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 6 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 are presented 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 2004 and 2003 to conform with classifications used in 2005.

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, 2005 of ¥107=US$1, solely for convenience of readers outside Japan. 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. The accounts of certain consolidated subsidiaries that have December 31 fiscal year-ends have been included in the March 31 consolidated financial statements. The accounts of variable interest entities (VIEs) as defined by the FASB Interpretation No. 46 (revised December 2003) are included in the consolidated financial statements, if applicable. 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.

Revenue Recognition

The Company recognizes revenue related to product sales 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.

Sales of environmental and other plant and equipment 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 varies 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. When a decline in the value of the marketable security is deemed to be other than temporary, the Company recognizes an impairment loss to the extent of the decline. In determining if and when such a decline in value is other than temporary, the Company evaluates market conditions, trends of earnings, the extent to which cost exceeds market value, the duration of market declines, the ability and intent to hold the marketable securities, and other key measures. Other non-marketable securities are stated at cost and reviewed periodically for impairment.

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 and net income would have increased by ¥3,081 million for the year ended March 31, 1997. There would have been no impact on operating results for the years ended March 31, 2005, and 2004. Retained earnings would have decreased by ¥380 million ($3,551 thousand) at March 31, 2005, 2004, and 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 sales and impairment of the investment through 2003.

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 EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." EITF 01-9 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 EITF 01-9, 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 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).

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."

The Company evaluates long-lived assets to be held and used for impairment using an estimate of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the estimate of undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

The Company evaluates long-lived assets to be disposed of by sale at the lower of carrying amount or fair value less cost to sell.

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, 2005, 2004, and 2003, time deposits with original maturities of three months or less amounting to ¥3,333 million ($31,150 thousand), ¥7,866 million, and ¥14,945 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥4,401 million ($41,131 thousand), ¥4,459 million, and ¥4,759 million, and for income taxes amounted to ¥32,092 million ($299,925 thousand), ¥24,030 million, and ¥24,117 million in 2005, 2004, and 2003, respectively.

In June 2004, the Company retired treasury stock of ¥23,881 million ($223,187 thousand).

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 March 2004, EITF reached a consensus on EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and non-marketable equity securities accounted for under the cost method. FASB issued FASB Staff Position EITF Issue 03-1-1 in September 2004 which delayed the effective date of the recognition and measurement of provisions of EITF 03-1. The adoption of EITF 03-1 is not expected to have a material effect on the Company's consolidated results of operations and financial position.

In November 2004, FASB issued SFAS No. 151,"Inventory Costs, an amendment of ARB No. 43 ("ARB 43"), Chapter 4" in order to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This statement requires that those items be recognized as current-period charges regardless of whether they meet the "so abnormal" criterion outlined in ARB 43. SFAS No. 151 also requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. Unallocated overheads must be recognized as an expense in the period in which they are incurred. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's consolidated results of operations and financial position.

In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment to APB Opinion No. 29." This statement eliminates the exception to measure exchanges at fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance. This statement is effective for nonmonetary exchanges in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's consolidated results of operations and financial position.

Reclassification of Retail Finance Receivables in the Consolidated Statements of Cash Flows and in the Consolidated Balance Sheet

Activity related to the retail finance receivables in the consolidated statements of cash flows was previously classified into operating activities as "(Increase) decrease in notes and accounts receivable." The Company reconsidered its classification of the cash flow activity related to loans provided by finance subsidiaries to customers of independent dealers of the Company's products and currently classifies such activity into investing activities pursuant to the FASB No. 95, "Statement of Cash Flows" and in consideration of industry standards as "Increase in finance receivables," "Collection of finance receivables," and "Sales of finance receivables" in the consolidated statements of cash flows.

Additionally, the Company previously reflected loans provided by a finance subsidiary to customers of Company-owned dealers as "Finance receivables" in its consolidated balance sheet. The Company reconsidered its classification and currently presents the current portion of such receivables as "Trade accounts receivable" and the long-term portion as "Other assets" as such receivables consist of balances due from direct customers of the Company in connection with the sale of the Company's products. The remaining balance in the current and long-term portion of "Finance receivables," after such reclassification, is comprised of loans provided by finance subsidiaries to customers of independent dealers of the Company's products. The reclassification has been made to the presentation of the prior years' balance sheet and the statements of cash flows to conform with classifications used for the year ended March 31, 2005.

The impact of the reclassification of the affected line items in the consolidated statements of cash flows with respect to the years ended March 31, 2004 and 2003 is as follows:

Consolidated Statements of Cash Flows

	Millions of Yen					
	2004			2003		
	Previous Classification	Reclassification	As Reclassified	Previous Classification	Reclassification	As Reclassified
Provision for doubtful receivables	¥ 728	¥ 55	¥ 783	¥ 817	¥ 144	¥ 961
Decrease in notes and accounts receivable	13,439	34,802	48,241	31,649	5,268	36,917
Other	(568)	(951)	(1,519)	(667)	(371)	(1,038)
Net cash provided by operating activities	75,669	33,906	109,575	64,253	5,041	69,294
Increase in finance receivables	—	(115,117)	(115,117)	—	(73,487)	(73,487)
Collection of finance receivables	—	31,192	31,192	—	27,554	27,554
Sales of finance receivables	—	50,019	50,019	—	40,892	40,892
Net cash used in investing activities	(6,471)	(33,906)	(40,377)	(27,593)	(5,041)	(32,634)

The impact of the reclassification of the affected line items in the consolidated balance sheet at March 31, 2004 is disclosed in Note 17.

2. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Manufacturing:			
Finished products	**¥ 93,576**	¥ 85,434	**$ 874,542**
Spare parts	**18,516**	17,547	**173,047**
Work in process	**21,658**	20,640	**202,411**
Raw materials and supplies	**17,362**	14,865	**162,262**
Subtotal	**151,112**	138,486	**1,412,262**
Real estate:			
Completed projects, land to be developed, and projects under development	**4,034**	4,487	**37,701**
	¥155,146	¥142,973	**$1,449,963**

The Company wrote down the value of completed projects, land to be developed, and projects under development by ¥363 million in 2004, due to the slumping real estate market in Japan. This amount was included in cost of sales in the consolidated statement of income.

3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Investments in and advances to affiliated companies at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Investments	**¥11,558**	¥12,385	**$108,019**
Advances	**250**	597	**2,336**
	¥11,808	¥12,982	**$110,355**

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

	Millions of Yen		Thousands of U.S. Dollars
At March 31, 2005 and 2004	**2005**	2004	**2005**
Current assets	**¥ 66,245**	¥ 77,416	**$ 619,112**
Noncurrent assets	**54,342**	62,084	**507,869**
Total assets	**120,587**	139,500	**1,126,981**
Current liabilities	**63,076**	70,944	**589,495**
Noncurrent liabilities	**29,102**	37,162	**271,981**
Net assets	**¥ 28,409**	¥ 31,394	**$ 265,505**

	Millions of Yen			Thousands of U.S. Dollars
Years ended March 31, 2005, 2004, and 2003	**2005**	2004	2003	**2005**
Net sales	**¥222,753**	¥153,819	¥174,233	**$2,081,804**
Cost of sales	**165,050**	115,154	133,671	**1,542,523**
Other income—net	**722**	995	1,860	**6,748**
Net income	**4,886**	2,236	1,711	**45,664**

Trade notes and accounts receivable from affiliated companies at March 31, 2005 and 2004 were ¥22,729 million ($212,421 thousand) and ¥23,875 million, respectively.

Sales to affiliated companies aggregated ¥64,465 million ($602,477 thousand), ¥74,886 million, and ¥82,433 million for the years ended March 31, 2005, 2004, and 2003, respectively.

Cash dividends received from affiliated companies were ¥28 million ($262 thousand), ¥486 million, and ¥523 million for the years ended March 31, 2005, 2004, and 2003, 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, 2005 and 2004 were as follows:

	Millions of Yen							
	2005				2004			
	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	¥ —	¥ —
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**22,040**	**87,232**	**65,193**	**1**	22,307	89,682	67,375	—
Other equity securities	**19,812**	**47,423**	**27,717**	**106**	19,431	44,463	25,289	257
Government debt securities	**—**	**—**	**—**	**—**	795	845	50	—
Corporate debt securities	**813**	**820**	**12**	**5**	813	850	37	—
	¥42,665	**¥135,475**	**¥92,922**	**¥112**	¥46,347	¥138,841	¥92,751	¥257

	Thousands of U.S. Dollars			
	2005			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:				
Available-for-sale:				
Corporate debt securities	**$ —**	**$ —**	**$ —**	**$ —**
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**205,981**	**815,252**	**609,280**	**9**
Other equity securities	**185,159**	**443,205**	**259,037**	**991**
Government debt securities	**—**	**—**	**—**	**—**
Corporate debt securities	**7,598**	**7,664**	**113**	**47**
	$398,738	**$1,266,121**	**$868,430**	**$1,047**

Gross unrealized holding losses and fair values on available-for-sale securities at March 31, 2005 and 2004 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Millions of Yen							
	2005				2004			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**¥ 9**	**¥ 1**	**¥—**	**¥—**	¥ —	¥—	¥ —	¥ —
Other equity securities	**1,865**	**106**	**—**	**—**	328	26	1,103	231
Corporate debt securities	**0**	**5**	**—**	**—**	—	—	—	—
	¥1,874	**¥112**	**¥—**	**¥—**	¥328	¥26	¥1,103	¥231

	Thousands of U.S. Dollars			
	2005			
	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:				
Equity securities of financial institutions	**$ 84**	**$ 9**	**$—**	**$—**
Other equity securities	**17,430**	**991**	**—**	**—**
Corporate debt securities	**0**	**47**	**—**	**—**
	$17,514	**$1,047**	**$—**	**$—**

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, 2005, 2004, and 2003 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Proceeds from sales	**¥2,981**	¥8,182	¥5,153	**$27,860**
Gross realized gains	**1,821**	3,228	654	**17,019**
Gross realized losses	**(217)**	(67)	(659)	**(2,028)**

At March 31, 2005, the cost of debt securities classified as available-for-sale was ¥800 million ($7,477 thousand) and such securities mature in 2011.

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥11,504 million ($107,514 thousand) and ¥12,642 million at March 31, 2005 and 2004, respectively.

Investments in non-marketable equity securities for which there is no readily determinable fair value were accounted for using the cost method and each investment in non-marketable equity securities is reviewed annually for impairment or upon the occurrence of an event on change in circumstances that may have a significant adverse effect on the carrying value of the investment.

For the years ended March 31, 2005, 2004, and 2003, valuation losses on short-term and other investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥423 million ($3,953 thousand), ¥1,083 million, and ¥24,822 million, respectively.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2005 consisted of notes payable to banks of ¥113,802 million ($1,063,570 thousand) and commercial paper of ¥6,000 million ($56,075 thousand). Short-term borrowings at March 31, 2004 consisted of notes payable to banks. Stated annual interest rates of short-term borrowings ranged primarily from 0.02% to 2.70% and from 0.29% to 1.68% at March 31, 2005 and 2004, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2005 and 2004 were 1.7% and 0.9%, respectively.

Available lines of credit with certain banks totaled ¥30,000 million ($280,374 thousand) at March 31, 2005 and 2004, respectively. The Company had no outstanding balances as of March 31, 2005 and 2004 related to lines of credit.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
	Due in Years Ending March 31	**2005**	2004	**2005**
Unsecured bonds:				
1.8% yen bonds	2006	**¥ 10,000**	¥ 10,000	**$ 93,458**
Unsecured convertible bonds:				
0.85% yen bonds	2005	**—**	19,513	**—**
0.9% yen bonds	2006	**18,627**	18,627	**174,084**
Loans, principally from banks and insurance companies, maturing on various dates through 2015:				
Collateralized		**16,662**	—	**155,720**
Unsecured		**134,235**	128,773	**1,254,533**
Capital lease obligations		**4,841**	3,790	**45,243**
Total		**184,365**	180,703	**1,723,038**
Less current portion		**(66,877)**	(35,858)	**(625,019)**
		¥117,488	¥144,845	**$1,098,019**

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, 2005 and 2004 were 1.6% and 1.4%, respectively.

Annual maturities of long-term debt at March 31, 2005 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 66,877	$ 625,019
2007	34,784	325,084
2008	38,021	355,337
2009	20,138	188,206
2010	17,956	167,813
2011 and thereafter	6,589	61,579
Total	¥184,365	$1,723,038

At March 31, 2005, assets pledged as collateral for debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes	¥ 1,299	$ 12,140
Trade accounts	688	6,430
Finance receivables	53,868	503,439
Other investments	9	84
Property, plant, and equipment	9,919	92,701
Total	¥65,783	$614,794

The above assets were pledged against the following liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥38,462	$359,458
Current portion of long-term debt	10,056	93,981
Long-term debt	6,606	61,739
Total	¥55,124	$515,178

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, 2005 totaled 24,222 thousand shares.

Both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Long-term agreements with lenders other than banks also generally provide that the Company must give additional security upon request of the lender.

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. Effective April 2003, the Company introduced a “point-based benefits system,” under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and performance.

The parent company also had a contributory defined benefit pension plan covering all of its employees (the “Contributory Plan”). The Contributory Plan consisted 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 defined benefit pension arrangement established at the discretion of management.

Based on a law issued by the Japanese government in June 2001, 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. After the approval, the Company made applications for an exemption from the obligation to pay benefits for past employee service related to the substitutional portion and received approval from the Japanese Ministry of Health, Labour and Welfare on September 1, 2004. Based on the approval, the Company transferred the benefit obligation and the related government-specified portion of the plan assets of the Contributory Plan to the government on January 31, 2005.

In accordance with EITF No. 03-2, “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities,” the Company recognized the difference of ¥58,571 million ($547,393 thousand) between the substitutional portion of accumulated benefit obligation settled and the related plan assets transferred to the Japanese government as a government subsidy in Other income (expenses) in the 2005 consolidated statement of income. The Company also recognized derecognition of previously accrued salary progression of ¥11,111 million ($103,841 thousand) and a settlement loss for the proportionate amount of the net unrecognized loss attributable to the substitutional portion of ¥13,366 million ($124,916 thousand). The net amount of ¥2,255 million ($21,075 thousand) of derecognition of previously accrued salary progression and the settlement loss was allocated to cost of sales of ¥1,511 million ($14,121 thousand) and selling, general, and administrative expenses of ¥744 million ($6,953 thousand).

As a result of the transfer of the substitutional portion, the parent company has a non-contributory defined benefit pension plan covering substantially all of its employees (the "Non-contributory Plan"), which has succeeded the corporate portion of the Contributory Plan. The Non-contributory Plan consists of a lifetime pension plan and a limited annuity plan. Employees who terminate have the option to receive benefits from the Non-contributory Plan in the form of lump-sum payments or annuity payments. Benefits are determined based on the rate of pay at the time of termination, the length of service, and reason for retirement. Annual contributions are made by the parent company for an amount determined on the basis of an accepted actuarial method for the Non-contributory Plan. The Non-contributory Plan is administered by a board of trustees composed of management and employee representatives. Plan assets, which are managed by trust banks and investment advisors, are invested primarily in corporate and government bonds and stocks.

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 the Non-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, 2005, 2004, and 2003 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Service cost	**¥ 8,343**	¥ 9,458	¥10,128	**$ 77,972**
Interest cost	**7,457**	8,502	9,600	**69,691**
Expected return on plan assets	**(3,129)**	(4,999)	(5,862)	**(29,243)**
Amortization of transition obligation	**—**	1,124	1,615	**—**
Amortization of prior service benefit	**(522)**	(230)	(797)	**(4,878)**
Recognized actuarial loss	**2,047**	52,141	5,591	**19,131**
Derecognition of previously accrued salary progression	**(11,111)**	—	—	**(103,841)**
Settlement loss	**13,366**	—	—	**124,916**
Actuarial periodic benefit cost	**16,451**	65,996	20,275	**153,748**
Employee contributions	**—**	—	(1,005)	**—**
Net periodic benefit cost	**¥16,451**	¥65,996	¥19,270	**$153,748**

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

	2005	2004
Benefit obligations at March 31:		
Discount rate	**2.5%**	2.5%
Rate of compensation increase	**6.5%**	6.5%

	2005	2004	2003
Net periodic benefit cost for the years ended March 31:			
Discount rate	**2.5%**	2.5%	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 2.3%, 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.

During the year ended March 31, 2005, the Company reviewed the components of plan assets and adopted an asset allocation of 55% on fixed income securities and 45% on equity securities to secure stable returns.

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

	2005	2004
Equity securities	**43.6%**	31.5%
Debt securities	**54.4%**	22.7%
Cash related to the transfer of the substitutional portion of employee pension fund liabilities	**—%**	45.1%
Other	**2.0%**	0.7%
	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 the United States 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 consisted 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, 2006 are expected to be ¥14,105 million ($131,822 thousand).

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥11,140	$104,112
2007	12,556	117,346
2008	12,932	120,860
2009	13,015	121,636
2010	13,278	124,093
2011–2015	60,054	561,252

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
	2005	2004	**2005**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥ 354,418**	¥ 353,138	**$ 3,312,318**
Service cost, less employee contributions	**8,343**	9,458	**77,972**
Interest cost	**7,457**	8,502	**69,691**
Amendments	**(3,420)**	—	**(31,963)**
Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities	**(155,466)**	—	**(1,452,953)**
Actuarial (gain) loss	**(9,821)**	1,480	**(91,785)**
Benefits paid (settlement)	**(14,792)**	(4,538)	**(138,243)**
Benefits paid (other)	**(10,611)**	(13,806)	**(99,168)**
Foreign currency exchange rate changes	**142**	184	**1,327**
Benefit obligations at end of year	**¥ 176,250**	¥ 354,418	**$ 1,647,196**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥ 191,817**	¥ 155,989	**$ 1,792,682**
Actual return on plan assets	**4,344**	37,641	**40,598**
Employer contributions	**14,035**	12,647	**131,168**
Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities	**(85,784)**	—	**(801,720)**
Benefits paid (settlement)	**(5,868)**	(801)	**(54,841)**
Benefits paid (other)	**(10,611)**	(13,806)	**(99,168)**
Foreign currency exchange rate changes	**127**	147	**1,187**
Fair value of plan assets at end of year	**¥ 108,060**	¥ 191,817	**$ 1,009,906**
Plans' funded status at end of year:			
Funded status	**¥ (68,190)**	¥(162,601)	**$ (637,290)**
Unrecognized actuarial loss	**11,284**	37,733	**105,458**
Unrecognized prior service benefit	**(8,248)**	(5,350)	**(77,084)**
Net amount recognized	**¥ (65,154)**	¥(130,218)	**$ (608,916)**
Amounts recognized in the consolidated balance sheets:			
Accrued retirement and pension costs	**¥ (65,836)**	¥(143,679)	**$ (615,290)**
Prepaid expenses for benefit plans, included in other assets	**682**	601	**6,374**
Intangible assets, included in other assets	**—**	6,869	**—**
Accumulated other comprehensive income	**—**	5,991	**—**
Net amount recognized	**¥ (65,154)**	¥(130,218)	**$ (608,916)**
Accumulated benefit obligations:			
Accumulated benefit obligations at end of year	**¥ 167,954**	¥ 322,944	**$ 1,569,664**
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥ 174,549**	¥ 353,015	**$ 1,631,299**
Accumulated benefit obligations	**166,253**	321,541	**1,553,766**
Fair value of plan assets	**106,227**	190,328	**992,776**

The unrecognized prior service costs (benefits) due to amendments of the benefit plans are being amortized over approximately 15 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 requires that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are 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.

The Code permits companies to transfer a portion of additional paid-in capital and the 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 the legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and the 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. At March 31, 2005, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥178,097 million ($1,664,458 thousand).

The Code allows for the repurchase of treasury stock by resolution of the Board of Directors under the authorization of the Company's articles of incorporation or by resolution of the general shareholders' meeting. The Code also allows for the disposal of such treasury stock by resolution of the Board of Directors. 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 the legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

At the general shareholders' meeting held on June 25, 2004, the articles of incorporation were amended to authorize the Board of Directors to repurchase treasury stock. Approximately 40 million shares amounting to ¥21,407 million ($200,065 thousand) and 5 million shares amounting to ¥2,170 million were purchased during the years ended March 31, 2005 and 2004, respectively.

The Company retired 69 million shares amounting to ¥23,881 million ($223,187 thousand) of treasury stock by resolution of the Board of Directors on May 14, 2004.

On May 13, 2005, the Board of Directors resolved to retire 39 million shares of treasury stock on June 30, 2005.

8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2005, 2004, and 2003 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Gain (loss) on sales of securities—net	**¥1,604**	¥3,161	¥ (5)	**$14,991**
Foreign exchange (loss) gain—net	**3,597**	(1,534)	(2,482)	**33,617**
Other—net	**1,124**	1,726	1,048	**10,504**
	¥6,325	¥3,353	¥(1,439)	**$59,112**

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, 2005 and 2004 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		2004		**2005**	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Allowance for doubtful receivables	**¥ 1,645**	**¥ 55**	¥ 2,010	¥ 47	**$ 15,374**	**$ 514**
Intercompany profits	**9,305**	**—**	8,664	—	**86,963**	**—**
Adjustments of investment securities	**15,465**	**37,692**	11,889	37,597	**144,533**	**352,262**
Write-downs of inventories and fixed assets	**6,145**	**—**	13,541	—	**57,430**	**—**
Enterprise tax	**948**	**—**	1,226	—	**8,860**	**—**
Accrued bonus	**6,250**	**—**	6,193	—	**58,411**	**—**
Retirement and pension costs	**29,340**	**—**	57,261	—	**274,205**	**—**
Unremitted earnings of foreign subsidiaries and affiliates	**—**	**4,403**	—	3,203	**—**	**41,149**
Other temporary differences	**11,322**	**3,987**	11,056	3,696	**105,813**	**37,262**
Tax loss and credit carryforwards	**9,602**	**—**	10,950	—	**89,738**	**—**
Subtotal	**90,022**	**46,137**	122,790	44,543	**841,327**	**431,187**
Less valuation allowance	**3,824**	**—**	22,913	—	**35,738**	**—**
	¥86,198	**¥46,137**	¥ 99,877	¥44,543	**$805,589**	**$431,187**

Net deferred tax balances at March 31, 2005 and 2004 were reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Other current assets	**¥21,322**	¥22,047	**$199,271**
Other assets	**19,728**	33,961	**184,374**
Other long-term liabilities	**(989)**	(674)	**(9,243)**
Net deferred tax assets	**¥40,061**	¥55,334	**$374,402**

In March 2003, an amendment to Japanese tax regulation was enacted and the normal statutory tax rate 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 expected to be realized subsequent to April 1, 2004 for the change in the enacted tax rate.

A valuation allowance is 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, 2005, 2004, and 2003 were a decrease of ¥19,089 million ($178,402 thousand), an increase of ¥2,154 million, and an increase of ¥4,881 million, respectively. Such changes were due primarily to the realization or nonrealization of tax benefits regarding operating losses of subsidiaries.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse and/or the tax 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, 2005.

At March 31, 2005, the tax loss carryforwards in the aggregate amounted to approximately ¥23,000 million ($214,953 thousand), which are available to offset future taxable income, and will expire in the period from 2006 through 2010.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2005 differed from the normal Japanese statutory tax rates as follows:

	2005	2004	2003
Normal Japanese statutory tax rates	**40.6%**	42.0%	42.0%
Increase (decrease) in taxes resulting from:			
Increase (decrease) in valuation allowance	**(13.0)**	13.8	108.8
Permanently nondeductible expenses	**0.4**	3.7	14.0
Nontaxable dividend income	**(0.1)**	(0.4)	(3.0)
Inhabitant tax per capita	**0.1**	0.7	3.0
Change in tax rate	**—**	(0.7)	29.1
Extra tax deduction on expenses for research and development	**(1.3)**	(8.1)	—
Other—net	**(0.4)**	(0.4)	5.8
Effective income tax rates	**26.3%**	50.6%	199.7%

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, 2005, 2004, and 2003 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Net income (loss)	**¥117,901**	¥11,700	¥(8,004)	**$1,101,879**
Effect of dilutive convertible bonds	**188**	337	—	**1,757**
Diluted net income (loss)	**¥118,089**	¥12,037	¥(8,004)	**$1,103,636**

	Number of Shares (Thousands)		
Weighted average common shares outstanding	**1,323,068**	1,342,386	1,370,382
Effect of dilutive convertible bonds	**36,910**	68,944	—
Diluted common shares outstanding	**1,359,978**	1,411,330	1,370,382

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2005, 2004, and 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2005			2005		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:						
Foreign currency translation adjustments arising during period	**¥(1,628)**	**¥ 103**	**¥(1,525)**	**$(15,215)**	**$ 962**	**$(14,253)**
Reclassification adjustment for losses realized in net income	**57**	**—**	**57**	**533**	**—**	**533**
	(1,571)	**103**	**(1,468)**	**(14,682)**	**962**	**(13,720)**
Unrealized gains on securities:						
Unrealized gains on securities arising during period	**2,046**	**(827)**	**1,219**	**19,121**	**(7,729)**	**11,392**
Reclassification adjustment for gains realized in net income	**(1,181)**	**479**	**(702)**	**(11,037)**	**4,477**	**(6,560)**
	865	**(348)**	**517**	**8,084**	**(3,252)**	**4,832**
Minimum pension liability adjustment	**5,991**	**(2,499)**	**3,492**	**55,991**	**(23,355)**	**32,636**
Unrealized losses on derivatives:						
Unrealized losses on derivatives arising during period	**(1,429)**	**591**	**(838)**	**(13,355)**	**5,523**	**(7,832)**
Reclassification adjustments for gains realized in net income	**(456)**	**185**	**(271)**	**(4,262)**	**1,729**	**(2,533)**
	(1,885)	**776**	**(1,109)**	**(17,617)**	**7,252**	**(10,365)**
Other comprehensive income	**¥ 3,400**	**¥(1,968)**	**¥ 1,432**	**$ 31,776**	**$(18,393)**	**$13,383**

	Millions of Yen		
	2004		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	¥ (7,786)	¥ 211	¥ (7,575)
Reclassification adjustment for losses realized in net income	40	—	40
	(7,746)	211	(7,535)
Unrealized gains on securities:			
Unrealized gains on securities arising during period	75,094	(30,492)	44,602
Reclassification adjustment for gains realized in net income	(2,078)	844	(1,234)
	73,016	(29,648)	43,368
Minimum pension liability adjustment	64,797	(27,232)	37,565
Unrealized gains on derivatives:			
Unrealized gains on derivatives arising during period	3,751	(1,573)	2,178
Reclassification adjustments for gains realized in net income	(2,424)	1,018	(1,406)
	1,327	(555)	772
Other comprehensive income	¥131,394	¥(57,224)	¥74,170

	Millions of Yen		
	2003		
	Before-Tax Amount	Tax Benefit (Expense)	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)

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

	Millions of Yen				
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Minimum Pension Liability Adjustment	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income
Balance, April 1, 2004	¥(11,445)	¥40,499	¥(3,492)	¥ 513	¥26,075
Current—period change	(1,468)	517	3,492	(1,109)	1,432
Balance, March 31, 2005	¥(12,913)	¥41,016	¥ —	¥ (596)	¥27,507

	Thousands of U.S. Dollars				
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Minimum Pension Liability Adjustment	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income
Balance, April 1, 2004	$(106,962)	$378,495	$(32,636)	$ 4,795	$243,692
Current—period change	(13,720)	4,832	32,636	(10,365)	13,383
Balance, March 31, 2005	$(120,682)	$383,327	$ —	$ (5,570)	$257,075

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. 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, 2005, which was translated into Japanese yen at the year-end currency exchange rate.

Foreign Exchange Forward Contracts and Currency Swaps

		Millions of Yen	Thousands of U.S. Dollars
Maturities, Years Ending March 31		2006	2006
Sell U.S. Dollar, buy Yen	Receive	¥37,377	$349,318
	Pay	38,306	358,000
Sell Euro, buy Yen	Receive	11,201	104,682
	Pay	11,437	106,888
Sell Sterling Pound, buy Euro	Receive	1,375	12,850
	Pay	1,340	12,523
Sell Baht, buy Yen	Receive	875	8,178
	Pay	883	8,252
Sell Baht, buy U.S. Dollar	Receive	222	2,075
	Pay	225	2,103
Sell Yen, buy U.S. Dollar	Receive	102	953
	Pay	102	953

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, 2005, 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
2006	1.43%	1.74%	¥33,997	$317,729
2007	1.06	1.58	19,353	180,869
2008	0.44	1.01	8,573	80,121
2009	0.20	0.81	4,500	42,056

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 unrecognized net losses on derivatives included in accumulated other comprehensive loss of ¥596 million ($5,570 thousand) at March 31, 2005 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 mainly 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, 2005 and 2004:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		2004		**2005**	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:						
Finance receivables—net	**¥ 131,646**	**¥ 126,164**	¥ 74,840	¥ 68,788	**$ 1,230,336**	**$ 1,179,103**
Financial liabilities:						
Long-term debt	**(179,524)**	**(178,584)**	(176,913)	(176,384)	**(1,677,794)**	**(1,669,009)**
Derivative financial instruments recorded as (liabilities) assets:						
Foreign exchange instruments	**(902)**	**(902)**	1,006	1,006	**(8,430)**	**(8,430)**
Interest rate swaps and other instruments	**(98)**	**(98)**	(131)	(131)	**(916)**	**(916)**

Short-term and other investments are disclosed in Note 4.

The fair values of finance receivables and long-term debt are based on 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, 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

Selling, General, and Administrative Expenses

Amounts of certain costs and expenses for the years ended March 31, 2005, 2004, and 2003 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Research and development expenses	**¥21,963**	¥23,261	¥26,405	**$205,262**
Advertising costs	**9,586**	9,638	9,534	**89,589**
Shipping and handling costs	**40,412**	39,137	37,725	**377,682**

Loss (Gain) from Disposal and Impairment of Businesses and Fixed Assets

Loss (gain) from disposal and impairment of businesses and fixed assets for the year ended March 31, 2005 includes a loss of ¥1,095 million ($10,234 thousand) resulting from the impairment of long-lived assets and a gain of ¥6,548 million ($61,196 thousand) resulting mainly from the sale of two subsidiaries. The Company recognized a gain of ¥5,526 million ($51,645 thousand) for the sale of a company which operates a golf course. Also the Company recorded a gain of ¥1,573 million ($14,701 thousand) related to the sale of a company which is involved in a rental computer server service.

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

Loss (gain) from disposal and impairment of businesses 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.

14. COMMITMENTS AND CONTINGENCIES

Commitments

Commitments for capital expenditures outstanding at March 31, 2005 approximated ¥1,155 million ($10,794 thousand).

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, 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years ending March 31,	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2006	¥2,428	¥ 334	$22,692	$ 3,121
2007	1,302	267	12,168	2,496
2008	957	246	8,944	2,299
2009	114	162	1,065	1,514
2010	75	83	701	776
2011 and thereafter	50	386	467	3,607
Total minimum lease payments	4,926	¥1,478	46,037	$13,813
Less: amounts representing interest	(85)		(794)	
Present value of net minimum capital lease payments	¥4,841		$45,243	

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, 2005, 2004, and 2003 were ¥7,029 million ($65,692 thousand), ¥8,553 million, and ¥8,182 million, respectively.

Guarantees

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, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Borrowings of distributors and customers	¥1,224	$11,439
Housing loans of employees	1,755	16,402
Total	¥2,979	$27,841

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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Balance at beginning of year	**¥ 2,209**	¥ 1,748	**$ 20,645**
Addition	**3,663**	4,978	**34,234**
Utilization	**(3,138)**	(3,293)	**(29,327)**
Other	**(16)**	(1,224)	**(150)**
Balance at end of year	**¥ 2,718**	¥ 2,209	**$ 25,402**

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

Legal Proceedings

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, 2005. 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 or the amount of related losses, if any.

15. SALE OF ACCOUNTS RECEIVABLE

The Company sells trade and finance receivables to investors through bankruptcy-remote independent revolving-period securitization trusts. As of March 31, 2005, the Company has agreements to sell up to ¥33,740 million ($315,327 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, totaling ¥84,504 million ($789,757 thousand), ¥69,218 million and ¥37,746 million during the years ended March 31, 2005, 2004, and 2003, respectively. The Company sold finance receivables, net of loss reserves, totaling ¥5,752 million ($53,757 thousand), ¥50,338 million and ¥43,840 million during the years ended March 31, 2005, 2004, and 2003, respectively.

The Company did not recognize any gains or losses from the sale of trade receivables for the years ended March 31, 2005, 2004, and 2003. The Company's sales of financial receivables resulted in a net gain of ¥129 million ($1,206 thousand), ¥902 million and ¥752 million during the years ended March 31, 2005, 2004, and 2003, 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 the securitization program, 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, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Residual interest in trade receivables	**¥37,332**	¥23,080	**$348,897**
Residual interest in finance receivables	**6,376**	6,262	**59,589**

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 years ended March 31:

	2005	2004
Trade receivables:		
Weighted average life (months)	**6.5**	6.5
Expected credit losses	**0.2%**	0.2%
Expected net dilution	**9.4%**	4.2%
Finance receivables:		
Weighted-average life (months)	**50.4**	49.6
Expected credit losses	**0.1%**	0.1%
Discount rate	**10.1%**	10.2%

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

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Trade receivables:				
Proceeds from revolving period sales	**¥13,555**	¥10,908	¥ 5,985	**$126,682**
Servicing fees received	**270**	231	189	**2,523**
Finance receivables:				
Proceeds from revolving period sales	**—**	38,367	33,389	**—**
Servicing fees received	**210**	279	387	**1,963**
Cash flows received on retained interests in securitizations	**359**	662	1,200	**3,355**

The Company has determined that a change of up to 25% 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, 2005 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	¥11,061	$103,374
Expected credit losses (annual rate)	0.07%	
Impact on fair value of 10% adverse change	1	9
Impact on fair value of 20% adverse change	2	19
Residual cash flows discount rate (annual rate)	10.13%	
Impact on fair value of 10% adverse change	88	822
Impact on fair value of 20% adverse change	178	1,664

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 13, 2005, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2005 of ¥5 per common share (¥25 per 5 common shares) or a total of ¥6,504 million ($60,785 thousand). The resolution to pay the cash dividend is subject to shareholders' approval at the general meeting to be held on June 24, 2005.

17. RESTATEMENT OF RETAIL FINANCE RECEIVABLES IN THE CONSOLIDATED BALANCE SHEET

Retail finance receivables were previously classified as current assets in the consolidated balance sheet at March 31, 2004.

Subsequent to the issuance of the Company's 2004 financial statements, the Company reconsidered its classification of these receivables considering Chapter 3, Section A, "Current Assets and Current Liabilities" of Accounting Research Bulletins No. 43, "Restatement and Revision of Accounting Research Bulletins." In accordance with such guidance, the Company has restated its consolidated balance sheet at March 31, 2004 to reflect amounts expected to be collected one year after the balance sheet date as a long-term asset.

The impact of the restatement of the affected line items in the consolidated balance sheet at March 31, 2004 is as follows:

	Millions of Yen			
	2004			
	As Previously Reported	Restatement	Reclassification	As Restated and Reclassified
Notes and accounts receivable:				
Trade accounts	¥206,609	¥ —	¥ 20,412	¥227,021
Finance receivables–net	114,713	(67,267)	(47,446)	—
Allowance for doubtful notes and accounts receivable	(3,054)	488	158	(2,408)
Short-term finance receivables–net	—	—	26,876	26,876
Other current assets	62,105	(196)	—	61,909
Total current assets	681,402	(66,975)	—	614,427
Long-term finance receivables–net	—	66,779	(18,815)	47,964
Other assets	58,613	196	18,815	77,624

A description of the "Reclassification" is disclosed in Note 1.