,318
2010	100,131	1,099,978
2011	122,709	1,348,006
2012	39,908	438,405
2013	84,893	932,582
2014 and thereafter	73,959	812,468
<b>Total</b>	<b>¥452,124</b>	<b>\$4,966,758</b>

Notes and accounts receivable, inventories, and property, plant and equipment were pledged as collateral for certain bank loans. The aggregate carrying amount of the assets pledged as collateral for short-term bank loans of ¥1,807 million (\$19,851 thousand) and long-term bank loans of ¥183 million (\$2,010 thousand) at December 31, 2008 is ¥8,830 million (\$97,001 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 26, 2009, Bridgestone Americas Holding, Inc.\* ("BSAH") and its major subsidiaries in the U.S. entered into separate seven

amended and restated revolving credit agreements with a syndicate of banks providing an aggregate borrowing commitment of \$1,295 million. These agreements expire on January 25, 2010. These agreements contain certain customary affirmative and negative covenants, the most restrictive of which includes (i) the maintenance by BSAH and its major subsidiaries of their consolidated tangible net worth; (ii) restrictions on entering into additional debt arrangements and the sale of assets. Further, an event of default under these agreements by any of the major subsidiaries in the U.S. cause an event of default under the BSAH seven amended and restated revolving credit agreement. The above agreements replace the separate sixth amended and restated revolving credit agreements expired on January 26, 2009, of which the terms were substantially the same as those of the seventh agreements discussed above.

\* In January 2009, Bridgestone Americas Holding, Inc. was renamed Bridgestone Americas, Inc.

#### NOTE 8: RETIREMENT AND PENSION PLANS

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

certain of its domestic subsidiaries. There are escalated payment plans for voluntary retirement at certain specific ages prior to the mandatory retirement age.

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

The liability for employees' retirement benefits at December 31, 2008 and 2007 consist of the following:

	2008	2007	2008
	Millions of yen		Thousands of U.S. dollars
Projected benefit obligation	¥ 520,194	¥ 581,563	\$ 5,714,534
Fair value of plan assets	(282,020)	(447,665)	(3,098,100)
Unrecognized prior service cost	15,633	18,239	171,735
Unrecognized actuarial gain (loss)	(42,482)	(870)	(466,681)
Unrecognized transitional obligation	(2,171)	(3,257)	(23,849)
Prepaid benefit cost	16,791	12,602	184,456
Other	(506)	(854)	(5,560)
<b>Net liability</b>	<b>¥ 225,439</b>	<b>¥ 159,758</b>	<b>\$ 2,476,535</b>

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

Of the accrued pension and liability for retirement benefits noted above, a liability for postretirement benefits of ¥86,879 million (\$954,400 thousand) and ¥121,097 million is included in the consolidated balance sheets at December 31, 2008 and 2007, respectively.

In addition to the above, certain subsidiaries also participate in a multi-employer pension plan covering all of their employees. There existed ¥291 million at December 31, 2007 of pension assets at fair value in the multi-employer pension plan; however, the portion of these assets belonging to the subsidiaries could not be reasonably calculated.

The components of the net periodic benefit costs for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006	2008
			Millions of yen	Thousands of U.S. dollars
Service cost	¥ 19,306	¥ 17,504	¥ 18,259	\$ 212,084
Interest cost	23,975	25,057	23,490	263,374
Expected return on plan assets	(24,556)	(24,600)	(21,999)	(269,757)
Amortization of transitional obligation	1,083	1,089	1,101	11,897
Recognized actuarial loss	4,463	7,360	7,475	49,028
Amortization of prior service cost	(1,147)	(1,671)	(314)	(12,600)
<b>Net periodic benefit costs</b>	<b>¥ 23,124</b>	<b>¥ 24,739</b>	<b>¥ 28,012</b>	<b>\$ 254,026</b>

Net periodic benefit costs noted above do not include payment costs for defined contribution pension plans provided by the Company and certain of its domestic and overseas subsidiaries of ¥6,567 million (\$72,141 thousand), ¥7,141 million and ¥6,204 million for the years ended December

31, 2008, 2007 and 2006, respectively.

In addition to the above, the Company's overseas subsidiaries in the Americas recorded ¥4,544 million of temporal costs for plant closures at December 31, 2006.

Assumptions used for the years ended December 31, 2008, 2007 and 2006 are set forth as follows:

	2008		2007		2006	
	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries	The Company and domestic subsidiaries	Overseas subsidiaries
Discount rate	2.5%	5.5 to 6.3%	2.5%	5.5 to 6.2%	2.5%	5.2% to 5.9%
Expected rate of return on plan assets	0.7% to 3.0%	5.5 to 9.0%	0.7% to 3.0%	5.5 to 9.0%	0.7% to 3.0%	7.0% to 9.0%
Amortization period of prior service cost	10 years	3 to 12 years	10 years	3 to 12 years	10 years	3 to 12 years
Recognized period of actuarial gain or loss	10 years	7 to 12 years	10 years	7 to 12 years	10 years	7 to 12 years
Amortization period of transitional obligation	10 years	—	10 years	—	10 years	—

## NOTE 9: EQUITY

On May 1, 2006, a new corporate law (the "Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Law that affect financial and accounting matters are summarized below;

(i) Dividends: The Law allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For Japanese companies that meet certain criteria such as having the Board of Directors, having independent auditors, having the Board of Corporate Auditors, and the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Law permits Japanese companies to distribute dividends in kind (non-cash assets) to shareholders subject to certain limitations and additional requirements. The Law 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 Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Law 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 Law 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 Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Law 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, 2008 are as follows:

Date of approval	Persons granted	Number of options granted (Thousands of shares)		Date of grant	Exercise price	Exercise period
March 29, 2001 at the general shareholders meeting	Directors	29	208	April 2, 2001	¥1,287	from April 1, 2003 to March 31, 2008
	Selected employees	36			(\$14.14)	
March 28, 2002 at the general shareholders meeting	Directors	8	264	May 1, 2002	¥1,954	from April 1, 2004 to March 31, 2009
	Selected employees	62			(\$21.47)	
March 30, 2003 at the general shareholders meeting	Directors	10	262	May 1, 2003	¥1,479	from April 1, 2005 to March 31, 2010
	Selected employees	52			(\$16.25)	
March 30, 2004 at the general shareholders meeting	Directors	9	264	May 6, 2004	¥1,864	from April 1, 2006 to March 31, 2011
	Selected employees	59			(\$20.48)	
March 30, 2005 at the general shareholders meeting	Directors	10	258	May 2, 2005	¥2,114	from April 1, 2007 to March 31, 2012
	Selected employees	58			(\$23.22)	
March 30, 2006 at the general shareholders meeting	Directors	10	280	April 28, 2006	¥2,775	from April 1, 2008 to March 31, 2013
	Selected employees	68			(\$30.48)	
March 29, 2007 at the general shareholders meeting	Directors	9	260	May 1, 2007	¥2,546	from April 1, 2009 to March 31, 2014
	Selected employees	65			(\$27.97)	
March 27, 2008 at the general shareholders meeting and the board of directors	Directors	7	234.5	May 1, 2008	¥1,936	from April 1, 2010 to March 31, 2015
	Selected employees	80			(\$21.27)	

The stock option activity for the year ended December 31, 2008 is as follows:

	March 29, 2001	March 28, 2002	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006	March 29, 2007	March 27, 2008
<b>Non-vested (Thousands of shares)</b>								
Outstanding at December 31, 2007	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	234.5
Expired	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	234.5
Outstanding at December 31, 2008	—	—	—	—	—	—	—	—
<b>Vested (Thousands of shares)</b>								
Outstanding at December 31, 2007	36	193	132	229	252	280	260	—
Vested	—	—	—	—	—	—	—	234.5
Exercised	28	—	13	2	—	—	—	—
Expired	8	—	—	—	—	—	—	—
Outstanding at December 31, 2007	—	193	119	227	252	280	260	234.5
Exercise price	¥1,287 (\$14.14)	¥1,954 (\$21.47)	¥1,479 (\$16.25)	¥1,864 (\$20.48)	¥2,114 (\$23.22)	¥2,775 (\$30.48)	¥2,546 (\$27.97)	¥1,936 (\$21.27)
Average stock price at exercise	¥1,698 (\$18.65)	—	¥1,670 (\$18.35)	¥1,702 (\$18.70)	—	—	—	—
Fair value price at grant date	—	—	—	—	—	—	¥447 (\$4.91)	¥399 (\$4.38)

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

	March 27, 2008
Volatility of stock price	27.073%
Estimated remaining outstanding period	4.41 years
Estimated dividend per share	¥26 (\$0.29)
Risk-free interest rate	1.066%

#### 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, 2008, 2007 and 2006 is as follows:

	Net income		Weighted-average shares		EPS	
	Millions of yen	Thousands of shares	Yen	U.S. dollars	For the year ended December 31, 2008	
Basic EPS						
Net income available to common shareholders	¥10,412	781,275	¥13.33	\$0.15		
Effect of dilutive securities						
Stock options		22				
Diluted EPS						
Net income for computation	¥10,412	781,297	¥13.33	\$0.15		
					For the year ended December 31, 2007	
Basic EPS						
Net income available to common shareholders	¥131,630	780,284	¥168.69			
Effect of dilutive securities						
Stock options		216				
Diluted EPS						
Net income for computation	¥131,630	780,500	¥168.65			

	Net income		Weighted-average shares		EPS
	For the year ended December 31, 2006				
	Millions of yen		Thousands of shares		Yen
<b>Basic EPS</b>					
Net income available to common shareholders	¥85,121		780,178		¥109.10
<b>Effect of dilutive securities</b>					
Stock options			270		
<b>Diluted EPS</b>					
Net income for computation	¥85,121		780,448		¥109.07

#### NOTE 12: RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

Research and development costs are ¥93,252 million (\$1,024,410 thousand), ¥86,748 million and ¥86,687 million for the years ended December 31, 2008, 2007 and 2006, respectively.

#### NOTE 13: OTHER INCOME (EXPENSES)

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

Gain on sales of property, plant and equipment for the years ended December 31, 2008 and 2006 mainly consist of gain on sales of land.

During the year ended December 31, 2006, some of the Company's overseas subsidiaries in the Americas record costs of some of their plant closures as a part of tire manufacturing rationalization.

##### Impairment Loss on Assets

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

During the year ended December 31, 2006, impairment loss on assets is recognized primarily for certain asset groups of raw material business in Europe due to continuously unprofitable performance even expected in the foreseeable future, by market price erosion through competition.

##### Loss Related to EU Competition Law Case

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

##### Plant Restructuring Costs in the Americas

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

##### Loss Related to Voluntary Tire Replacement

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

#### NOTE 14: INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.6% for each of the years ended December 31, 2008, 2007 and 2006, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007	2006
		Millions of yen	Thousands of U.S. dollars
<b>Deferred tax assets</b>			
Accrued pension and liability for retirement benefits	¥119,753	¥ 110,511	\$1,315,533
Accrued expenses	33,493	39,524	367,934
Unrealized intercompany profits	23,578	28,143	259,014
Net operating loss carryforwards for tax purposes	49,052	52,922	538,855
Other	47,962	43,934	526,882
Less valuation allowance	(20,771)	(13,301)	(228,178)
<b>Total</b>	<b>253,067</b>	<b>261,733</b>	<b>2,780,040</b>
<b>Deferred tax liabilities</b>			
Reserve for deferred gain related fixed assets for tax purposes	(13,364)	(11,460)	(146,809)
Unrealized gain on available-for-sale securities	(24,423)	(78,823)	(268,296)
Depreciation	(13,005)	—	(142,865)
Other	(15,689)	(38,421)	(172,350)
<b>Total</b>	<b>(66,481)</b>	<b>(128,704)</b>	<b>(730,320)</b>
Net deferred tax assets	¥186,586	¥ 133,029	\$2,049,720

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, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
			%
<b>Normal effective statutory tax rate</b>	<b>40.6%</b>	<b>40.6%</b>	<b>40.6%</b>
Expenses not deductible for income tax purpose	18.6	2.1	4.7
Lower income tax rates applicable to income in certain consolidated subsidiaries	(3.8)	(2.6)	(1.9)
Tax credit for research and development costs of domestic companies	(5.0)	(3.2)	(3.9)
Tax adjustment of overseas companies	4.3	—	(1.8)
Change in valuation allowance for deferred tax assets	18.7	(1.7)	—
Other—net	1.4	0.8	(1.1)
<b>Actual effective tax rate</b>	<b>74.8%</b>	<b>36.0%</b>	<b>36.6%</b>

## NOTE 15: DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency, interest and commodity price exposures that arise in the course of the Companies' business. Accordingly, the market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or

liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk. Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amounts. Foreign currency forward contracts and currency swap contracts which qualify for hedge accounting for the years ended December 31, 2008 and 2007 are excluded from the disclosure of market value information.

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

The outstanding balance of derivative contracts at December 31, 2008 and 2007 are as follows:

	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
	2008			2007		
	Millions of yen					
<b>Foreign currency forward contracts</b>						
<b>Sell</b>						
U.S. dollar	¥73,614	¥70,114	¥3,500	¥35,076	¥35,415	¥(339)
Euro	33,720	33,110	610	40,188	40,816	(628)
Australian dollar	8,618	7,564	1,054	10,207	10,172	35
Other	10,271	9,868	403	6,650	6,902	(252)
<b>Buy</b>						
U.S. dollar	10,023	9,848	(175)	10,245	10,112	(133)
Japanese yen	3,057	3,264	207	3,619	3,549	(70)
Other	922	929	7	264	270	6
<b>Currency swap contracts</b>						
Poland zloty receipt, Euro payment	5,580	(71)	(71)	—	—	—
U.S. dollar receipt, Singapore dollar payment	3,208	107	107	5,655	74	74
U.S. dollar receipt, Japanese yen payment	2,506	483	483	12,552	4	4
New Zealand dollar receipt, U.S. dollar payment	785	20	20	—	—	—
Other	851	11	11	—	—	—
<b>Interest rate swap contracts</b>						
Floating rate receipt, fixed rate payment	4,173	(63)	(63)	14,562	(165)	(165)

	Contract amount	Fair value	Unrealized gain (loss)
			2008
Thousands of U.S. dollars			
<b>Foreign currency forward contracts</b>			
<b>Sell</b>			
U.S. dollar	\$808,679	\$770,230	\$38,449
Euro	370,427	363,726	6,701
Australian dollar	94,672	83,093	11,579
Other	112,831	108,404	4,427
<b>Buy</b>			
U.S. dollar	110,107	108,184	(1,923)
Japanese yen	33,582	35,856	2,274
Other	10,128	10,205	77
<b>Currency swap contracts</b>			
Poland zloty receipt, Euro payment	61,298	(780)	(780)
U.S. dollar receipt, Singapore dollar payment	35,241	1,175	1,175
U.S. dollar receipt, Japanese yen payment	27,529	5,306	5,306
New Zealand dollar receipt, U.S. dollar payment	8,624	220	220
Other	9,349	121	121
<b>Interest rate swap contracts</b>			
Floating rate receipt, fixed rate payment	45,842	(692)	(692)

#### NOTE 16: CONTINGENT LIABILITIES AND COMMITMENTS

##### (a) Contingent Liabilities

At December 31, 2008 and 2007, the Companies have the following contingent liabilities:

	2008	2007	2008
		Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥2,253	¥7,560	\$24,750
Guarantees and similar items of bank borrowings	260	338	2,856
<b>Total</b>	<b>¥2,513</b>	<b>¥7,898</b>	<b>\$27,606</b>

##### (b) Operating Lease Commitments

The Companies lease certain land, machinery, vehicles, computer equipment, office space and other assets. The minimum lease commitments under noncancelable operating leases at December 31, 2008 and 2007 are as follows:

	2008	2007	2008
		Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 28,490	¥ 35,497	\$ 312,974
Due after one year	149,744	183,699	1,644,996
<b>Total</b>	<b>¥178,234</b>	<b>¥219,196</b>	<b>\$1,957,970</b>

##### (c) Litigation

See Note 18 for contingent legal liabilities in relation to the voluntary tire recall.

#### NOTE 17: SEGMENT INFORMATION

Information about business segments, geographic segments and sales to customers outside of Japan, for the years ended December 31, 2008, 2007 and 2006, is as follows:

## (a) Information by Business Segment

	Tires	Diversified products	Total	Elimination or corporate	Consolidated
Year ended December 31, 2008					
Millions of yen					
<b>Net sales</b>					
External customers	¥2,622,890	¥611,516	¥3,234,406	—	¥3,234,406
Inter-segment	6,260	13,993	20,253	¥ (20,253)	—
<b>Total</b>	<b>2,629,150</b>	<b>625,509</b>	<b>3,254,659</b>	<b>(20,253)</b>	<b>3,234,406</b>
Operating expenses	2,536,394	586,794	3,123,188	(20,333)	3,102,855
Operating income	¥ 92,756	¥ 38,715	¥ 131,471	¥ 80	¥ 131,551
Identifiable assets	¥2,336,836	¥434,707	¥2,771,543	¥ (3,073)	¥2,768,470
Depreciation and amortization	¥ 162,751	¥ 24,669	¥ 187,420	¥ —	¥ 187,420
Impairment loss on assets	¥ 10,148	¥ 484	¥ 10,632	¥ —	¥ 10,632
Capital expenditures	¥ 255,827	¥ 27,354	¥ 283,181	¥ —	¥ 283,181
Year ended December 31, 2007					
<b>Net sales</b>					
External customers	¥2,750,374	¥639,845	¥3,390,219	—	¥3,390,219
Inter-segment	5,618	16,498	22,116	¥ (22,116)	—
<b>Total</b>	<b>2,755,992</b>	<b>656,343</b>	<b>3,412,335</b>	<b>(22,116)</b>	<b>3,390,219</b>
Operating expenses	2,560,956	601,636	3,162,592	(22,335)	3,140,257
Operating income	¥ 195,036	¥ 54,707	¥ 249,743	¥ 219	¥ 249,962
Identifiable assets	¥2,878,953	¥483,310	¥3,362,263	¥ (3,008)	¥3,359,255
Depreciation and amortization	¥ 150,239	¥ 23,346	¥ 173,585	¥ —	¥ 173,585
Capital expenditures	¥ 257,178	¥ 32,754	¥ 289,932	¥ —	¥ 289,932
Year ended December 31, 2006					
<b>Net sales</b>					
External customers	¥2,393,165	¥598,110	¥2,991,275	—	¥2,991,275
Inter-segment	3,781	28,761	32,542	¥ (32,542)	—
<b>Total</b>	<b>2,396,946</b>	<b>626,871</b>	<b>3,023,817</b>	<b>(32,542)</b>	<b>2,991,275</b>
Operating expenses	2,257,877	575,118	2,832,995	(32,596)	2,800,399
Operating income	¥ 139,069	¥ 51,753	¥ 190,822	¥ 54	¥ 190,876
Identifiable assets	¥2,585,497	¥479,516	¥3,065,013	¥ (11,573)	¥3,053,440
Depreciation and amortization	¥ 129,286	¥ 16,063	¥ 145,349	¥ —	¥ 145,349
Impairment losses on assets	¥ 5,774	—	¥ 5,774	¥ —	¥ 5,774
Capital expenditures	¥ 231,995	¥ 30,520	¥ 262,515	¥ —	¥ 262,515
Year ended December 31, 2008					
Thousands of U.S. dollars					
<b>Net sales</b>					
External customers	\$28,813,468	\$6,717,741	\$35,531,209	—	\$35,531,209
Inter-segment	68,769	153,718	222,487	\$ (222,487)	—
<b>Total</b>	<b>28,882,237</b>	<b>6,871,459</b>	<b>35,753,696</b>	<b>(222,487)</b>	<b>35,531,209</b>
Operating expenses	27,863,276	6,446,160	34,309,436	(223,366)	34,086,070
Operating income	\$ 1,018,961	\$ 425,299	\$ 1,444,260	\$ 879	\$ 1,445,139
Identifiable assets	\$25,671,053	\$4,775,426	\$30,446,479	\$ (33,758)	\$30,412,721
Depreciation and amortization	\$ 1,787,883	\$ 270,999	\$ 2,058,882	\$ —	\$ 2,058,882
Impairment loss on assets	\$ 111,480	\$ 5,317	\$ 116,797	\$ —	\$ 116,797
Capital expenditures	\$ 2,810,359	\$ 300,495	\$ 3,110,854	\$ —	\$ 3,110,854

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

- Tires: Tires and tubes, wheels and accessories, retread material and services, auto maintenance, etc.  
Diversified products: Chemical products, industrial products, sporting goods, bicycles, etc.

## (b) Information by Geographic Segment

	Japan	The Americas	Europe	Other	Total	Elimination or corporate	Consolidated
Year ended December 31, 2008							
Millions of yen							
<b>Net sales</b>							
External customers	¥ 864,908	¥1,403,046	¥471,029	¥495,423	¥3,234,406	—	¥3,234,406
Inter-segment	457,039	14,242	3,792	103,949	579,022	¥(579,022)	—
<b>Total</b>	<b>1,321,947</b>	<b>1,417,288</b>	<b>474,821</b>	<b>599,372</b>	<b>3,813,428</b>	<b>(579,022)</b>	<b>3,234,406</b>
Operating expenses	1,252,987	1,395,647	479,689	563,927	3,692,250	(589,395)	3,102,855
Operating income	¥ 68,960	¥ 21,641	¥ (4,868)	¥ 35,445	¥ 121,178	¥ 10,373	¥ 131,551
Identifiable assets	¥1,215,783	¥ 860,668	¥460,128	¥472,305	¥3,008,884	¥(240,414)	¥2,768,470
Year ended December 31, 2007							
<b>Net sales</b>							
External customers	¥ 941,457	¥1,497,977	¥511,731	¥439,054	¥3,390,219	—	¥3,390,219
Inter-segment	430,267	12,758	4,277	109,632	556,934	¥(556,934)	—
<b>Total</b>	<b>1,371,724</b>	<b>1,510,735</b>	<b>516,008</b>	<b>548,686</b>	<b>3,947,153</b>	<b>(556,934)</b>	<b>3,390,219</b>
Operating expenses	1,224,210	1,459,220	498,800	511,049	3,693,279	(553,022)	3,140,257
Operating income	¥ 147,514	¥ 51,515	¥ 17,208	¥ 37,637	¥ 253,874	¥ (3,912)	¥ 249,962
Identifiable assets	¥1,408,965	¥1,081,386	¥581,435	¥536,550	¥3,608,336	¥(249,081)	¥3,359,255
Year ended December 31, 2006							
<b>Net sales</b>							
External customers	¥ 896,743	¥1,324,039	¥413,952	¥356,541	¥2,991,275	—	¥2,991,275
Inter-segment	358,863	9,534	4,537	84,669	457,603	¥(457,603)	—
<b>Total</b>	<b>1,255,606</b>	<b>1,333,573</b>	<b>418,489</b>	<b>441,210</b>	<b>3,448,878</b>	<b>(457,603)</b>	<b>2,991,275</b>
Operating expenses	1,138,028	1,291,520	403,613	420,954	3,254,115	(453,716)	2,800,399
Operating income	¥ 117,578	¥ 42,053	¥ 14,876	¥ 20,256	¥ 194,763	¥ (3,887)	¥ 190,876
Identifiable assets	¥1,366,801	¥ 968,641	¥453,362	¥490,255	¥3,279,059	¥(225,619)	¥3,053,440
Year ended December 31, 2008							
Thousands of U.S. dollars							
<b>Net sales</b>							
External customers	\$ 9,501,351	\$15,413,007	\$5,174,437	\$5,442,414	\$35,531,209	—	\$35,531,209
Inter-segment	5,020,751	156,454	41,657	1,141,921	6,360,783	\$(6,360,783)	—
<b>Total</b>	<b>14,522,102</b>	<b>15,569,461</b>	<b>5,216,094</b>	<b>6,584,335</b>	<b>41,891,992</b>	<b>(6,360,783)</b>	<b>35,531,209</b>
Operating expenses	13,764,550	15,331,726	5,269,571	6,194,957	40,560,804	(6,474,734)	34,086,070
Operating income	\$ 757,552	\$ 237,735	\$ (53,477)	\$ 389,378	\$ 1,331,188	\$ 113,951	\$ 1,445,139
Identifiable assets	\$13,355,850	\$ 9,454,773	\$5,054,685	\$5,188,454	\$33,053,762	\$(2,641,041)	\$30,412,721

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

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

(c) Overseas Sales

Overseas sales by area and percentage of overseas sales over consolidated net sales for the years ended December 31, 2008, 2007 and 2006 are as follows:

				Amount		Percentage	
	2008	2007	2006	2008	2008	2007	2006
	Millions of yen			Thousands of U.S. dollars		%	
<b>Areas</b>							
The Americas	¥1,386,319	¥1,489,061	¥1,321,111	\$15,229,254	42.9%	43.9%	44.2%
Europe	489,654	531,581	424,381	5,379,040	15.1	15.7	14.2
Other	572,327	568,364	468,388	6,287,235	17.7	16.8	15.6
<b>Overseas sales</b>	<b>¥2,448,300</b>	<b>¥2,589,006</b>	<b>¥2,213,880</b>	<b>\$26,895,529</b>	<b>75.7%</b>	<b>76.4%</b>	<b>74.0%</b>
<b>Net sales</b>	<b>¥3,234,406</b>	<b>¥3,390,219</b>	<b>¥2,991,275</b>	<b>\$35,531,209</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

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

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

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

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

In September 2000, National Highway Traffic Safety Administration ("NHTSA") opened an investigation into BSA's Steeltex tires. NHTSA closed that investigation in April 2002 and found no design or manufacturing defect in these tires. Since then, an attorney who had filed multiple

purported class action lawsuits against BSA petitioned NHTSA to reopen its investigation of Steeltex tires. The first petition was filed in November 2002, and that petition was denied by NHTSA in June 2003. A second petition was filed in May 2004, urging NHTSA to investigate Steeltex tires generally, and in particular those tires used on ambulances. NHTSA denied this petition in September 2004. A third petition was filed in May 2006, and that petition was denied in February 2007.

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

Two securities cases filed in January 2001 against BSA and the Company were pending in a U.S. federal court. These suits, which have been consolidated, allege (i) misrepresentations regarding the quality of the tires previously under investigation by NHTSA; and (ii) violations of the U.S. Securities Exchange Act. The trial court initially dismissed these actions in their entirety in October 2002. However, in October 2004 a federal court of appeals reversed part of that ruling and held that two statements by the Company in its 1999 annual report, and BSA's statement made in August 2000, may be actionable under applicable laws and regulations. In July 2006, the plaintiffs moved for class certification on behalf of all purchasers of the Company stock and American Depositary Receipts between March

30, 2000 and August 31, 2000. In November 2006, BSA and the Company filed papers in which they opposed class certification, and in which they again urged the court to dismiss or at least limit the scope of this matter. The court had scheduled a hearing on these issues for September 2007. On September 2007, the parties reached a tentative agreement to settle these matters for a payment by the Company. The Company recorded this payment as loss related to voluntary tire replacement in 2007. This

agreement received final court approval on January 2009, and the approval was completed on February 2009. The settlement contains no admission of wrongdoing, such as violation of any securities laws or any material misrepresentations regarding the quality of tires, by BSA or the Company.

\* On January 1, 2009, Bridgestone Americas Holding, Inc. has changed its company name to Bridgestone Americas, Inc.

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

Since May 2007, the U.S. Department of Justice, the European Commission, the Fair Trade Commission of Japan, and other authorities have been investigating the Company and certain of its subsidiaries in connection with alleged international cartel activities regarding the sale of marine hoses. In February 2008, the Company received orders from the Fair Trade Commission of Japan. The orders, which directed the Company to cease and desist from violating the Antimonopoly Act and to pay surcharges for violating the Act, were finalized. In May 2008, the Company received a Statement of Objections whereby the European Commission describes its preliminary view in relation to a possible infringement of EU competition law, and in June 2008, the Company sent its reply to the Commission. In January 2009, the Company received a notice of the Commission's decision imposing a fine of 58.5 million euros. After careful consideration, the Company has determined that bringing the course of proceedings to an end and focusing on the reinforcement of its compliance system and promotion of preventive measures are the appropriate action to be taken. Therefore, as an overall judgment, the Company did not appeal the decision and paid the imposed fine. The Company has

recorded 7,485 million yen as an expense for the fine from the European Commission. In regard to the class action lawsuit brought in the United States in connection with the marine hose cartel, a settlement plan has been submitted to the court for approval. In the future, there is a possibility that fines will be imposed by the U.S. Department of Justice, but at this point, there are a number of uncertain factors regarding the calculation of a specific reserve, and as a result expenses have not been recorded.

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

#### **NOTE 20: SUBSEQUENT EVENTS**

On March 26, 2009, the shareholders of the Company approved payment of a cash dividend of ¥11.0 (\$0.12) per share, or a total of ¥8,627 million (\$94,771 thousand), to shareholders of record at December 31, 2008. 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 140 thousand shares of the Company's common stock, at maximum, including 80 thousand shares for directors. The exercise price of these stock options is ¥1 (\$0.01). The exercise period is from May 1, 2009 to April 30, 2029.