1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account of Kubota Corporation (the parent company) and subsidiaries (collectively the “Company”), to present these statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) with the exception of FASB Emerging Issues Task Force, Issue No. 91-5, “EITF 91-5, Nonmonetary Exchange of Cost-Method Investments” (see **Investments**). The principal adjustments include: (1) accounting for foreign currency translations, (2) valuation of inventories, (3) accounting for short-term and other investments, (4) accrual of certain expenses, (5) accounting for retirement and pension plans, (6) recognition of warrant values, (7) accounting for stock dividends approved by shareholders in prior years at market value, and (8) recognition of deferred income tax relating to these adjustments. The presentation of segment information required by Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” also has been omitted.

Certain reclassifications have been made to the consolidated financial statements for 1999 and 1998 to conform to classifications used in 2000.

Translation into United States Dollars

The parent company and its domestic subsidiaries maintain their accounts in Japanese yen, the currency of the country in which they are incorporated and principally operate. The United States dollar amounts included herein represent a translation using the approximate exchange rate at March 31, 2000 of ¥106=US$1 solely for convenience. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into United States dollars.

Consolidation

The consolidated financial statements include the accounts of the parent company and all majority-owned subsidiaries. Significant intercompany items have been eliminated in consolidation.

Investments mainly in 20%~50%-owned companies (the “affiliated companies”) are stated at cost plus equity in undistributed net income from acquisition or formation.

Cost in excess of equity at the date of acquisition that cannot be specifically assigned to individual assets is amortized over a five-year period.

Revenue Recognition

Sales are recorded when products are shipped to customers.

Sales under long-term contracts are recorded using the percentage-of-completion method of accounting. Estimated losses on contracts are recorded in the period in which they are identified.

In the case of finance receivables in which the face amount includes finance charges (principally retail financing), income is recorded over the terms of the receivables using the interest method.

Inventories

Manufacturing inventories are stated at the lower of cost, substantially determined using the average method, or market. Completed real estate projects are stated at the lower of carrying value or fair value less estimated costs to sell. Land to be developed and projects under development are carried at cost unless an impairment loss is required.

Investments

Under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company classifies all its debt securities and marketable equity securities as available for sale and carries them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as an other comprehensive income item of shareholders’ equity.

Gains and losses on sales of available-for-sale securities are computed on the average-cost method as well as other nonmarketable equity securities which are carried at cost. Losses from other-than-temporary impairment on marketable and nonmarketable securities, if any, are charged to expenses.

On April 1, 1996, The Bank of Tokyo, Ltd. (“BOT”) and The Mitsubishi Bank, Limited, merged. Upon the merger, each common share of BOT owned by the Company which had been carried at cost was converted into 0.8 share of the combined entity, The Bank of Tokyo-Mitsubishi, Ltd. For purposes of comparability with financial statements under Japanese GAAP, the Company did not account for the exchange under EITF 91-5, which requires recognition of a nonmonetary exchange gain on the common shares of BOT.

If EITF 91-5 had been adopted, net income would have decreased by ¥663 million for the year ended March 31, 1999 and increased by ¥3,081 million for the year ended March 31, 1997, respectively, and retained earnings would have increased by ¥2,418 million ($22,811 thousand) at March 31, 2000 and 1999, respectively, resulting from the unrecognized nonmonetary exchange gain, net of sale of the part of the investment, with a corresponding decrease in accumulated other comprehensive income.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation of plant and equipment is principally computed using the declining-balance method based on the estimated useful lives of the assets.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” Under SFAS No. 109, deferred tax assets or liabilities are computed based on the difference between the financial statement and the income tax basis of assets and liabilities and tax loss and other carryforwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Advertising

The costs of advertising are expensed as incurred.

Net Income and Cash Dividends per 20 Common Shares

Per share amounts have been calculated per 20 common shares since each American Depositary Share represents 20 shares of common stock.

Basic net income per 20 common shares excludes dilution and has been computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period.

Diluted net income per 20 common shares reflects the potential dilution and has been computed on the basis that all convertible debentures were converted at the beginning of the year or at the time of issuance (if later), and that all dilutive warrants were exercised (less the proceeds using the average market price of the Company's common shares).

Cash dividends per 20 common shares are based on dividends paid during the year.

Derivative Financial Instruments

Interest differentials on swaps and other interest-related agreements designated as hedges of exposures to interest rate risk, which are associated with short- or long-term debt financings, are recorded as adjustments to interest expense over the contract period. Gains and losses on forward contracts are recognized based on changes in exchange rates and are offset against foreign exchange gains or losses on the hedged financing obligations and accounts receivable or payable.

Risks and Uncertainties

The Company is one of Japan's leading manufacturers of a comprehensive range of machinery and other industrial and consumer products, including farm equipment, engines, pipe and fluid systems engineering, industrial castings, environmental control plant, prefabricated houses, and housing materials and equipment.

The manufacturing operations of the Company are conducted primarily at 23 plants in Japan and at 5 overseas plants located in the United States and certain other countries. Farm equipment, construction machinery, ductile iron pipe, and certain other products are not only sold in Japan but are also sold in overseas markets which consist mainly of North America, Europe, and Asia.

A certain level of group concentrations of the Company's business activities is found in the domestic farm equipment sales through the National Federation of Agricultural Cooperative Associations and affiliated dealers. The concentrated credit risk of the domestic farm equipment business consists principally of notes and accounts receivable and financial guarantees, for which the Company has not experienced any significant uncollectibility. Additionally, transactions associated with country risk are limited. Management believes that such concentrations are not significantly unfavorable.

The variety and breadth of the Company's products and customers significantly mitigate the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply, or composition of its markets. Additionally, such diversification enables the Company to significantly minimize the risk of loss associated with an environmental disaster or political crisis in one of the countries in which the Company manufactures or sells its products. The Company has also established a quality control program designed to ensure the safety of the Company's products. The Company believes that the quality control program reduces the risk of product liability claims, on which the Company has not experienced any significant losses. As a result, it is unlikely that any one event would have a severe impact on the Company's consolidated financial position, results of operations, or cash flows.

Management uses estimates in preparing the consolidated financial statements in conformity with US GAAP. Significant estimates used in the preparation of the consolidated financial statements are primarily in the areas of collectibility of private-sector notes and accounts receivable, valuation allowance for deferred tax assets, fair value of real estate inventories, and employee retirement and pension plans. These estimates are assessed by the Company on a regular basis and management believes that material changes will not occur in the near term, although actual results could ultimately differ from these estimates.

Valuation of Long-Lived Assets

The Company accounts for valuation of long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Based on this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances indicate that the carrying amount of an asset may not be recoverable. In such an event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved. In addition, long-lived assets to be disposed of are evaluated at the lower of carrying value or fair value less cost to sell.

Cash Flow Information

The Company considers all time deposits with original maturities of one year or less, which can be withdrawn at least at face amount at any time, to be cash equivalents. At March 31, 2000, 1999, and 1998, time deposits of which original maturities were substantially three months or less amounting to ¥33,134 million ($312,585 thousand), ¥38,117 million, and ¥35,465 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥10,830 million ($102,170 thousand), ¥12,873 million, and ¥11,977 million, and for income taxes amounted to ¥23,610 million ($222,736 thousand), ¥4,758 million, and ¥37,484 million in 2000, 1999, and 1998, respectively.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company will adopt this statement for the year beginning April 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company is in the process of evaluating the effect of the adoption of this statement.

2. INVENTORIES

Inventories at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Manufacturing:			
Finished products	**¥ 96,113**	¥ 97,400	**$ 906,726**
Spare parts	**13,507**	14,462	**127,425**
Work in process	**29,247**	32,937	**275,915**
Raw materials and supplies	**16,089**	17,357	**151,783**
Subtotal	**154,956**	162,156	**1,461,849**
Real estate:			
Land to be developed, projects under development, and completed projects	**18,124**	20,299	**170,981**
	¥173,080	¥182,455	**$1,632,830**

3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Investments in and advances to affiliated companies at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Investments	**¥11,203**	¥ 9,891	**$105,689**
Advances	**2,869**	4,244	**27,066**
	¥14,072	¥14,135	**$132,755**

A summary of financial information of affiliated companies is as follows:

	Millions of Yen		Thousands of U.S. Dollars
At March 31, 2000 and 1999	**2000**	1999	**2000**
Current assets	**¥123,478**	¥133,811	**$1,164,887**
Noncurrent assets	**70,821**	70,323	**668,122**
Total assets	**194,299**	204,134	**1,833,009**
Current liabilities	**134,470**	145,294	**1,268,585**
Noncurrent liabilities	**31,622**	32,861	**298,320**
Net assets	**¥ 28,207**	¥ 25,979	**$ 266,104**

Years ended March 31, 2000, 1999, and 1998	Millions of Yen 2000	1999	1998	Thousands of U.S. Dollars 2000
Net sales	**¥246,078**	¥251,784	¥308,003	**$2,321,491**
Cost of sales	**188,953**	194,543	238,235	**1,782,575**
Other income—net	**3,652**	3,153	3,971	**34,453**
Net income (loss)	**3,594**	(1,358)	3,329	**33,906**

Trade notes and accounts receivable from affiliated companies at March 31, 2000 and 1999 were ¥39,136 million ($369,208 thousand) and ¥43,989 million, respectively.

Sales to affiliated companies aggregated ¥114,534 million ($1,080,509 thousand), ¥113,123 million, and ¥135,093 million in 2000, 1999, and 1998, respectively.

Cash dividends received from affiliated companies were ¥555 million ($5,236 thousand), ¥33 million, and ¥1,340 million in 2000, 1999, and 1998, respectively. There are no known material restrictions on the transfer of funds in the form of dividends or advances by affiliated companies.

4. SHORT-TERM AND OTHER INVESTMENTS

The cost, fair values, and gross unrealized holding gains and losses for securities by major security type at March 31, 2000 and 1999 were as follows:

	Millions of Yen							
	2000				1999			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:								
Available-for-sale:								
Governmental and corporate debt securities	**¥ 8,107**	**¥ 8,003**	**¥ —**	**¥ 104**	¥ 9,280	¥ 9,233	¥ 76	¥ 123
Other	**6**	**7**	**1**	**—**	1,234	1,227	—	7
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**75,908**	**211,006**	**135,383**	**285**	76,960	204,356	127,859	463
Other equity securities	**28,417**	**54,460**	**27,873**	**1,830**	36,156	55,068	22,646	3,734
Other	**1,886**	**1,967**	**81**	**—**	2,456	2,551	95	—
	¥114,324	**¥275,443**	**¥163,338**	**¥2,219**	¥126,086	¥272,435	¥150,676	¥4,327

	Thousands of U.S. Dollars			
	2000			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:				
Available-for-sale:				
Governmental and corporate debt securities	**$ 76,481**	**$ 75,500**	**$ —**	**$ 981**
Other	**57**	**66**	**10**	**—**
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**716,113**	**1,990,623**	**1,277,198**	**2,689**
Other equity securities	**268,085**	**513,773**	**262,953**	**17,264**
Other	**17,792**	**18,557**	**764**	**—**
	$1,078,528	**$2,598,519**	**$1,540,925**	**$20,934**

Proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales for the years ended March 31, 2000, 1999, and 1998 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Proceeds from sales	**¥10,138**	¥15,271	¥33,470	**$95,642**
Gross realized gains	**3,842**	6,824	19,589	**36,245**
Gross realized losses	**(1,028)**	(1,965)	(991)	**(9,698)**

At March 31, 2000, the cost of debt securities classified as available-for-sale due in one year and due over one year were ¥1,853 million ($17,481 thousand) and ¥7,520 million ($70,943 thousand), respectively.

Short-term investments as of March 31, 1999 included certified deposits with resale agreements for a period of less than three months amounting to ¥2,865 million.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The balances of short-term borrowings at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Notes payable to banks	**¥88,469**	¥109,181	**$834,613**
Commercial paper	**498**	9,942	**4,698**
	¥88,967	¥119,123	**$839,311**

Stated annual interest rates of short-term borrowings ranged primarily from 0.39% to 7.16% and from 0.54% to 7.24% at March 31, 2000 and 1999, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2000 and 1999 were 2.3% and 3.5%, respectively.

Commercial paper at March 31, 2000 was obtained under commercial paper borrowing arrangements with certain banks.

During the fiscal year ended March 31, 2000, the Company established lines of credit with certain banks totaling ¥20,000 million ($188,679 thousand).

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Maturities, Years Ending March 31	Millions of Yen		Thousands of U.S. Dollars
		2000	1999	**2000**
Unsecured bonds:				
6.9% Yen bonds	2000	**¥ —**	¥ 30,000	**$ —**
Floating rate (six-month Euro LIBOR plus 1.0%) Euro bonds	2001	**8,673**	9,665	**81,820**
2.2% Yen bonds	2002	**10,000**	10,000	**94,340**
2.05% Yen bonds	2002	**10,000**	10,000	**94,340**
1.51% Yen bonds	2003	**10,000**	10,000	**94,340**
2.7% Yen bonds	2004	**10,000**	10,000	**94,340**
1.475% Yen bonds	2004	**10,000**	10,000	**94,340**
1.8% Yen bonds	2006	**10,000**	10,000	**94,340**
Unsecured convertible bonds:				
1.5% Yen bonds	2001	**24,854**	24,854	**234,471**
1.55% Yen bonds	2002	**9,708**	9,708	**91,585**
1.6% Yen bonds	2003	**9,772**	9,772	**92,188**
0.8% Yen bonds	2004	**29,756**	29,756	**280,717**
0.85% Yen bonds	2005	**19,513**	19,513	**184,085**
0.9% Yen bonds	2006	**18,627**	18,642	**175,726**
Loans, principally from banks and insurance companies, maturing serially through 2026:				
Collateralized		**717**	5,822	**6,764**
Unsecured		**100,596**	92,736	**949,019**
Total		**282,216**	310,468	**2,662,415**
Less current portion		**(48,959)**	(44,273)	**(461,877)**
		¥233,257	¥266,195	**$2,200,538**

The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2000 and 1999 were 1.8% and 2.1%, respectively.

Annual maturities of long-term debt at March 31, 2000 during the next five years are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31		
2001	¥48,959	$461,877
2002	64,538	608,849
2003	39,240	370,189
2004	68,702	648,132
2005	23,133	218,236

At March 31, 2000, the interest rate swaps hedged certain short-term borrowings and long-term debt as follows:

	Weighted Average Rates			Notional Amount	
	Pay	Receive	Maturities, Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
Pay fixed rate	5.4%	4.1%	2001~2004	¥11,980	$113,019

At March 31, 2000, property, plant, and equipment of ¥3,847 million ($36,292 thousand) were pledged as collateral on long-term debt of ¥717 million ($6,764 thousand), including current portion of ¥89 million ($840 thousand).

The conversion prices of the unsecured yen convertible bonds range from ¥769 to ¥651 per share and the number of shares into which outstanding bonds were convertible at March 31, 2000 totaled 156,393 thousand shares.

As is customary in Japan, the Company maintains deposit balances with banks and other financial institutions with which they have short- or long-term borrowing arrangements. Such deposit balances are not legally or contractually restricted as to withdrawal.

Certain of the loan agreements provide that the lender or trustees for lenders may request that the Company submits for approval proposals to pay dividends. Certain of the loan agreements also provide that the lender may request the Company to provide additional collateral. As is customary in Japan, collateral must be pledged if requested by a lending bank, and banks have the right to offset cash deposited with them against any long- or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all debt payable to the banks. The Company has never received any such requests.

6. RETIREMENT AND PENSION PLANS

The parent company and its domestic subsidiaries have a number of unfunded severance indemnity plans and defined benefit pension plans covering substantially all Japanese employees. Most employees of overseas subsidiaries are covered by defined benefit pension plans or defined contribution pension plans.

Among them, the parent company has an unfunded severance indemnity plan partly supplemented by a noncontributory defined benefit pension plan which covers substantially all of its employees (collectively, the “Noncontributory Plan”). Employees who terminate their employment at the mandatory retirement age receive benefits in the form of annuity payments and/or lump-sum payments which are principally provided by the noncontributory defined benefit pension plan and the remaining portion is provided by the unfunded severance indemnity plan. The coverage of the noncontributory defined benefit plan increased from approximately 50% to 80% during the year ended March 31, 1999. Employees who terminate their employment before the mandatory retirement age receive lump-sum payments from the unfunded severance indemnity plan. The pension and the severance payment are determined based on the rate of pay at the time of termination, length of service, and certain other factors. The parent company’s funding policy with respect to the noncontributory defined benefit pension plan is generally to contribute amounts considered deductible under applicable income tax regulations. Plan assets are managed principally by insurance companies and are invested primarily in fixed income and equity securities of Japanese and foreign issuers.

The parent company also has a contributory defined benefit pension plan covering all of its employees (the “Contributory Plan”), which provides lifetime annuity payments commencing at mandatory retirement age. The Contributory Plan consists of a basic component, which has been specified by the Japanese government’s welfare pension regulations, and an additional component established by the parent company. Benefits are determined based on the average pay for the periods of service, a factor determined by the date of birth and length of service for the basic part, and on the rate of pay at the time of termination and a factor determined by the length of service and reason for retirement for the additional component. Annual contributions are made by the parent company and employees in accordance with the contribution formula stipulated by the government for the basic part and an amount determined on the basis of an accepted actuarial method for the additional component. The Contributory Plan is administered by a board of trustees comprised of management and employee representatives. Plan assets, which are managed by insurance companies and trust banks, are invested primarily in corporate and government bonds and stocks.

Net periodic benefit cost for the Noncontributory Plan and the Contributory Plan of the parent company and for the unfunded severance indemnity plans and noncontributory defined benefit pension plans of certain subsidiaries for the years ended March 31, 2000, 1999, and 1998 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	**2000**
Service cost	**¥12,410**	¥11,282	¥ 8,662	**$117,076**
Interest cost	**10,992**	11,730	12,267	**103,698**
Expected return on plan assets	**(5,944)**	(5,621)	(6,348)	**(56,075)**
Amortization of transition obligation	**1,614**	1,614	1,614	**15,226**
Amortization of prior service cost	**1,233**	1,233	1,233	**11,632**
Recognized actuarial loss	**6,270**	5,378	1,609	**59,151**
Actuarial periodic benefit cost	**26,575**	25,616	19,037	**250,708**
Employee contributions	**(1,365)**	(1,401)	(1,424)	**(12,877)**
Net periodic benefit cost	**¥25,210**	¥24,215	¥17,613	**$237,831**

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets, together with actuarial assumptions and aggregate information for accumulated benefit obligations in excess of plan assets, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥368,456**	¥ 336,362	**$ 3,476,000**
Service cost, less employee contributions	**11,045**	9,881	**104,198**
Interest cost	**10,992**	11,730	**103,698**
Employee contributions	**1,365**	1,401	**12,877**
Amendments	**(3,498)**	—	**(33,000)**
Actuarial (gain) loss	**(13,442)**	23,120	**(126,811)**
Benefits paid	**(19,906)**	(13,928)	**(187,792)**
Foreign currency exchange rate changes	**(15)**	(110)	**(142)**
Benefit obligations at end of year	**354,997**	368,456	**3,349,028**
Change in plan assets:			
Fair value of plan assets at beginning of year	**171,643**	162,438	**1,619,274**
Actual return on plan assets	**24,258**	7,573	**228,849**
Employer contribution	**11,096**	11,524	**104,679**
Employee contributions	**1,365**	1,401	**12,877**
Benefits paid	**(13,551)**	(11,198)	**(127,839)**
Foreign currency exchange rate changes	**(13)**	(95)	**(123)**
Fair value of plan assets at end of year	**194,798**	171,643	**1,837,717**
Plans' funded status at end of year:			
Funded status	**(160,199)**	(196,813)	**(1,511,311)**
Unrecognized actuarial loss	**84,838**	122,846	**800,359**
Unrecognized prior service cost	**3,252**	7,982	**30,679**
Unrecognized net obligation at the date of initial application of SFAS No. 87	**5,969**	7,587	**56,311**
Net amount recognized	**(66,140)**	(58,398)	**(623,962)**
Amounts recognized in the consolidated balance sheets:			
Accrued retirement and pension costs	**(110,095)**	(138,997)	**(1,038,632)**
Intangible assets, included in other assets	**5,433**	15,567	**51,255**
Accumulated other comprehensive income	**38,522**	65,032	**363,415**
Net amount recognized	**¥ (66,140)**	¥ (58,398)	**$ (623,962)**
Actuarial assumptions:			
Discount rate	**3.0%**	3.0%	
Expected return on plan assets	**3.5%**	3.5%	
Rate of compensation increase	**5.4%**	5.4%	
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥354,997**	¥ 367,537	**$ 3,349,028**
Accumulated benefit obligations	**304,893**	309,720	**2,876,349**
Fair value of plan assets	**194,798**	170,863	**1,837,717**

The unrecognized actuarial loss and the unrecognized net obligation at the date of initial application are being amortized over 14 years and 15 years, respectively.

The prior service costs due to amendments of the benefits plan are being amortized over 13 years.

7. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings as recorded on the books of the parent company. Certain adjustments, not recorded on the parent company's books, are reflected in the consolidated financial statements as described in Note 1. At March 31, 2000, retained earnings recorded on the parent company's books of account were ¥242,900 million ($2,291,509 thousand).

The Code requires the parent company to appropriate as a legal reserve portions of retained earnings in amounts equal to at least 10% of cash payments, including dividends and officers' bonuses, in each financial period, until the reserve equals 25% of the stated capital. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital, as reduced by stock issue expenses less the applicable tax benefit, are credited to additional paid-in capital. The parent company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The parent company may also transfer portions of retained earnings, available for dividends, to the stated capital by resolution of the shareholders.

Under the Code, the parent company may issue new common shares to the existing shareholders without consideration by resolution of the Board of Directors as a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

As permitted by the Code, pursuant to a resolution of an annual general meeting of the shareholders, the Company may purchase its own issued shares for their retirement. In addition, pursuant to a resolution of the Board of Directors, the Company may purchase its own shares for their retirement, not exceeding 140 million shares, in accordance with its articles of incorporation. Any shares of common stock, in whole or in part, are subject to such purchases made for the purpose of retirement.

8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2000, 1999, and 1998 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	**2000**
Gain on sales of securities	**¥ 2,814**	¥4,859	¥ 18,598	**$ 26,547**
Gain on exchange of securities	**—**	576	2,636	**—**
Foreign exchange gain (loss)—net	**(1,494)**	234	(718)	**(14,094)**
Loss on disposals of property, plant, and equipment	**(1,826)**	(1,819)	(1,637)	**(17,226)**
Loss from disposition of subsidiaries and businesses	**(4,673)**	—	(33,155)	**(44,085)**
Loss from write-downs of securities	**(3,260)**	(991)	(2,264)	**(30,755)**
Other—net	**(2,613)**	(1,131)	887	**(24,651)**
	¥(11,052)	¥1,728	¥(15,653)	**$(104,264)**

Loss from disposition of subsidiaries and businesses for the year ended March 31, 2000 results from managements decision to substantially discontinue certain lines of business, including the unit bathroom business, in fiscal 2001. The losses primarily consist of impairments of assets related to these businesses.

During the fiscal year ended March 31, 1998, the Company withdrew from the hard disk business, which had been operated since 1986 primarily through Akashic Memories Corporation, a wholly owned subsidiary. In addition, the Company sold its interest in Maxoptix Corporation, which was engaged in the business of magneto optical disk drives and was a 99.64%-owned subsidiary. Both these businesses had operated mainly in the United States.

The Company had expanded these businesses in response to rapidly increasing demand. Research and development costs and investments in manufacturing capacity have grown enormously and competition in the market has been severe as competitors have significantly increased manufacturing capacity. The Company reviewed its long-term strategy for these businesses and based on these factors concluded that the potential for success was not sufficient and decided to withdraw from such businesses.

The resulting losses from the dispositions of the hard disk and magneto optical disk drives businesses amounted to ¥30,409 million and ¥2,746 million, respectively, and relate mainly to impairment losses on operating assets of such businesses, operating losses, and closing expenses. The results of these operations have not been consolidated for the year ended March 31, 1998. Sales related to these businesses for the year ended March 31, 1998 were approximately ¥28,000 million.

9. INCOME TAXES

The approximate effects of temporary differences and tax loss and credit carryforwards that gave rise to deferred tax balances at March 31, 2000 and 1999 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2000		1999		2000	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Foreign exchange differences	**¥ 62**	**¥ 201**	¥ 22	¥ 105	**$ 585**	**$ 1,896**
Allowance for doubtful receivables	**1,942**	**616**	2,190	1,002	**18,321**	**5,811**
Intercompany profits	**11,666**	**—**	12,498	—	**110,056**	**—**
Adjustments of investment securities	**43**	**68,315**	15	63,131	**406**	**644,481**
Capitalization of interest costs	**—**	**802**	—	856	**—**	**7,566**
Enterprise tax	**890**	**8**	1,245	—	**8,396**	**76**
Retirement and pension costs	**38,754**	**—**	44,884	—	**365,604**	**—**
Other temporary differences	**16,629**	**2,370**	13,099	2,715	**156,877**	**22,359**
Tax loss and credit carryforwards	**5,251**	**—**	5,445	—	**49,538**	**—**
Subtotal	**75,237**	**72,312**	79,398	67,809	**709,783**	**682,189**
Less valuation allowance	**10,186**	**—**	13,350	—	**96,094**	**—**
	¥65,051	**¥72,312**	¥66,048	¥67,809	**$613,689**	**$682,189**

Net deferred tax balances at March 31, 2000 and 1999 were reflected on the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Prepaid expenses and other	**¥18,709**	¥12,816	**$176,500**
Other assets	**801**	205	**7,557**
Other long-term liabilities	**(26,771)**	(14,782)	**(252,557)**
Net deferred tax liabilities	**¥ (7,261)**	¥ (1,761)	**$ (68,500)**

Income taxes—deferred for the years ended March 31, 1999 and 1998 included a ¥3,039 million and ¥2,675 million debit to net deferred tax liabilities, resulting from the enacted change in Japanese income tax rates near the end of the respective fiscal years. As a result, normal Japanese statutory rates were reduced to 42.0%, effective from fiscal years beginning April 1, 1999 and thereafter.

At March 31, 2000, a valuation allowance of ¥10,186 million ($96,094 thousand) was recorded against the deferred tax assets for items which may not be realized. The net changes in the total valuation allowance for the years ended March 31, 2000, 1999, and 1998 were a decrease of ¥3,164 million ($29,849 thousand), a decrease of ¥10,381 million, and an increase of ¥4,900 million, respectively. Such changes were due primarily to the realization or nonrealization of tax benefits regarding operating losses of subsidiaries.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse and/or the tax loss and credit are carried forward, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances at March 31, 2000.

At March 31, 2000, the tax loss carryforwards in the aggregate amounted to approximately ¥13,000 million ($122,642 thousand), which are available to offset future taxable income, and will expire substantially in periods ranging from 2001 through 2005.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2000 differed from the normal Japanese statutory tax rates as follows:

	2000	1999	1998
Normal Japanese statutory tax rates	**42.0%**	47.5%	51.2%
Increase (decrease) in taxes resulting from:			
Increase (decrease) in valuation allowance	**(13.6)**	4.9	9.6
Realization of tax benefits from losses of subsidiaries previously recorded	**—**	—	(42.1)
Change in tax rate	**—**	(9.4)	(8.9)
Permanently nondeductible expenses	**4.9**	2.8	4.2
Nontaxable dividend income	**(2.7)**	(3.2)	(3.2)
Tax differences related to intercompany profits	**4.2**	2.1	—
Other—net	**3.0**	4.2	1.1
Effective income tax rates	**37.8%**	48.9%	11.9%

As of March 31, 2000, provisions totaling ¥495 million ($4,670 thousand) were made for taxes on unremitted earnings of all foreign subsidiaries and affiliates of which earnings are not deemed to be permanently reinvested. The undistributed earnings of domestic subsidiaries would not, under present Japanese tax law, be subject to tax through tax-free distributions.

10. NET INCOME PER 20 COMMON SHARES

A reconciliation of the numerators and denominators of the basic and diluted net income per share computation for the years ended March 31, 2000, 1999, and 1998 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	**2000**
Net income available to shareholders of common shares	**¥16,428**	¥15,106	¥27,683	**$154,981**
Effect of dilutive convertible bonds	**887**	827	1,034	**8,368**
Diluted net income	**¥17,315**	¥15,933	¥28,717	**$163,349**

	Number of Shares (Thousands)		
Weighted average common shares outstanding	**1,409,655**	1,409,655	1,409,655
Effect of dilutive convertible bonds	**156,413**	158,814	181,454
Diluted common shares outstanding	**1,566,068**	1,568,469	1,591,109

11. OTHER COMPREHENSIVE INCOME

Each component of other comprehensive income, including reclassification adjustments and tax effects for the years ended March 31, 2000, 1999, and 1998 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2000			**2000**		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
Foreign currency translation adjustments arising during period	**¥ (6,779)**	**¥ 67**	**¥ (6,712)**	**$ (63,953)**	**$ 632**	**$ (63,321)**
Unrealized gains on securities:						
Unrealized gains on securities arising during period	**14,329**	**(6,017)**	**8,312**	**135,179**	**(56,764)**	**78,415**
Reclassification adjustments for losses realized in net income	**446**	**(187)**	**259**	**4,208**	**(1,764)**	**2,444**
	14,775	**(6,204)**	**8,571**	**139,387**	**(58,528)**	**80,859**
Minimum pension liability adjustment	**26,510**	**(11,135)**	**15,375**	**250,094**	**(105,047)**	**145,047**
Other comprehensive income	**¥34,506**	**¥(17,272)**	**¥17,234**	**$325,528**	**$(162,943)**	**$162,585**

	Millions of Yen		
	1999		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	¥ (4,564)	¥ 284	¥ (4,280)
Reclassification adjustments for losses realized in net income	908	—	908
	(3,656)	284	(3,372)
Unrealized losses on securities:			
Unrealized losses on securities arising during period	(9,413)	4,471	(4,942)
Reclassification adjustments for gains realized in net income	(3,868)	1,837	(2,031)
	(13,281)	6,308	(6,973)
Minimum pension liability adjustment	(12,078)	5,737	(6,341)
Other comprehensive loss	¥(29,015)	¥12,329	¥(16,686)

	Millions of Yen		
	1998		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	¥ 1,702	¥ —	¥ 1,702
Reclassification adjustments for losses realized in net income	157	—	157
	1,859	—	1,859
Unrealized losses on securities:			
Unrealized losses on securities arising during period	(68,759)	35,194	(33,565)
Reclassification adjustments for gains realized in net income	(16,334)	8,363	(7,971)
	(85,093)	43,557	(41,536)
Minimum pension liability adjustment	(39,412)	20,179	(19,233)
Other comprehensive loss	¥(122,646)	¥63,736	¥(58,910)

The balances of each classification within accumulated other comprehensive income were as follows:

	Millions of Yen			
	Cumulative Translation Adjustments	Unrealized Gain on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, April 1, 1999	¥ (5,583)	¥70,917	¥(32,182)	¥33,152
Current—period change	(6,712)	8,571	15,375	17,234
Balance, March 31, 2000	**¥(12,295)**	**¥79,488**	**¥(16,807)**	**¥50,386**

	Thousands of U.S. Dollars			
	Cumulative Translation Adjustments	Unrealized Gain on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, April 1, 1999	$ (52,669)	$669,028	$(303,604)	$312,755
Current—period change	(63,321)	80,859	145,047	162,585
Balance, March 31, 2000	**$(115,990)**	**$749,887**	**$(158,557)**	**$475,340**

12. FINANCIAL INSTRUMENTS

In the normal course of business, the Company invests in various financial assets and incurs various financial liabilities. The Company also enters into agreements involving off-balance-sheet financial instruments primarily to manage its exposure to fluctuations in foreign exchange and interest rates and to meet the financing needs of its customers.

Market Risk Management

Market Risk Exposures

The Company is subject to market rate risks due to fluctuation of foreign currency exchange rates, interest rates, and equity prices. Among these risks, the Company manages foreign currency exchange and interest rate risks by using derivative financial instruments in accordance with established policies and procedures. The Company does not use derivative financial instruments for trading purposes. The credit risks associated with these instruments are not considered to be significant since the counterparties are financially capable and reliable major international financial institutions and the Company does not anticipate any such losses. The net cash requirements arising from the previously mentioned risk management activities are not expected to be material.

Foreign Currency Exchange Risks

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in its international operations and long-term debt denominated in foreign currencies. The Company entered into foreign exchange forward contracts and currency swap agreements designated to mitigate its exposure to foreign currency exchange risks. Currency swap agreements related to such long-term debt have the same maturity as underlying debts.

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2000, which was translated into Japanese yen at the year-end spot rate.

Foreign Exchange Forward Contracts

	Millions of Yen		Thousands of U.S. Dollars	
	Receive	Pay	Receive	Pay
Buy Yen, sell U.S. Dollar	¥33,960	¥34,566	$320,377	$326,094
Buy Yen, sell Euro	1,975	1,836	18,632	17,321
Buy Deutsche Mark, sell Sterling Pound	838	896	7,906	8,453

Currency Swap Agreements

		Millions of Yen	Thousands of U.S. Dollars
Maturities, Year Ending March 31		2001	2001
Receive Yen, pay U.S. Dollar at maturity	Receive	¥2,000	$18,868
	Pay	1,883	17,764
Receive Euro, pay U.S. Dollar at maturity	Receive	5,945	56,085
	Pay	9,632	90,868
Receive U.S. Dollar, pay French Franc at maturity	Receive	2,176	20,528
	Pay	2,001	18,877

At March 31, 1999, the Company's foreign exchange forward contracts and currency swap agreements, in the aggregate, were to pay ¥38,208 million and receive ¥34,194 million in Japanese yen and foreign currencies through fiscal 2001, as translated into Japanese yen at the year-end spot rate.

Interest Rate Risks

The Company is exposed to interest rate risks mainly inherent in its debt obligations with both fixed and variable rates. In order to hedge these risks, the Company uses interest rate swap contracts to change the characteristics of its fixed and variable rate exposures.

The following table provides information, by maturity date, about the Company's interest rate swap contracts. Financial instruments that are sensitive to interest rate changes were disclosed in Note 5. The table represents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts as of March 31, 2000, which are translated into Japanese yen at the year-end spot rate.

Interest Rate Swap Contracts

Maturities, Years Ending March 31	Weighted Average Rate: Receive	Weighted Average Rate: Pay	Notional Amount: Millions of Yen	Notional Amount: Thousands of U.S. Dollars
2001	4.1%	5.4%	¥11,980	$113,019
2002	0.6	2.1	1,800	16,981
2003	0.7	1.7	1,300	12,264
2004	0.7	1.7	1,300	12,264

At March 31, 1999, the Company's interest rate swap contracts, in the aggregate, were to pay 4.9% and receive 4.2% of weighted average rate of interest through fiscal 2004 on the basis of notional principal amount of ¥89,605 million.

Equity Price Risks

The Company's short-term and other investments are exposed to changes in equity price risks and consist entirely of available-for-sale securities. Fair value of such equity securities was disclosed in Note 4.

Fair Value of Financial Instruments

The Company had the following financial instruments at March 31, 2000 and 1999:

	Millions of Yen				Thousands of U.S. Dollars	
	2000		1999		**2000**	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:						
Finance receivables	**¥ 60,530**	**¥ 57,405**	¥ 55,472	¥ 55,642	**$ 571,038**	**$ 541,557**
Other investments	**280,014**	**280,014**	275,221	275,221	**2,641,642**	**2,641,642**
Financial liabilities:						
Long-term debt	**(277,344)**	**(276,179)**	(304,801)	(303,760)	**(2,616,453)**	**(2,605,462)**
Derivative financial instruments related principally to long-term debt:						
Foreign exchange instruments recorded as assets (liabilities)	**(3)**	**315**	81	89	**(28)**	**2,972**
Interest rate swaps and other instruments	**—**	**(128)**	—	(669)	**—**	**(1,208)**

Contract or notional amounts of financial instruments with off-balance-sheet risk at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Foreign exchange instruments	**¥46,983**	¥34,392	**$443,236**
Interest rate swaps and other instruments	**11,980**	54,565	**113,019**
Financial guarantees	**14,687**	15,993	**138,557**

The fair value of finance receivables, other investments, and long-term debt is based on quoted market prices when available or discounted cash flows using the current interest rate on similar financing investments or borrowings. The fair value estimates of the financial instruments are not necessarily indicative of the amounts the Company might pay or receive from actual market transactions.

Additionally, the contract or notional amounts for off-balance-sheet financial instruments are used to measure the volume of these agreements and do not necessarily represent exposure to credit loss, and their fair value is the estimated amount that the Company would receive or pay to terminate the agreements, taking into account current foreign exchange and/or interest rates, where applicable.

The carrying amounts of cash and cash equivalents, short-term investments, notes and accounts receivable and payable, and short-term borrowings approximate the fair value because of the short maturity of those instruments.

The Company is contingently liable as guarantor of indebtedness of distributors and customers for their borrowings from financial institutions.

13. SUPPLEMENTAL EXPENSE INFORMATION

Research and development expenses for the years ended March 31, 2000, 1999, and 1998 amounted to ¥33,148 million ($312,717 thousand), ¥36,759 million, and ¥37,848 million, respectively. Advertising costs expensed as incurred for the years ended March 31, 2000, 1999, and 1998 amounted to ¥8,619 million ($81,311 thousand), ¥11,598 million, and ¥12,575 million, respectively.

14. COMMITMENTS AND CONTINGENCIES

At March 31, 2000, the Company was contingently liable for trade notes discounted with banks in the amount of ¥444 million ($4,189 thousand), which are accounted for as sales when discounted. The banks retain a right of recourse against the Company in the event of nonpayment by customers, for which the Company's management believes that the recourse is remote from exercise.

Commitments for capital expenditures outstanding at March 31, 2000 approximated ¥1,639 million ($15,462 thousand).

The Company leases certain offices and other facilities under lease agreements, all of which are substantially cancelable at their option. Rental expenses for the years ended March 31, 2000, 1999, and 1998 amounted to ¥10,662 million ($100,585 thousand), ¥9,972 million, and ¥9,996 million, respectively.

In the fiscal year ended March 31, 1999, the Fair Trade Commission of Japan (the "FTCJ") began an investigation of the Company for an alleged violation of the Anti-Monopoly Law (prohibition of private monopoly or unfair trade restraint) relating to participation in fixing the shares of ductile iron straight pipe orders in Japan. In March 1999, the Company received a cease and desist recommendation from the FTCJ, which was accepted by the Company in April 1999.

In connection with this investigation, on December 24, 1999, the Company received a surcharge order of ¥7,072 million ($66,717 thousand) from the FTCJ. The Company has challenged this order and filed a petition for the initiation of hearing procedures that were started in March 2000. Under Section 49 of the Anti-Monopoly Law, upon the initiation of the procedures, the surcharge order lost effect. In addition, Section 7-2 of the law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2, and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter. An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. The Company is not able to estimate the likelihood of such an unfavorable outcome.

15. SUBSEQUENT EVENT

On May 25, 2000, a resolution was made by the Company's Board of Directors for the payment of a cash dividend to shareholders of record on March 31, 2000 of ¥3 per common share (¥60 per 20 common shares) or a total of ¥4,229 million ($39,896 thousand), subject to shareholders' approval at the annual meeting to be held on June 29, 2000.