# Notes to Consolidated Financial Statements

Kubota Corporation and Subsidiaries Years Ended March 31, 2003, 2002, and 2001

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of Business

Kubota Corporation (the "parent company") and subsidiaries (collectively the "Company") are 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, and housing materials and equipment.

The manufacturing operations of the Company are conducted primarily at 21 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.

### Basis of Financial Statements

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded in the books of account of 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 ("EITF"), Issue No. 91-5, "Nonmonetary Exchange of Cost-Method Investments" (see **Investments**). The principal adjustments include: (1) valuation of inventories, (2) accrual of certain expenses, (3) accounting for retirement and pension plans, including the effect of the transfer to the Japanese government of the substitutional portion of employee pension fund liabilities, (4) recognition of warrant values, (5) accounting for stock dividends approved by shareholders in prior years at market value, (6) accounting for derivatives, and (7) 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 2002 and 2001 to conform with classifications used in 2003.

### 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, 2003 of ¥120=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.

### Revenue Recognition

The Company recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectibility is reasonably assured.

As for environmental and other plant and equipment, sales are recorded at the time when the installation of plant and equipment is completed and accepted by the customer. For long-term contracts, such sales are recorded under the percentage-of-completion method of accounting. Housing real estate sales are recorded when the title is legally transferred to the customer in accordance with the underlying contract and real estate laws and regulations. Estimated losses on sales 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.

On April 1, 2002, the Company adopted EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." As a result, sales incentives previously classified as selling, general, and administrative expenses for the years ended March 31, 2002 and 2001 have been reclassified as a reduction of revenues to conform to the presentation for the year ended March 31, 2003. The impact of this change on the operating income and net income (loss) of the Company is not material.

### Foreign Currency Translation

Under the provisions of SFAS No. 52,"Foreign Currency Translation," assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end exchange rates, and income and expenses are translated at the average exchange rates for the year. The resulting translation adjustments are included in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Exchange gains and losses resulting from foreign currency transactions and translation of assets and liabilities denominated in foreign currencies are included in the consolidated statements of income.

### Inventories

Manufacturing inventories are stated at the lower of cost, substantially determined using the average-cost method, or market, representing the estimated selling price less costs to sell. Completed real estate projects are stated at the lower of acquisition cost or fair value less estimated costs to sell. The fair values of those assets are estimates based on the appraised values in the market. Land to be developed and projects under development are carried at cost unless an impairment loss is required. An impairment loss on those assets is recognized when their carrying amounts exceed the undiscounted future cash flows expected to be realized from them and is measured based on the present values of those expected future cash flows.

### 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. The fair values of those

securities are determined based on quoted market prices.

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

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. (currently part of Mitsubishi Tokyo Financial Group, Inc.) 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 loss would have increased by ¥545 million ($4,542 thousand) for the year ended March 31, 2003. Net income would have decreased by ¥603 million for the year ended March 31, 2002, decreased by ¥1,650 million for the year ended March 31, 2001, and increased by ¥3,081 million for the year ended March 31, 1997. Retained earnings would have decreased by ¥380 million ($3,167 thousand) at March 31, 2003, and increased by ¥165 million at March 31, 2002, with a corresponding increase (decrease) in accumulated other comprehensive income. These amounts primarily reflect the unrecognized gain on the initial nonmonetary exchange in 1997 and subsequent losses on impairment of the investment in 2003, 2002, and 2001.

**Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation of plant and equipment is principally computed using the declining-balance method based on the estimated useful lives of the assets. The estimated useful lives are principally as follows:

| | |
|---|---|
| Buildings | 10~50 years |
| Machinery and equipment | 2~14 years |

**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 and liabilities are computed based on the differences between the financial statement and the income tax bases 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 that management believes will more likely than not be realized.

**Advertising**

The costs of advertising are expensed as incurred.

**Shipping and Handling Costs**

Shipping and handling costs are included in selling, general, and administrative expenses.

**Net Income and Cash Dividends per 5 Common Shares**

Per share amounts have been calculated per 5 common shares since each American Depositary Share represents 5 shares of common stock.

Basic net income per 5 common shares 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 5 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).
Cash dividends per 5 common shares are based on dividends paid during the year.

**Derivative Financial Instruments**

On April 1, 2001, the Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133.” Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. The Company considers all hedges to be highly effective in offsetting changes in cash flows of hedged items, because the currency, index of interest rates, amount, and terms of the derivatives correspond to those of the hedged items in accordance with the Company’s policy.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

The transition adjustment upon the adoption of SFAS 133 and 138, net of the related income tax effect, was not material.

Prior to the adoption of SFAS 133 and 138, gains and losses on forward contracts were recognized based on changes in exchange rates and were offset against foreign exchange gains or losses on the hedged financing obligations and accounts receivable or payable. Interest rate derivatives and changes in their fair values were not included in the consolidated financial statements. Instead, interest differentials paid or received under interest rate derivatives designated as hedges of exposures to changes in interest rates associated with short- or long-term debt were recorded in interest expense over the contract period as an adjustment to the effective yields of the related debt.

**Impairment of Long-Lived Assets**

On April 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes certain provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and supersedes SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. Although SFAS No.144 retains the fundamental provisions of SFAS No.121, it establishes criteria to determine when a long-lived asset is held for sale, provides guidance on how a long-lived asset that is used should be evaluated for impairment, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No.144 retains the basic provision of APB Opinion No. 30 on how to present discontinued operations in the statement of income but broadens that presentation to include a component of an entity (rather than a segment of a business). In accordance with SFAS No. 144, the Company reviews the carrying value of long-lived assets when events and circumstances indicate that the carrying amount of an asset may not be recoverable. In such an event, the estimated future undiscounted cash flows associated with the asset is compared with the carrying value of the asset to determine if a write-down is required. If this evaluation indicates that the carrying value exceeds its estimated future cash flows of the long-lived asset, the Company recognizes an impairment loss 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.

The adoption of SFAS No. 144 had no effect on the Company's consolidated financial statements for the year ended March 31, 2003. Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No.121.

**Cash Flow Information**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At March 31, 2003, 2002, and 2001, time deposits of which original maturities were three months or less amounting to ¥14,945 million ($124,542 thousand), ¥13,209 million, and ¥13,176 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥4,759 million ($39,658 thousand), ¥7,123 million, and ¥8,048 million, and for income taxes amounted to ¥24,117 million ($200,975 thousand), ¥24,351 million, and ¥22,800 million in 2003, 2002, and 2001, respectively.

Noncash transactions in 2001 included a contribution of securities with a fair value of ¥33,116 million to the employee retirement benefit trust.

**Use of Estimates in the Preparation of the Financial Statements**

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, inventory valuation, impairment of long-lived assets, valuation allowance for deferred tax assets, and accruals for 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.

**New Accounting Standards**

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No.149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after June 30, 2003. The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. The Company is currently reviewing this statement to determine its impact on future financial statements.

**2. INVENTORIES**

Inventories at March 31, 2003 and 2002 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **Manufacturing:** | | | |
| Finished products | **¥ 88,810** | ¥ 89,969 | **$ 740,083** |
| Spare parts | **16,869** | 18,589 | **140,575** |
| Work in process | **23,860** | 22,721 | **198,833** |
| Raw materials and supplies | **14,804** | 15,565 | **123,367** |
| Subtotal | **144,343** | 146,844 | **1,202,858** |
| **Real estate:** | | | |
| Completed projects, land to be developed, and projects under development | **6,902** | 8,510 | **57,517** |
| | **¥151,245** | ¥155,354 | **$1,260,375** |

The Company wrote down the value of completed projects, land to be developed, and projects under development by ¥45 million ($375 thousand) and ¥4,132 million in 2003 and 2002, respectively. These amounts were included in cost of sales in the consolidated statements of income.

## 3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Investments in and advances to affiliated companies at March 31, 2003 and 2002 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Investments | **¥10,069** | ¥ 9,967 | **$ 83,909** |
| Advances | **2,050** | 2,773 | **17,083** |
| | **¥12,119** | ¥12,740 | **$100,992** |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| At March 31, 2003 and 2002 | **2003** | 2002 | **2003** |
| Current assets | **¥ 65,787** | ¥ 76,381 | **$ 548,225** |
| Noncurrent assets | **54,961** | 59,125 | **458,008** |
| Total assets | **120,748** | 135,506 | **1,006,233** |
| Current liabilities | **70,055** | 81,852 | **583,792** |
| Noncurrent liabilities | **23,839** | 26,180 | **198,658** |
| Net assets | **¥ 26,854** | ¥ 27,474 | **$ 223,783** |

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| Years ended March 31, 2003, 2002, and 2001 | **2003** | 2002 | 2001 | **2003** |
| Net sales | **¥174,233** | ¥183,161 | ¥182,855 | **$1,451,942** |
| Cost of sales | **133,671** | 140,597 | 140,668 | **1,113,925** |
| Other income—net | **1,860** | 2,010 | 1,731 | **15,500** |
| Net income | **1,711** | 2,167 | 482 | **14,258** |

Trade notes and accounts receivable from affiliated companies at March 31, 2003 and 2002 were ¥27,164 million ($226,367 thousand) and ¥29,754 million, respectively.

Sales to affiliated companies aggregated ¥82,433 million ($686,942 thousand), ¥86,250 million, and ¥80,339 million in 2003, 2002, and 2001, respectively.

Cash dividends received from affiliated companies were ¥523 million ($4,358 thousand), ¥457 million, and ¥448 million in 2003, 2002, and 2001, respectively.

## 4. SHORT-TERM AND OTHER INVESTMENTS

The cost, fair value, and gross unrealized holding gains and losses for securities by major security type at March 31, 2003 and 2002 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2003** | | | | 2002 | | | |
| | 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 | **¥ 10** | **¥ 10** | **¥ —** | **¥ —** | ¥ 1,394 | ¥ 1,394 | ¥ — | ¥ — |
| **Other investments:** | | | | | | | | |
| Available-for-sale: | | | | | | | | |
| Equity securities of financial institutions | **24,477** | **33,033** | **8,558** | **2** | 48,726 | 68,720 | 20,019 | 25 |
| Other equity securities | **21,961** | **32,361** | **12,369** | **1,969** | 25,620 | 44,582 | 19,900 | 938 |
| Other | **1,593** | **1,639** | **72** | **26** | 2,391 | 2,392 | 79 | 78 |
| | **¥48,041** | **¥67,043** | **¥20,999** | **¥1,997** | ¥78,131 | ¥117,088 | ¥39,998 | ¥1,041 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | **2003** | | | |
| | Cost | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses |
| **Short-term investments:** | | | | |
| Available-for-sale: | | | | |
| Governmental and corporate debt securities | **$ 83** | **$ 83** | **$ —** | **$ —** |
| **Other investments:** | | | | |
| Available-for-sale: | | | | |
| Equity securities of financial institutions | **203,975** | **275,275** | **71,317** | **17** |
| Other equity securities | **183,008** | **269,675** | **103,075** | **16,408** |
| Other | **13,275** | **13,658** | **600** | **217** |
| | **$400,341** | **$558,691** | **$174,992** | **$16,642** |

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥12,926 million ($107,717 thousand) and ¥13,182 million at March 31, 2003 and 2002, respectively.

Proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales for the years ended March 31, 2003, 2002, and 2001, were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Proceeds from sales | **¥5,153** | ¥7,916 | ¥2,955 | **$42,942** |
| Gross realized gains | **654** | 3,739 | 1,354 | **5,450** |
| Gross realized losses | **(659)** | (1,161) | (533) | **(5,492)** |

In addition to these sales, the Company contributed available-for-sale marketable equity securities with a fair value of ¥33,116 million to a newly established employee retirement benefit trust, and recognized a gain on this contribution of ¥19,227 million, in the year ended March 31, 2001. There were no proceeds to the Company from this transaction (also see Note 6).

At March 31, 2003, the cost of debt securities classified as available-for-sale due after one year through five years and due after five years were ¥793 million ($6,608 thousand) and ¥800 million ($6,667 thousand), respectively.

At March 31, 2003, the Company had no debt securities classified as available-for-sale due within one year.

For the years ended March 31, 2003, 2002, and 2001, valuation losses on short-term and other investments were recognized to reflect the decline in fair value considered to be other than temporary totaling ¥24,822 million ($206,850 thousand), ¥9,166 million, and ¥2,922 million, respectively.

## 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The balances of short-term borrowings at March 31, 2003 and 2002 consisted of notes payable to banks. Stated annual interest rates of short-term borrowings ranged primarily from 0.29% to 2.07% and from 0.3% to 3.03% at March 31, 2003 and 2002, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2003 and 2002 were 1.1% and 1.4%, respectively.

Available lines of credit with certain banks totaled ¥30,000 million ($250,000 thousand) at March 31, 2003 and 2002, respectively. No amounts were outstanding as of March 31, 2003 and 2002.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

| | | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | Years Ending March 31 | **2003** | 2002 | **2003** |
| **Unsecured bonds:** | | | | |
| 1.51% Yen bonds | 2003 | **¥ —** | ¥ 10,000 | **$ —** |
| 1.475% Yen bonds | 2004 | **10,000** | 10,000 | **83,333** |
| 2.7% Yen bonds | 2004 | **10,000** | 10,000 | **83,333** |
| 1.8% Yen bonds | 2006 | **10,000** | 10,000 | **83,333** |
| **Unsecured convertible bonds:** | | | | |
| 1.6% Yen bonds | 2003 | **—** | 9,772 | **—** |
| 0.8% Yen bonds | 2004 | **29,756** | 29,756 | **247,967** |
| 0.85% Yen bonds | 2005 | **19,513** | 19,513 | **162,609** |
| 0.9% Yen bonds | 2006 | **18,627** | 18,627 | **155,225** |
| **Loans, principally from banks and insurance companies, maturing on various dates through 2013:** | | | | |
| Collateralized | | **179** | 243 | **1,492** |
| Unsecured | | **133,721** | 92,015 | **1,114,342** |
| Total | | **231,796** | 209,926 | **1,931,634** |
| Less current portion | | **(75,830)** | (42,076) | **(631,917)** |
| | | **¥155,966** | ¥167,850 | **$1,299,717** |

The interest rates on unsecured bonds and unsecured convertible bonds were fixed. The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2003 and 2002 were 1.6% and 1.7%, respectively.

Annual maturities of long-term debt at March 31, 2003 are as follows:

| Years ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2004 | ¥ 75,830 | $ 631,917 |
| 2005 | 36,639 | 305,325 |
| 2006 | 55,776 | 464,800 |
| 2007 | 22,308 | 185,900 |
| 2008 | 21,447 | 178,725 |
| 2009 and thereafter | 19,796 | 164,967 |
| Total | ¥231,796 | $1,931,634 |

At March 31, 2003, property, plant, and equipment with net book value of ¥133 million ($1,108 thousand) were pledged as collateral on long-term debt of ¥179 million ($1,492 thousand), including current portion of ¥179 million ($1,492 thousand).

The conversion price of the unsecured yen convertible bonds is ¥769 per share, which exceeded the fair value of the stock on the debt issuance date, and the number of shares into which outstanding bonds were convertible at March 31, 2003 totaled 88,291 thousand shares.

As is customary in Japan, the Company maintains deposit balances with banks and other financial institutions with which the Company has 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 the Company to submit 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 (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 Plan and the remaining portion is provided by the unfunded severance indemnity plan. The coverage of the Noncontributory Plan is approximately 80%. 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 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 substitutional portion based on the pay-related part of the old-age pension benefits prescribed by the Japanese Welfare Pension Insurance Law and a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of the management. Benefits are determined based on the average pay for the periods of service and a factor determined by the date of birth and length of service for the substitutional portion, and on the rate of pay at the time of termination, the length of service, and reason for retirement for the corporate portion. Annual contributions are made by the parent company and employees in accordance with the contribution formula stipulated by the government for the substitutional portion and with an amount determined on the basis of an accepted actuarial method for the corporate portion. The Contributory Plan is administered by a board of trustees composed of management and employee representatives. Plan assets, which are managed by trust banks, are invested primarily in corporate and government bonds and stocks.

During the year ended March 31, 2001, the Company established the Employee Retirement Benefit Trust (the “Trust”). The purpose of the Trust is to hold and administer certain securities contributed to the Contributory Plan. Additionally, during the year ended March 31, 2001, the Company contributed marketable equity securities valued at ¥33,116 million to the Trust.

In June 2001, the Japanese government issued a new law that regulates retirement benefit plans. Under the new law, effective April 1, 2002, the Company can transfer the obligation for the substitutional portion and related plan assets to the government subject to approval by the government.

In December 2002, the Company made applications for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion and received approval from the Japanese Ministry of Health, Labour and Welfare on January 30, 2003. EITF No. 03-2, “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities,” requires employers to account for the entire separation process of a substitutional portion from an entire plan (including the corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. The difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. The Company plans to submit another application for the transfer of the substitutional portion related to past services to the Japanese government. After the applications are approved by the government, the remaining benefit obligation of the substitutional portion as well as the related government-specified portion of the plan assets of the Contributory Plan will be transferred to the government. The effect of the transfer on the Company’s consolidated financial statements has not yet been determined.

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, 2003, 2002, and 2001 consisted of the following components:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Service cost | **¥10,128** | ¥10,884 | ¥13,970 | **$ 84,400** |
| Interest cost | **9,600** | 9,719 | 10,563 | **80,000** |
| Expected return on plan assets | **(5,862)** | (6,099) | (6,817) | **(48,850)** |
| Amortization of transition obligation | **1,615** | 1,615 | 1,615 | **13,458** |
| Amortization of prior service cost (benefit) | **(797)** | 594 | 981 | **(6,642)** |
| Recognized actuarial loss | **5,591** | 590 | 210 | **46,592** |
| Actuarial periodic benefit cost | **20,275** | 17,303 | 20,522 | **168,958** |
| Employee contributions | **(1,005)** | (1,260) | (1,288) | **(8,375)** |
| Net periodic benefit cost | **¥19,270** | ¥16,043 | ¥19,234 | **$160,583** |

The above net periodic benefit cost excludes the cumulative effect of ¥46,716 million of an accounting change in 2001, described below.

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 |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **Change in benefit obligations:** | | | |
| Benefit obligations at beginning of year | **¥ 331,827** | ¥ 336,359 | **$ 2,765,225** |
| Service cost, less employee contributions | **9,123** | 9,624 | **76,025** |
| Interest cost | **9,600** | 9,719 | **80,000** |
| Employee contributions | **1,005** | 1,260 | **8,375** |
| Amendments | **3,164** | (5,454) | **26,367** |
| Actuarial loss (gain) | **23,915** | (2,216) | **199,292** |
| Benefits paid (settlement) | **(13,154)** | (6,818) | **(109,617)** |
| Benefits paid (other) | **(12,126)** | (10,834) | **(101,050)** |
| Foreign currency exchange rate changes | **(216)** | 187 | **(1,800)** |
| Benefit obligations at end of year | **¥ 353,138** | ¥ 331,827 | **$ 2,942,817** |
| **Change in plan assets:** | | | |
| Fair value of plan assets at beginning of year | **¥ 188,749** | ¥ 207,519 | **$ 1,572,908** |
| Actual return on plan assets | **(31,587)** | (18,258) | **(263,225)** |
| Employer contributions | **12,792** | 11,728 | **106,600** |
| Employee contributions | **1,005** | 1,260 | **8,375** |
| Benefits paid (settlement) | **(2,669)** | (2,839) | **(22,242)** |
| Benefits paid (other) | **(12,126)** | (10,834) | **(101,050)** |
| Foreign currency exchange rate changes | **(175)** | 173 | **(1,458)** |
| Fair value of plan assets at end of year | **¥ 155,989** | ¥ 188,749 | **$ 1,299,908** |
| **Plans' funded status at end of year:** | | | |
| Funded status | **¥(197,149)** | ¥(143,078) | **$(1,642,909)** |
| Unrecognized actuarial loss | **121,036** | 65,263 | **1,008,634** |
| Unrecognized prior service benefit | **(5,580)** | (9,541) | **(46,500)** |
| Unrecognized net obligation at the date of initial application of SFAS No. 87* | **1,124** | 2,739 | **9,367** |
| Net amount recognized | **¥ (80,569)** | ¥ (84,617) | **$ (671,408)** |
| **Amounts recognized in the consolidated balance sheets:** | | | |
| Accrued retirement and pension costs | **¥(159,805)** | ¥(106,206) | **$(1,331,708)** |
| Prepaid expenses for benefit plans, included in other assets | **497** | 433 | **4,142** |
| Intangible assets, included in other assets | **7,951** | 2,757 | **66,258** |
| Accumulated other comprehensive income | **70,788** | 18,399 | **589,900** |
| Net amount recognized | **¥ (80,569)** | ¥ (84,617) | **$ (671,408)** |
| **Actuarial assumptions:** | | | |
| Discount rate | **2.5%** | 3.0% | |
| Expected return on plan assets | **3.5%** | 3.5% | |
| Rate of compensation increase | **6.5%** | 6.5% | |
| **Retirement and pension plans with accumulated benefit obligations in excess of plan assets:** | | | |
| Projected benefit obligations | **¥ 352,018** | ¥ 330,675 | **$ 2,933,483** |
| Accumulated benefit obligations | **317,294** | 296,163 | **2,644,117** |
| Fair value of plan assets | **154,768** | 187,464 | **1,289,733** |

* SFAS No. 87, "Employers' Accounting for Pensions"

The unrecognized net obligation at the date of initial application and the prior service costs (benefits) due to amendments of the benefit plans are being amortized over approximately 14 years.

Prior to April 1, 2000, the Company amortized unrecognized actuarial gains and losses in excess of 10% of the larger of the benefit obligations or plan assets over the average plan participants' remaining service period. From April 1, 2000, the Company changed its method of accounting to immediately recognize actuarial gains and losses in excess of 20% of the larger of the benefit obligations or plan assets, and amortize actuarial gains and losses between 10% and 20% percent over the average participants' remaining service period (approximately 15 years). The Company believes that this accelerated recognition of the unrecognized gains or losses more appropriately records the pension liability at an amount closer to its economic liability.

As a result of the change, net income for the year ended March 31, 2001, decreased by ¥19,610 million, including a charge for the cumulative effect on prior years of ¥21,559 million, net of tax benefit of ¥25,157 million. Basic net income per 5 common shares and diluted net income per 5 common shares decreased by ¥70 and ¥63, respectively.

### 7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective October 1, 2001.

***Effective October 1, 2001,***

The Code requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital, as reduced by stock issue expenses less the applicable tax benefit, are credited to additional paid-in capital. Under the Code, shares are recorded with no par value.

Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

The Code allows for an appropriation of retained earnings applicable to each fiscal period to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings, less treasury stock, 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, 2003, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥152,913 million ($1,274,275 thousand).

The Code allows companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital, or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition, pursuant to a resolution of the Board of Directors, the parent company may purchase its own shares for their retirement, up to 50 million shares or ¥20,000 million ($166,667 thousand), commencing after the general shareholders' meeting on June 26, 2002 through the general shareholders' meeting in June 2003, and also could purchase up to 140 million shares in accordance with its article of incorporation until the general shareholders' meeting on June 26, 2002. Any shares of common stock, in whole or in part, are subject to such purchases made for the purpose of retirement. Approximately 45 million shares and 19 million shares amounting to ¥14,875 million ($123,958 thousand) and ¥6,641 million were purchased under the above resolution during the years ended March 31, 2003 and 2002, respectively.

***Prior to October 1, 2001,***

The Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital. Under the Code, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which were made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. In addition, the Code imposed certain restrictions on the repurchase and use of treasury stock.

## 8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2003, 2002, and 2001 consisted of the following:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Gain (loss) on sales of securities—net | **¥ (5)** | ¥2,578 | ¥ 821 | **$ (42)** |
| Foreign exchange gain (loss)—net | **(2,482)** | 561 | (2,368) | **(20,683)** |
| Other—net | **1,048** | (523) | 885 | **8,733** |
| | **¥(1,439)** | ¥2,616 | ¥ (662) | **$(11,992)** |

## 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, 2003 and 2002 were as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | **2003** | | 2002 | | **2003** | |
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| Allowance for doubtful receivables | **¥ 2,960** | **¥ 61** | ¥ 3,302 | ¥ 266 | **$ 24,667** | **$ 508** |
| Intercompany profits | **11,497** | **—** | 12,312 | — | **95,808** | **—** |
| Adjustments of investment securities | **15,051** | **8,508** | 6,020 | 17,229 | **125,425** | **70,900** |
| Write-downs of inventories and fixed assets | **13,494** | **—** | 8,165 | — | **112,450** | **—** |
| Enterprise tax | **832** | **—** | 1,021 | — | **6,933** | **—** |
| Accrued bonus | **5,448** | **—** | 4,495 | — | **45,400** | **—** |
| Retirement and pension costs | **64,032** | **—** | 44,198 | — | **533,600** | **—** |
| Unremitted earnings of foreign subsidiaries and affiliates | **—** | **2,748** | — | 3,106 | **—** | **22,900** |
| Other temporary differences | **11,673** | **3,252** | 9,982 | 3,264 | **97,275** | **27,100** |
| Tax loss and credit carryforwards | **8,276** | **—** | 8,592 | — | **68,967** | **—** |
| Subtotal | **133,263** | **14,569** | 98,087 | 23,865 | **1,110,525** | **121,408** |
| Less valuation allowance | **20,759** | **—** | 15,878 | — | **172,992** | **—** |
| | **¥112,504** | **¥14,569** | ¥82,209 | ¥23,865 | **$ 937,533** | **$121,408** |

Net deferred tax balances at March 31, 2003 and 2002 were reflected in the accompanying consolidated balance sheets under the following captions:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Other current assets | **¥23,781** | ¥21,517 | **$198,175** |
| Other assets | **74,451** | 37,382 | **620,425** |
| Other long-term liabilities | **(297)** | (555) | **(2,475)** |
| Net deferred tax assets | **¥97,935** | ¥58,344 | **$816,125** |

During the year ended March 31, 2003, the normal statutory tax rate used in the calculation of deferred tax assets and deferred tax liabilities was decreased from 42.0% to 40.6% effective April 1, 2004.

The provision for income taxes for the year ended March 31, 2003 includes a ¥1,789 million ($14,908 thousand) adjustment to record the impact on deferred tax assets and liabilities for the change in the enacted tax rate.

At March 31, 2003, a valuation allowance of ¥20,759 million ($172,992 thousand) was recorded against the deferred tax assets for items which may not be realized. The net changes in the valuation allowance for the years ended March 31, 2003, 2002, and 2001 were an increase of ¥4,881 million ($40,675 thousand), an increase of ¥3,424 million, and an increase of ¥2,268 million, respectively. Such changes were due primarily to the realization or non-realization 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 losses and credits 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, 2003.

At March 31, 2003, the tax loss carryforwards in the aggregate amounted to approximately ¥20,000 million ($166,667 thousand), which are available to offset future taxable income, and will expire substantially in the period from 2004 through 2008.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2003 differed from the normal Japanese statutory tax rates as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Normal Japanese statutory tax rates | **42.0%** | 42.0% | 42.0% |
| Increase (decrease) in taxes resulting from: | | | |
| Increase in valuation allowance | **108.8** | 11.9 | 3.7 |
| Permanently nondeductible expenses | **14.0** | 2.7 | 1.1 |
| Nontaxable dividend income | **(3.0)** | (2.0) | (1.1) |
| Inhabitant tax per capita | **3.0** | 0.6 | 0.3 |
| Change in tax rate | **29.1** | — | — |
| Provisions for taxes on unremitted earnings of foreign subsidiaries | **—** | 5.1 | — |
| Other—net | **5.8** | 0.1 | 0.4 |
| Effective income tax rates | **199.7%** | 60.4% | 46.4% |

Provisions have been recorded for unremitted earnings of all foreign subsidiaries and affiliates of which earnings are not deemed to be permanently reinvested. Substantially all of the undistributed earnings of domestic subsidiaries and affiliates would not, under present Japanese tax law, be subject to tax through tax-free distributions.

### 10. NET INCOME PER 5 COMMON SHARES

A reconciliation of the numerators and denominators of the basic and diluted net income per 5 common shares computation for the years ended March 31, 2003, 2002, and 2001 is as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Income (loss) before cumulative effect of an accounting change | **¥(8,004)** | ¥9,530 | ¥31,354 | **$(66,700)** |
| Effect of dilutive convertible bonds | **—** | 428 | 770 | **—** |
| Diluted income (loss) before cumulative effect of an accounting change | **¥(8,004)** | ¥9,958 | ¥32,124 | **$(66,700)** |

| | Number of Shares (Thousands) | | |
|---|---|---|---|
| Weighted average common shares outstanding | **1,370,382** | 1,405,564 | 1,409,758 |
| Effect of dilutive convertible bonds | **—** | 88,291 | 137,278 |
| Diluted common shares outstanding | **1,370,382** | 1,493,855 | 1,547,036 |

## 11. OTHER COMPREHENSIVE INCOME (LOSS)

Each component of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2003, 2002, and 2001, was as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| | 2003 | | | 2003 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments:** | | | | | | |
| Foreign currency translation adjustments arising during period | **¥ (6,482)** | **¥ 316** | **¥ (6,166)** | **$ (54,016)** | **$ 2,633** | **$ (51,383)** |
| Reclassification adjustment for gains realized in net income | **(200)** | **—** | **(200)** | **(1,667)** | **—** | **(1,667)** |
| | **(6,682)** | **316** | **(6,366)** | **(55,683)** | **2,633** | **(53,050)** |
| **Unrealized losses on securities:** | | | | | | |
| Unrealized losses on securities arising during period | **(44,827)** | **18,825** | **(26,002)** | **(373,558)** | **156,875** | **(216,683)** |
| Reclassification adjustment for losses realized in net income | **24,827** | **(10,427)** | **14,400** | **206,892** | **(86,892)** | **120,000** |
| | **(20,000)** | **8,398** | **(11,602)** | **(166,666)** | **69,983** | **(96,683)** |
| **Minimum pension liability adjustment** | **(52,389)** | **22,003** | **(30,386)** | **(436,575)** | **183,358** | **(253,217)** |
| **Unrealized gains on derivatives:** | | | | | | |
| Unrealized gains on derivatives arising during period | **1,043** | **(442)** | **601** | **8,691** | **(3,683)** | **5,008** |
| Reclassification adjustments for gains realized in net income | **(811)** | **341** | **(470)** | **(6,758)** | **2,842** | **(3,916)** |
| | **232** | **(101)** | **131** | **1,933** | **(841)** | **1,092** |
| **Other comprehensive loss** | **¥(78,839)** | **¥30,616** | **¥(48,223)** | **$(656,991)** | **$255,133** | **$(401,858)** |

| | Millions of Yen | | |
|---|---|---|---|
| | 2002 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments:** | | | |
| Foreign currency translation adjustments arising during period | ¥ 9,571 | ¥ (492) | ¥ 9,079 |
| Reclassification adjustment for losses realized in net income | 15 | — | 15 |
| | 9,586 | (492) | 9,094 |
| **Unrealized losses on securities:** | | | |
| Unrealized losses on securities arising during period | (62,084) | 26,076 | (36,008) |
| Reclassification adjustment for losses realized in net income | 6,588 | (2,767) | 3,821 |
| | (55,496) | 23,309 | (32,187) |
| **Minimum pension liability adjustment** | (18,399) | 7,728 | (10,671) |
| **Unrealized losses on derivatives:** | | | |
| Unrealized losses on derivatives arising during period | (2,673) | 1,122 | (1,551) |
| Reclassification adjustments for losses realized in net income | 2,001 | (840) | 1,161 |
| | (672) | 282 | (390) |
| **Other comprehensive loss** | ¥(64,981) | ¥30,827 | ¥(34,154) |

| | Millions of Yen | | |
|---|---|---|---|
| | 2001 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments:** | | | |
| Foreign currency translation adjustments arising during period | ¥ 5,686 | ¥ 13 | ¥ 5,699 |
| Reclassification adjustment for gains realized in net income | (42) | — | (42) |
| | 5,644 | 13 | 5,657 |
| **Unrealized losses on securities:** | | | |
| Unrealized losses on securities arising during period | (49,321) | 20,715 | (28,606) |
| Reclassification adjustment for gains realized in net income | (17,176) | 7,214 | (9,962) |
| | (66,497) | 27,929 | (38,568) |
| **Minimum pension liability adjustment** | 38,522 | (21,715) | 16,807 |
| **Other comprehensive loss** | ¥(22,331) | ¥ 6,227 | ¥(16,104) |

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

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gains (Losses) on Securities | Minimum Pension Liability Adjustment | Unrealized Gains (Losses) on Derivatives | Accumulated Other Comprehensive Income (Loss) |
| Balance, April 1, 2002 | ¥ 2,456 | ¥ 8,733 | ¥(10,671) | ¥(390) | ¥ 128 |
| Current—period change | (6,366) | (11,602) | (30,386) | 131 | (48,223) |
| Balance, March 31, 2003 | ¥(3,910) | ¥ (2,869) | ¥(41,057) | ¥(259) | ¥(48,095) |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gains (Losses) on Securities | Minimum Pension Liability Adjustment | Unrealized Gains (Losses) on Derivatives | Accumulated Other Comprehensive Income (Loss) |
| Balance, April 1, 2002 | $ 20,466 | $ 72,775 | $ (88,925) | $(3,250) | $ 1,066 |
| Current—period change | (53,050) | (96,683) | (253,217) | 1,092 | (401,858) |
| Balance, March 31, 2003 | $(32,584) | $(23,908) | $(342,142) | $(2,158) | $(400,792) |

## 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 derivative instruments to manage its exposure to fluctuations in foreign exchange and interest rates.

### 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 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 swaps designated to mitigate its exposure to foreign currency exchange risks.

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2003, which was translated into Japanese yen at the year-end currency exchange rate.

### Foreign Exchange Forward Contracts and Currency Swaps

| Maturities, Years Ending March 31 | | Millions of Yen 2004 | Millions of Yen 2005 | Thousands of U.S. Dollars 2004 | Thousands of U.S. Dollars 2005 |
|---|---|---|---|---|---|
| Sell U.S. Dollar, buy Yen | Receive | ¥25,143 | ¥— | $209,525 | $— |
| | Pay | 25,200 | — | 210,000 | — |
| Sell Euro, buy Yen | Receive | 6,968 | — | 58,066 | — |
| | Pay | 7,150 | — | 59,584 | — |
| Sell Sterling Pound, buy Euro | Receive | 240 | — | 2,000 | — |
| | Pay | 230 | — | 1,917 | — |
| Sell Yen, buy U.S. Dollar | Receive | 782 | 13 | 6,517 | 108 |
| | Pay | 774 | 14 | 6,450 | 117 |

***Interest Rate Risks***

The Company is exposed to interest rate risks mainly inherent in its debt obligations with both fixed and variable rates. Debt obligations that are sensitive to interest rate changes are disclosed in Note 5. 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. 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, 2003, which are translated into Japanese yen at the year-end currency exchange 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 |
|---|---|---|---|---|
| 2004 | 0.88% | 2.03% | ¥18,284 | $152,367 |
| 2005 | 0.77 | 1.78 | 15,844 | 132,033 |
| 2006 | 0.56 | 1.44 | 9,564 | 79,700 |
| 2007 | 0.30 | 0.74 | 5,500 | 45,833 |
| 2008 | 0.24 | 0.73 | 2,000 | 16,667 |

***Cash Flow Hedges***

Changes in the fair value of foreign exchange contracts and interest rate swap agreements designated and qualifying as cash flow hedges are reported in other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expense) in the same period as the hedged items affect earnings. For most forward exchange contracts, the amounts are reclassified when products related to hedged transactions are sold from overseas subsidiaries to customers. In the case of interest rate swaps, the amounts are reclassified when the related interest expense is recognized. Substantially all of the net losses on derivatives included in accumulated other comprehensive loss at March 31, 2003 will be reclassified into earnings within the next 12 months.

***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 and other information for such equity securities is disclosed in Note 4.

### Fair Value of Financial Instruments

The Company had the following financial instruments at March 31, 2003 and 2002:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | **2003** | | 2002 | | **2003** | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | | | |
| Finance receivables | **¥ 89,280** | **¥ 87,408** | ¥ 88,002 | ¥ 88,051 | **$ 744,000** | **$ 728,400** |
| Other investments | **79,959** | **79,959** | 128,876 | 128,876 | **666,325** | **666,325** |
| Financial liabilities: | | | | | | |
| Long-term debt | **(231,796)** | **(233,449)** | (209,926) | (211,602) | **(1,931,634)** | **(1,945,408)** |
| Derivative financial instruments recorded as liabilities: | | | | | | |
| Foreign exchange instruments | **(145)** | **(145)** | (374) | (374) | **(1,208)** | **(1,208)** |
| Interest rate swaps and other instruments | **(283)** | **(283)** | (313) | (313) | **(2,358)** | **(2,358)** |

The fair values of finance receivables, other investments, and long-term debt are 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.

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.

**Concentration of Credit Risks**

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 historically has not experienced any significant uncollectibility. Additionally, transactions associated with country risk are limited.

## 13. SUPPLEMENTAL EXPENSE INFORMATION

Amounts of certain costs and expenses for the years ended March 31, 2003, 2002, and 2001 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Research and development expenses | **¥26,405** | ¥30,186 | ¥30,257 | **$220,042** |
| Advertising costs | **9,534** | 10,464 | 9,608 | **79,450** |
| Shipping and handling costs | **37,725** | 36,858 | 37,668 | **314,375** |

Loss from disposal and impairment of business and fixed assets for the year ended March 31, 2003 includes a loss of ¥16,792 million ($139,933 thousand) resulting from the impairment of long-lived assets, primarily the land and buildings of a golf course held and operated by the Company with a fair value of ¥730 million ($6,083 thousand). As a result of the significant deterioration of the golf business, the Company evaluated the recoverability of related assets and recognized an impairment loss. The fair value of the golf course was determined by the expected cash flow approach.

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2002 includes a loss of ¥4,734 million resulting from write-down of long-lived assets to be disposed of, primarily land and rental property with a fair value of ¥2,120 million. Also included is a loss of ¥6,332 million mainly resulting from the disposal of the prefabricated housing business, and mergers and integration of farm machinery distributors, in connection with the Company's efforts to streamline operations. Certain of these actions have already been completed and others are expected to be completed within the next 12 months.

## 14. COMMITMENTS AND CONTINGENCIES

Commitments for capital expenditures outstanding at March 31, 2003 approximated ¥1,259 million ($10,492 thousand).

The Company leases certain offices and other facilities under lease agreements, all of which are substantially cancelable at the Company's option. Rental expenses for the years ended March 31, 2003, 2002, and 2001 amounted to ¥8,182 million ($68,183 thousand), ¥9,220 million, and ¥9,472 million, respectively.

The Company adopted FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other." FIN 45 requires that a guarantor be required to recognize a liability at the inception of a guarantee. FIN 45 also requires disclosure about the guarantees that the entity has issued.

The Company issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term.

The Company determines its reserve for product warranties based on an analysis of the historical data of costs to perform under product warranties.

The change in the accrued product warranty cost for the year ended March 31, 2003 was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Balance, April 1, 2002 | ¥1,672 | $13,933 |
| Addition | 2,786 | 23,217 |
| Utilization | (2,676) | (22,300) |
| Other | (34) | (283) |
| Balance, March 31, 2003 | ¥1,748 | $14,567 |

Balances were included in other current liabilities in the consolidated balance sheets.

At March 31, 2003, the Company was contingently liable for trade notes with maturities of principally one to three months discounted with banks in the amount of ¥3,036 million ($25,300 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.

The Company is contingently liable as guarantor of the indebtedness of distributors, including affiliated companies, and customers for their borrowings from financial institutions.

The Company is also contingently liable as guarantor of the housing loans of employees. The Company would have to perform under these guarantees in the events of default on a payment within the guarantee periods of 1 year to 10 years for distributors and customers and of 1 year to 20 years for employees with housing loans.

Maximum potential amounts of undiscounted future payments of these financial guarantees as of March 31, 2003 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Borrowings of distributors and customers | ¥3,074 | $25,617 |
| Housing loans of employees | 2,848 | 23,733 |
| Total | ¥5,922 | $49,350 |

The Company recognized liabilities for the guarantees for borrowings of distributors and customers in the amount of ¥358 million ($2,983 thousand) as of March 31, 2003. The liabilities for other financial guarantees, including trade notes discounted with banks, which were issued after December 31, 2002, were not material.

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 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 and continued through the year ended March 31, 2003. 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 22, 2003, the Company's Board of Directors resolved the payment of a cash dividend to shareholders of record on March 31, 2003 of ¥3 per common share (¥15 per 5 common shares) or a total of ¥4,038 million ($33,650 thousand). The Company's Board of Directors also resolved the purchase of up to 50,000,000 shares, or up to ¥20,000 million ($166,667 thousand), of the parent company's common stock on the open market, commencing after the general shareholders' meeting through the next general shareholders' meeting. Both authorizations are subject to shareholders' approval at the general meeting to be held on June 26, 2003.