Notes to Consolidated Financial Statements

Kubota Corporation and Subsidiaries Years Ended March 31, 2004, 2003, and 2002

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 plants, and housing materials and equipment.

The manufacturing operations of the Company are conducted primarily at 19 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 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 2003 and 2002 to conform with classifications used in 2004.

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, 2004 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. Intercompany items have been eliminated in consolidation.

Investments mainly in 20%~50%-owned companies (the "affiliated companies") are accounted for using the equity method of accounting.

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (revised December 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities," which replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." This interpretation addresses the consolidation by business enterprise of variable interest entities as defined in the interpretation. The Company adopted the provisions of FIN 46R as of March 31, 2004 and such adoption of FIN 46R did not have a material effect on the Company's consolidated financial statements.

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 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.

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.

Finance Receivables

Finance receivables arise from sales of farm equipment and construction machinery to customers under retail finance agreements. The term of the receivables vary from one to eight years, with interest at rates ranging from 0.0% to 14.5% per annum.

Allowance for Doubtful Receivables

The Company provides an allowance for doubtful notes and receivables. The allowance for doubtful receivables is based on historical collection trends and management's judgement on the collectibility of these accounts. Historical collection trends, as well as prevailing and anticipated economic conditions, are routinely monitored by management, and any adjustment required to the allowance is reflected in current operations.

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 for the year ended March 31, 2003. Net income would have decreased by ¥603 million for the year ended March 31, 2002, and increased by ¥3,081 million for the year ended March 31, 1997. There would have been no impact on operating results for the year ended March 31, 2004. Retained earnings would have decreased by ¥380 million ($3,585 thousand) at March 31, 2004 and at March 31, 2003, with a corresponding increase 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 and 2002.

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.

Consideration Given by a Vendor to a Customer

The Company accounts for consideration given to a customer in accordance with EITF01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." EITF01-9 defines the income statement classification of consideration given by a vendor to a customer or a reseller of the vendor's products. In accordance with EITF01-9, certain sales incentives are deducted from revenue.

Research and Development and Advertising

Research and development and advertising costs 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 Common Share

Basic net income per common share 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 common share 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 common share are based on dividends paid during the year.

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133," and No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These 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.

Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and 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 broadens the presentation of discontined operations 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.

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, 2004, 2003, and 2002, time deposits with original maturities of three months or less amounting to ¥7,866 million ($74,208 thousand), ¥14,945 million, and ¥13,209 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥4,459 million ($42,066 thousand), ¥4,759 million, and ¥7,123 million, and for income taxes amounted to ¥24,030 million ($226,698 thousand), ¥24,117 million, and ¥24,351 million in 2004, 2003, and 2002, respectively.

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 November 2003, EITF reached a consensus on EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” In March 2004, the EITF also reached a consensus on the additional accounting guidance for other-than-temporary impairment and its application to debt and equity investments. The EITF consensus will be effective prospectively for all relevant current and future investments in reporting periods beginning after June 15, 2004. The Company is currently reviewing the EITF consensus to determine its impact on future financial statements.

2. INVENTORIES

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Manufacturing:			
Finished products	**¥ 85,434**	¥ 88,810	**$ 805,981**
Spare parts	**17,547**	16,869	**165,538**
Work in process	**20,640**	23,860	**194,717**
Raw materials and supplies	**14,865**	14,804	**140,236**
Subtotal	**138,486**	144,343	**1,306,472**
Real estate:			
Completed projects, land to be developed, and projects under development	**4,487**	6,902	**42,330**
	¥142,973	¥151,245	**$1,348,802**

The Company wrote down the value of completed projects, land to be developed, and projects under development by ¥363 million ($3,425 thousand) and ¥45 million in 2004 and 2003, respectively, due to the slumping real estate market in Japan. 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, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Investments	**¥12,385**	¥10,069	**$116,840**
Advances	**597**	2,050	**5,632**
	¥12,982	¥12,119	**$122,472**

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

At March 31, 2004 and 2003	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars 2004
Current assets	**¥ 77,416**	¥ 65,787	**$ 730,340**
Noncurrent assets	**62,084**	54,961	**585,698**
Total assets	**139,500**	120,748	**1,316,038**
Current liabilities	**70,944**	70,055	**669,283**
Noncurrent liabilities	**37,162**	23,839	**350,585**
Net assets	**¥ 31,394**	¥ 26,854	**$ 296,170**

Years ended March 31, 2004, 2003, and 2002	Millions of Yen 2004	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars 2004
Net sales	**¥153,819**	¥174,233	¥183,161	**$1,451,123**
Cost of sales	**115,154**	133,671	140,597	**1,086,358**
Other income—net	**995**	1,860	2,010	**9,387**
Net income	**2,236**	1,711	2,167	**21,094**

Trade notes and accounts receivable from affiliated companies at March 31, 2004 and 2003 were ¥23,875 million ($225,236 thousand) and ¥27,164 million, respectively.

Sales to affiliated companies aggregated ¥74,886 million ($706,472 thousand), ¥82,433 million, and ¥86,250 million in 2004, 2003, and 2002, respectively.

Cash dividends received from affiliated companies were ¥486 million ($4,585 thousand), ¥523 million, and ¥457 million in 2004, 2003, and 2002, 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, 2004 and 2003 were as follows:

	Millions of Yen							
	2004				2003			
	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:								
Corporate debt securities	**¥ 3,001**	**¥ 3,001**	**¥ —**	**¥ —**	¥ 10	¥ 10	¥ —	¥ —
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**22,307**	**89,682**	**67,375**	**—**	24,477	33,033	8,558	2
Other equity securities	**19,431**	**44,463**	**25,289**	**257**	21,961	32,361	12,369	1,969
Government debt securities	**795**	**845**	**50**	**—**	793	865	72	—
Corporate debt securities	**813**	**850**	**37**	**—**	800	774	—	26
	¥46,347	**¥138,841**	**¥92,751**	**¥257**	¥48,041	¥67,043	¥20,999	¥1,997

	Thousands of U.S. Dollars			
	2004			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:				
Available-for-sale:				
Corporate debt securities	**$ 28,311**	**$ 28,311**	**$ —**	**$ —**
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**210,444**	**846,057**	**635,613**	**—**
Other equity securities	**183,311**	**419,462**	**238,575**	**2,424**
Government debt securities	**7,500**	**7,972**	**472**	**—**
Corporate debt securities	**7,670**	**8,019**	**349**	**—**
	$437,236	**$1,309,821**	**$875,009**	**$2,424**

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥12,642 million ($119,264 thousand) and ¥12,926 million at March 31, 2004 and 2003, respectively.

Gross unrealized holding losses and fair values on available-for-sale securities at March 31, 2004 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Millions of Yen			
	2004			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Other investments:				
Available-for-sale:				
Other equity securities	**¥328**	**¥26**	**¥1,103**	**¥231**

	Thousands of U.S. Dollars			
	2004			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Other investments:				
Available-for-sale:				
Other equity securities	**$3,094**	**$245**	**$10,406**	**$2,179**

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, 2004, 2003, and 2002 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Proceeds from sales	**¥8,182**	¥5,153	¥7,916	**$77,189**
Gross realized gains	**3,228**	654	3,739	**30,453**
Gross realized losses	**(67)**	(659)	(1,161)	**(632)**

At March 31, 2004, the cost of debt securities classified as available-for-sale due within one year, due after one year through five years, and due after five years were ¥3,001 million ($28,311 thousand), ¥795 million ($7,500 thousand), and ¥800 million ($7,547 thousand), respectively.

For the years ended March 31, 2004, 2003, and 2002, valuation losses on short-term and other investments were recognized to reflect the decline in fair value considered to be other than temporary totaling ¥1,083 million ($10,217 thousand), ¥24,822 million, and ¥9,166 million, respectively.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003 consisted of notes payable to banks. Stated annual interest rates of short-term borrowings ranged primarily from 0.29% to 1.68% and from 0.29% to 2.07% at March 31, 2004 and 2003, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2004 and 2003 were 0.9% and 1.1%, respectively.

Available lines of credit with certain banks totaled ¥30,000 million ($283,019 thousand) at March 31, 2004 and 2003, respectively. No amounts were outstanding as of March 31, 2004 and 2003.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
	Years Ending March 31	**2004**	2003	**2004**
Unsecured bonds:				
1.475% Yen bonds	2004	**¥ —**	¥ 10,000	**$ —**
2.7% Yen bonds	2004	**—**	10,000	**—**
1.8% Yen bonds	2006	**10,000**	10,000	**94,340**
Unsecured convertible bonds:				
0.8% Yen bonds	2004	**—**	29,756	**—**
0.85% Yen bonds	2005	**19,513**	19,513	**184,085**
0.9% Yen bonds	2006	**18,627**	18,627	**175,726**
Loans, principally from banks and insurance companies, maturing on various dates through 2016:				
Collateralized		**—**	179	**—**
Unsecured		**128,773**	129,384	**1,214,839**
Capital lease obligations		**3,790**	4,337	**35,755**
Total		**180,703**	231,796	**1,704,745**
Less current portion		**(35,858)**	(75,830)	**(338,283)**
		¥144,845	¥155,966	**$1,366,462**

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, 2004 and 2003 were 1.4% and 1.6%, respectively.

Annual maturities of long-term debt at March 31, 2004 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 35,858	$ 338,283
2006	52,991	499,915
2007	29,670	279,906
2008	23,020	217,170
2009	17,240	162,641
2010 and thereafter	21,924	206,830
Total	¥180,703	$1,704,745

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, 2004 totaled 49,597 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 require 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 which covers substantially all of its employees. Employees who terminate their employment receive benefits in the form of lump-sum payments. Benefits to be received under the plan were previously determined based on the rate of pay at the time of termination, length of service, and certain other factors. Beginning in April 2003, the Company introduced a point-evaluation system, where benefits are paid based on acquired points. Points are acquired based on job title and performance. The new point-evaluation is being adopted gradually by job-class.

The parent company also has a contributory defined benefit pension plan covering all of its employees (the "Contributory Plan"). 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. The corporate portion consists of a lifetime pension plan and a limited annuity plan. Employees who terminate receive benefits from the substitutional portion in the form of annuity payments, and have the option to receive benefits from the corporate portion in the form of lump-sum payments or annuity payments. 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. Annual contributions are made by the parent company for 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.

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.

In April 2003, the Company terminated its noncontributory defined benefit pension plan and transferred the related plan assets and obligations to the corporate portion of the Contributory Plan. The transfer had no effect on the Company's aggregate benefit obligations, plan assets, or net periodic benefit cost.

The Company's measurement date of benefit obligations and plan assets is March 31.

Net periodic benefit cost for the unfunded severance indemnity plan, the Contributory Plan, and noncontributory defined benefit pension 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, 2004, 2003, and 2002 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Service cost	**¥ 9,458**	¥10,128	¥10,884	**$ 89,226**
Interest cost	**8,502**	9,600	9,719	**80,208**
Expected return on plan assets	**(4,999)**	(5,862)	(6,099)	**(47,160)**
Amortization of transition obligation	**1,124**	1,615	1,615	**10,604**
Amortization of prior service cost (benefit)	**(230)**	(797)	594	**(2,170)**
Recognized actuarial loss	**52,141**	5,591	590	**491,896**
Actuarial periodic benefit cost	**65,996**	20,275	17,303	**622,604**
Employee contributions	**—**	(1,005)	(1,260)	**—**
Net periodic benefit cost	**¥65,996**	¥19,270	¥16,043	**$622,604**

Weighted-average assumptions used in calculating benefit obligations and net periodic benefit cost were as follows:

	2004	2003
Benefit obligations at March 31:		
Discount rate	**2.5%**	2.5%
Rate of compensation increase	**6.5%**	6.5%

	2004	2003	2002
Net periodic benefit cost for the year ended March 31:			
Discount rate	**2.5%**	3.0%	3.0%
Expected return on plan assets	**3.5%**	3.5%	3.5%
Rate of compensation increase	**6.5%**	6.5%	6.5%

To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years, the current and expected components of plan assets, and anticipated market trends. The Company anticipates that the plan's investments will generate long-term returns of 3.5%, which is based on an asset allocation assumption of 45% of debt securities, with an expected rate of return of 1.0%, and 55% of equity securities, with an expected rate of return of 5.5%. The Company believes that 3.5% is a reasonable long-term rate of return despite an actual return on plan assets in the past 10 years of 2.2%, as significant losses on plan assets were incurred from fiscal 2001 to 2003 caused by the recent market downturn. Based on current economic conditions, the Company expects better returns on its plan assets in the future.

Pension plan weighted-average asset allocations by asset category were as follows:

	2004	2003
Equity securities	**31.5%**	46.8%
Debt securities	**22.7%**	43.5%
Cash	**45.1%**	1.8%
Other	**0.7%**	7.9%
	100.0%	100.0%

The Company's investment policy is to invest in equity securities and debt securities of companies in Japan and overseas primarily in Europe and U.S. in order to diversify risk. The Company believes that investment in equity securities of 45% and debt securities of 55% is a proper allocation ratio and is consistent with the Company's investment objectives.

Plan assets at March 31, 2004 consist of a significant amount of cash to be tranferred to the government in connection with the transfer to the Japanese government of the substitutional portion of employee pension fund liabilities and assets.

Employer contributions to pension plans for the year ending March 31, 2005 are expected to be ¥15,667 million ($147,802 thousand).

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥ 353,138**	¥ 331,827	**$ 3,331,490**
Service cost, less employee contributions	**9,458**	9,123	**89,226**
Interest cost	**8,502**	9,600	**80,208**
Employee contributions	**—**	1,005	**—**
Amendments	**—**	3,164	**—**
Actuarial loss	**1,480**	23,915	**13,962**
Benefits paid (settlement)	**(4,538)**	(13,154)	**(42,811)**
Benefits paid (other)	**(13,806)**	(12,126)	**(130,245)**
Foreign currency exchange rate changes	**184**	(216)	**1,736**
Benefit obligations at end of year	**¥ 354,418**	¥ 353,138	**$ 3,343,566**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥ 155,989**	¥ 188,749	**$ 1,471,594**
Actual return on plan assets	**37,641**	(31,587)	**355,104**
Employer contributions	**12,647**	12,792	**119,311**
Employee contributions	**—**	1,005	**—**
Benefits paid (settlement)	**(801)**	(2,669)	**(7,557)**
Benefits paid (other)	**(13,806)**	(12,126)	**(130,245)**
Foreign currency exchange rate changes	**147**	(175)	**1,387**
Fair value of plan assets at end of year	**¥ 191,817**	¥ 155,989	**$ 1,809,594**
Plans' funded status at end of year:			
Funded status	**¥(162,601)**	¥(197,149)	**$(1,533,972)**
Unrecognized actuarial loss	**37,733**	121,036	**355,972**
Unrecognized prior service benefit	**(5,350)**	(5,580)	**(50,472)**
Unrecognized net obligation at the date of initial application of SFAS No. 87*	**—**	1,124	**—**
Net amount recognized	**¥(130,218)**	¥ (80,569)	**$(1,228,472)**
Amounts recognized in the consolidated balance sheets:			
Accrued retirement and pension costs	**¥(143,679)**	¥(159,805)	**$(1,355,462)**
Prepaid expenses for benefit plans, included in other assets	**601**	497	**5,669**
Intangible assets, included in other assets	**6,869**	7,951	**64,802**
Accumulated other comprehensive income	**5,991**	70,788	**56,519**
Net amount recognized	**¥(130,218)**	¥ (80,569)	**$(1,228,472)**
Accumulated benefit obligations:			
Accumulated benefit obligations at end of year	**¥ 322,944**	¥ 318,414	**$ 3,046,642**
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥ 353,015**	¥ 352,018	**$ 3,330,330**
Accumulated benefit obligations	**321,541**	317,294	**3,033,406**
Fair value of plan assets	**190,328**	154,768	**1,795,547**

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

The unrecognized prior service costs (benefits) due to amendments of the benefit plans are being amortized over approximately 14 years.

The Company recognizes actuarial gains and losses in excess of 20% of the larger of the projected benefit obligation or plan assets in the year following the year in which such gains and losses were incurred, and amortizes actuarial gains and losses between 10% and 20% over the average participants' remaining service period (approximately 15 years).

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

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 which may be available for dividends by resolution of the shareholders.

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, 2004, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥164,340 million ($1,550,377 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. The Code also allows for the repurchase of treasury stock by resolution of the Board of Directors under the authorization of the Company's article of incorporation after September 25, 2003. 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.

The parent company may purchase, pursuant to a resolution of the Board of Directors, its own shares for their retirement, up to 50 million shares or ¥20,000 million ($188,679 thousand). Any shares of common stock, in whole or in part, are subject to such purchases made for the purpose of retirement. Approximately 5 million shares and 45 million shares amounting to ¥2,179 million ($20,557 thousand) and ¥14,875 million were purchased under the above resolution during the years ended March 31, 2004 and 2003, respectively.

On May 14, 2004, the Board of Directors resolved to retire 69 million shares of treasury stock on June 30, 2004. At the general shareholders' meeting to be held on June 25, 2004, the articles of incorporation will be amended to authorize the Board of Directors to repurchase treasury stock.

8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2004, 2003, and 2002 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Gain (loss) on sales of securities—net	**¥3,161**	¥ (5)	¥2,578	**$29,821**
Foreign exchange (loss) gain—net	**(1,534)**	(2,482)	561	**(14,472)**
Other—net	**1,726**	1,048	(523)	**16,283**
	¥3,353	¥(1,439)	¥2,616	**$31,632**

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, 2004 and 2003 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		**2004**	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Allowance for doubtful receivables	**¥ 2,010**	**¥ 47**	¥ 2,960	¥ 61	**$ 18,962**	**$ 443**
Intercompany profits	**8,664**	**—**	11,497	—	**81,736**	**—**
Adjustments of investment securities	**11,889**	**37,597**	15,051	8,508	**112,160**	**354,689**
Write-downs of inventories and fixed assets	**13,541**	**—**	13,494	—	**127,745**	**—**
Enterprise tax	**1,226**	**—**	832	—	**11,566**	**—**
Accrued bonus	**6,193**	**—**	5,448	—	**58,425**	**—**
Retirement and pension costs	**57,261**	**—**	64,032	—	**540,198**	**—**
Unremitted earnings of foreign subsidiaries and affiliates	**—**	**3,203**	—	2,748	**—**	**30,217**
Other temporary differences	**11,056**	**3,696**	11,673	3,252	**104,302**	**34,868**
Tax loss and credit carryforwards	**10,950**	**—**	8,276	—	**103,302**	**—**
Subtotal	**122,790**	**44,543**	133,263	14,569	**1,158,396**	**420,217**
Less valuation allowance	**22,913**	**—**	20,759	—	**216,160**	**—**
	¥ 99,877	**¥44,543**	¥112,504	¥14,569	**$ 942,236**	**$420,217**

Net deferred tax balances at March 31, 2004 and 2003 were reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Other current assets	**¥22,243**	¥23,781	**$209,840**
Other assets	**33,765**	74,451	**318,538**
Other long-term liabilities	**(674)**	(297)	**(6,359)**
Net deferred tax assets	**¥55,334**	¥97,935	**$522,019**

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 included a ¥1,789 million adjustment to record the impact on deferred tax assets and liabilities for the change in the enacted tax rate.

A valuation allowance is rcoreded 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, 2004, 2003, and 2002 were an increase of ¥2,154 million ($20,321 thousand), an increase of ¥4,881 million, and an increase of ¥3,424 million, respectively. Such changes were due primarily to the 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 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, 2004.

At March 31, 2004, the tax loss carryforwards in the aggregate amounted to approximately ¥26,000 million ($245,283 thousand), which are available to offset future taxable income, and will expire in the period from 2005 through 2009.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2004 differed from the normal Japanese statutory tax rates as follows:

	2004	2003	2002
Normal Japanese statutory tax rates	**42.0%**	42.0%	42.0%
Increase (decrease) in taxes resulting from:			
Increase in valuation allowance	**13.8**	108.8	11.9
Permanently nondeductible expenses	**3.7**	14.0	2.7
Nontaxable dividend income	**(0.4)**	(3.0)	(2.0)
Inhabitant tax per capita	**0.7**	3.0	0.6
Change in tax rate	**(0.7)**	29.1	—
Provisions for taxes on unremitted earnings of foreign subsidiaries	**—**	—	5.1
Extra tax deduction on expenses for research and development	**(8.1)**	—	—
Other—net	**(0.4)**	5.8	0.1
Effective income tax rates	**50.6%**	199.7%	60.4%

Provisions have been recorded for unremitted earnings of all foreign subsidiaries and affiliates where 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 (LOSS) PER COMMON SHARE

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per common share computation for the years ended March 31, 2004, 2003, and 2002 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Net income (loss)	**¥11,700**	¥(8,004)	¥9,530	**$110,377**
Effect of dilutive convertible bonds	**337**	—	428	**3,180**
Diluted net income (loss)	**¥12,037**	¥(8,004)	¥9,958	**$113,557**

	Number of Shares (Thousands)		
Weighted average common shares outstanding	**1,342,386**	1,370,382	1,405,564
Effect of dilutive convertible bonds	**68,944**	—	88,291
Diluted common shares outstanding	**1,411,330**	1,370,382	1,493,855

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2004, 2003, and 2002, are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004			2004		
	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	**¥ (7,786)**	**¥ 211**	**¥ (7,575)**	**$ (73,453)**	**$ 1,991**	**$ (71,462)**
Reclassification adjustment for losses realized in net income	**40**	**—**	**40**	**377**	**—**	**377**
	(7,746)	**211**	**(7,535)**	**(73,076)**	**1,991**	**(71,085)**
Unrealized gains on securities:						
Unrealized gains on securities arising during period	**75,094**	**(30,492)**	**44,602**	**708,434**	**(287,660)**	**420,774**
Reclassification adjustment for gains realized in net income	**(2,078)**	**844**	**(1,234)**	**(19,604)**	**7,962**	**(11,642)**
	73,016	**(29,648)**	**43,368**	**688,830**	**(279,698)**	**409,132**
Minimum pension liability adjustment	**64,797**	**(27,232)**	**37,565**	**611,293**	**(256,906)**	**354,387**
Unrealized gains on derivatives:						
Unrealized gains on derivatives arising during period	**3,751**	**(1,573)**	**2,178**	**35,387**	**(14,840)**	**20,547**
Reclassification adjustments for gains realized in net income	**(2,424)**	**1,018**	**(1,406)**	**(22,868)**	**9,604**	**(13,264)**
	1,327	**(555)**	**772**	**12,519**	**(5,236)**	**7,283**
Other comprehensive income	**¥131,394**	**¥(57,224)**	**¥74,170**	**$1,239,566**	**$(539,849)**	**$699,717**

	Millions of Yen		
	2003		
	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)
Reclassification adjustment for gains realized in net income	(200)	—	(200)
	(6,682)	316	(6,366)
Unrealized losses on securities:			
Unrealized losses on securities arising during period	(44,827)	18,825	(26,002)
Reclassification adjustment for losses realized in net income	24,827	(10,427)	14,400
	(20,000)	8,398	(11,602)
Minimum pension liability adjustment	(52,389)	22,003	(30,386)
Unrealized gains on derivatives:			
Unrealized gains on derivatives arising during period	1,043	(442)	601
Reclassification adjustments for gains realized in net income	(811)	341	(470)
	232	(101)	131
Other comprehensive loss	¥(78,839)	¥30,616	¥(48,223)

	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)

The balances of each classification within accumulated other comprehensive income (loss) 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, 2003	¥ (3,910)	¥ (2,869)	¥(41,057)	¥(259)	¥(48,095)
Current—period change	(7,535)	43,368	37,565	772	74,170
Balance, March 31, 2004	¥(11,445)	¥40,499	¥ (3,492)	¥ 513	¥ 26,075

	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, 2003	$ (36,887)	$ (27,066)	$(387,330)	$(2,443)	$(453,726)
Current—period change	(71,085)	409,132	354,387	7,283	699,717
Balance, March 31, 2004	$(107,972)	$382,066	$ (32,943)	$ 4,840	$ 245,991

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, 2004, 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 2005	Thousands of U.S. Dollars 2005
Sell U.S. Dollar, buy Yen	Receive	¥33,856	$319,396
	Pay	33,284	314,000
Sell Euro, buy Yen	Receive	6,661	62,840
	Pay	6,461	60,953
Sell Euro, buy U.S. Dollar	Receive	193	1,821
	Pay	201	1,896
Sell Sterling Pound, buy Yen	Receive	405	3,821
	Pay	386	3,642
Sell Sterling Pound, buy Euro	Receive	472	4,453
	Pay	466	4,396
Sell Yen, buy U.S. Dollar	Receive	62	585
	Pay	70	660

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, 2004, which are translated into Japanese yen at the year-end currency exchange rate.

Interest Rate Swap Contracts

	Weighted Average Rate		Notional Amount	
Maturities, Years Ending March 31,	Receive	Pay	Millions of Yen	Thousands of U.S. Dollars
2005	0.85%	1.67%	¥30,422	$287,000
2006	0.78	1.48	23,962	226,057
2007	0.22	0.73	9,044	85,321
2008	0.21	0.79	6,544	61,736
2009	0.19	0.81	4,500	42,453

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 income at March 31, 2004 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, 2004 and 2003:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		**2004**	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:						
Finance receivables	**¥113,819**	**¥107,452**	¥ 89,280	¥ 87,408	**$1,073,764**	**$1,013,698**
Other investments	**148,482**	**148,482**	79,959	79,959	**1,400,773**	**1,400,773**
Financial liabilities:						
Long-term debt	**(176,913)**	**(176,384)**	(227,459)	(229,112)	**(1,668,991)**	**(1,664,000)**
Derivative financial instruments recorded as liabilities:						
Foreign exchange instruments	**1,006**	**1,006**	(145)	(145)	**9,491**	**9,491**
Interest rate swaps and other instruments	**(131)**	**(131)**	(283)	(283)	**(1,236)**	**(1,236)**

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, 2004, 2003, and 2002 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Research and development expenses	**¥23,261**	¥26,405	¥30,186	**$219,443**
Advertising costs	**9,638**	9,534	10,464	**90,925**
Shipping and handling costs	**39,137**	37,725	36,858	**369,217**

Loss from disposal and impairment of business and fixed assets for the year ended March 31, 2004 includes a loss of ¥1,263 million ($11,915 thousand) resulting from the impairment of long-lived assets and a loss of ¥4,122 million ($38,887 thousand) resulting primarily from the disposal of certain fixed assets related to the roofing and siding materials business.

Loss from disposal and impairment of business and fixed assets for the year ended March 31, 2003 includes a loss of ¥16,792 million 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. 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

The Company accounts for guarantees in accordance with FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees. FIN 45 also requires that a guarantor be required to recognize a liability at the inception of a guarantee.

At March 31, 2004, the Company was contingently liable for trade notes with maturities of principally one to three months discounted with banks in the amount of ¥2,746 million ($25,906 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, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Borrowings of distributors and customers	¥1,762	$16,623
Housing loans of employees	2,209	20,839
Total	¥3,971	$37,462

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, 2004. 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 on the amount of related losses, if any.

The Company leases certain office space and equipment and employee housing under cancelable and noncancelable lease agreements.

Future minimum lease payments required under capital and noncancelable operating leases that have initial or remaining lease term in excess of one year as of March 31, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years ending March 31,	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2005	¥2,221	¥ 392	$20,953	$3,698
2006	1,157	130	10,915	1,226
2007	516	67	4,868	632
2008	—	63	—	594
2009	—	62	—	585
2010 and thereafter	—	310	—	2,925
Total minimum lease payments	3,894	¥1,024	36,736	$9,660
Less: amounts representing interest	(104)		(981)	
Present value of net minimum capital lease payments	¥3,790		$35,755	

Capital lease obligations are included in current portion of long-term debt and long-term debt in the consolidated balance sheets. Rental expenses under operating leases for the years ended March 31, 2004, 2003, and 2002 were ¥8,553 million ($80,689 thousand), ¥8,182 million, and ¥9,220 million, respectively.

Commitments for capital expenditures outstanding at March 31, 2004 approximated ¥562 million ($5,302 thousand).

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 changes in the accrued product warranty cost for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Balance at beginning of year	**¥1,748**	¥1,672	**$16,491**
Addition	**4,978**	2,786	**46,962**
Utilization	**(3,293)**	(2,676)	**(31,066)**
Other	**(1,224)**	(34)	**(11,547)**
Balance at end of year	**¥2,209**	¥1,748	**$20,840**

Accrued product warranty cost is included in other current liabilities in the consolidated balance sheets.

15. SALE OF ACCOUNTS RECEIVABLE

The Company sells trade and finance receivables to investors through independent revolving-period securitization trusts. As of March 31, 2004, the Company has agreements to sell up to ¥32,900 million ($310,377 thousand) of trade receivables and an unspecified amount of finance receivables, subject to the approval of the trusts.

The Company sold trade receivables, net of loss reserves of ¥1,056 million ($9,962 thousand), ¥1,048 million and ¥886 million at March 31, 2004, 2003, and 2002, respectively, totaling ¥69,218 million ($653,000 thousand), ¥37,746 million and ¥36,132 million during the years ended March 31, 2004, 2003, and 2002, respectively. The Company sold finance receivables net of loss reserves of ¥479 million ($4,519 thousand), ¥492 million and ¥687 million at March 31, 2004, 2003, and 2002, respectively, totaling ¥50,338 million ($474,887 thousand), ¥43,840 million and ¥42,879 million during the years ended March 31, 2004, 2003, and 2002, respectively.

The Company did not recognize any gains or losses from the sale of trade receivables for the years ended March 31, 2004, 2003, and 2002. The Company's sales of financial receivables resulted in a net gain of ¥902 million ($8,509 thousand), ¥752 million and ¥1,447 million during the years ended March 31, 2004, 2003, and 2002, respectively.

Under the terms of the agreements, new receivables are added to the pool as collections reduce previously sold accounts receivable. At the time the receivables are sold under these revolving-period securitizations, the balances are removed from the consolidated balance sheet of the Company. In determining the gain or loss for each qualifying sale of receivables, the investment in the sold receivables pool is allocated between the portion sold and the portion retained based on their relative fair values on the date of sale.

The Company retains a residual interest in sold receivables, which represents residual payments received in excess of payments due to the investor. Retained interests are recorded at fair value based on the net present value of future anticipated cash flows, which is calculated by analyzing yield, estimated credit losses, contractual servicing rates and the average life of the transferred receivables.

The Company's residual interest in trade and financial receivables at March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Residual interest in trade receivables	**¥23,080**	¥9,067	**$217,736**
Residual interest in finance receivables	**6,262**	3,825	**59,075**

The Company continues to service the receivables for a fee based on a percentage of the receivables transferred. The investors and the securitization trusts have no recourse to the Company's assets for failure of debtors to pay when due.

The following key economic assumptions were used in measuring the retained interest in receivables sold by the Company during the year ended March 31:

	2004	2003
Trade receivables:		
Weighted average life (months)	**6.5**	6.5
Expected credit losses	**4.1%**	4.0%
Finance receivables:		
Weighted-average life (months)	**49.6**	40.6
Expected credit losses	**0.1%**	0.2%
Discount rate	**10.2%**	8.0%

The following table summarizes certain cash flows received from securitization trusts for the year ended March 31:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	**2004**
Trade receivables:				
Proceeds from revolving period sales	**¥10,908**	¥ 5,985	¥ 7,640	**$102,906**
Servicing fees received	**231**	189	182	**2,179**
Finance receivables:				
Proceeds from revolving period sales	**38,367**	33,389	28,382	**361,953**
Servicing fees received	**279**	387	289	**2,632**
Cash flows received on retained interests in securitizations	**662**	1,200	281	**6,245**

The Company has determined that a change of up to 20% in any of the above economic assumptions on trade receivables would not have a material impact on the consolidated financial statements of the Company. The following depicts the sensitivity of the fair value of retained interests in finance receivables at March 31, 2004 to adverse changes in the key economic assumptions used to measure fair value:

	Millions of Yen	Thousands of U.S. Dollars
Finance receivables:		
Fair value of retained interest	¥12,688	$118,578
Expected credit losses (annual rate)	0.20%	
Impact on fair value of 10% adverse change	(2)	(19)
Impact on fair value of 20% adverse change	(4)	(40)
Residual cash flows discount rate (annual rate)	10.25%	
Impact on fair value of 10% adverse change	(198)	(1,854)
Impact on fair value of 20% adverse change	(392)	(3,668)

Considerable judgment is required in interpreting market data to develop estimates of fair values, so the above estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities. In addition, the above-estimated amounts generated from the sensitivity analysis include estimates of market risk, which assume for analytical purposes that certain adverse market considerations may occur. Actual future market conditions may differ materially, and accordingly, the forward-looking estimates should not be considered to be projections by the Company of future events or losses.

16. SUBSEQUENT EVENT

On May 14, 2004, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2004 of ¥3 per common share (¥15 per 5 common shares) or a total of ¥4,022 million ($37,943 thousand). The resolution to pay the cash dividend is subject to shareholders' approval at the general meeting to be held on June 25, 2004.