KUBOTA Corporation

Annual Report 2001

Kubota

PROFILE

Since its establishment, Kubota has continually aimed to promote a harmonious coexistence between humans and all areas of the earth's environment, including water and soil, by creating products that contribute to a better future for people, society as a whole, and the earth. In accordance with this basic philosophy, Kubota has continually anticipated the needs of the times as it vigorously engages in businesses that contribute to the betterment of society. Today, Kubota's products in domains closely connected to culture and people's daily lives—including areas related to water, soil, air, cities, and homes—are enjoyed by people worldwide. In the future, Kubota will continue to provide people- and earth-friendly products that will enable the creation of abundant living environments and contribute to the protection of the earth's environment.

FINANCIAL HIGHLIGHTS

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Net sales	**¥994,493**	¥987,265	¥976,652	**$8,020,105**
Percentage of previous year	**100.7%**	101.1%	94.9%	
Net income	**9,795**	16,428	15,106	**78,992**
Percentage of previous year	**59.6%**	108.8%	54.6%	
Percentage of net sales	**1.0%**	1.7%	1.5%	
Net income per 20 common shares (in Yen and U.S. Dollars):				
Basic	**¥139**	¥233	¥214	**$1.12**
Diluted	**137**	221	203	**1.10**
Cash dividends per 20 common shares (in Yen and U.S. Dollars)	**120**	120	120	**0.97**
Capital expenditures	**¥37,170**	¥ 39,294	¥ 44,073	**$ 299,758**
Depreciation	**43,311**	44,149	42,742	**349,282**
R&D expenses	**30,257**	33,148	36,759	**244,008**
Number of shareholders (At year-end)	**62,518**	63,484	64,304	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥124=US$1. See Note 1 to the consolidated financial statements.

CONTENTS

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains statements about Kubota's future business plans, strategies, and beliefs. Statements regarding the Company's projected future business results are not based on historical facts and are subject to various risks and uncertainties. These risks and uncertainties relate to economic conditions in Kubota's business environment, particularly government agricultural policies, the state of private-sector and public-sector capital investment, currency exchange rates, new housing starts, competitive pricing pressures in the marketplace, and Kubota's ability to continue designing and developing products that will be accepted in markets. However, it should be noted that elements affecting performance are not limited to the previously mentioned factors.

SUMMARY OF RESULTS

In fiscal 2001, ended March 31, 2001, consolidated net sales by Kubota Corporation rose 0.7% from the previous fiscal year, to ¥994.5 billion ($8,020 million). By business segment, in Internal Combustion Engine and Machinery, we recorded an increase in domestic sales due to robust sales of small-sized farm equipment for use by small-scale farmers or farmers in mountainous regions. In the United States, a principal market, we recorded overall favorable sales of our mainstay tractors thanks to ongoing buoyant economic conditions in that country. Also, contributing to this strong performance in tractors were brisk sales of our new BX series of sub-compact tractors, which we announced in fall 1999 and commenced sales of in 2000.

In Industrial Products and Engineering, Kubota recorded lower sales of its mainstay ductile iron pipe as well as such products as pumps and polyvinyl chloride (PVC) pipes, owing to curtailed investment in government-related markets. In our environmental control plant business, which is expected to grow steadily in the future, we recorded an all-time high in new orders. Particularly noteworthy orders included those for an intermediate treatment furnace at a waste treatment facility in Teshima, Kagawa Prefecture, and a gasification melting furnace from the Mie Prefecture Environmental Protection Organization.

Sales in Building Materials and Housing decreased amid a slump in new housing starts.

At the consolidated profit level, operating income jumped 48.1%, to ¥43.2 billion ($348 million). However, net income fell 40.4%, to ¥9.8 billion ($79 million). Diluted net income per 20 common shares declined to ¥137 ($1.10), from ¥221 in the previous fiscal year. Kubota plans to pay year-end cash dividends per share of ¥3, or ¥60 per 20 common shares. Together with interim cash dividends, cash dividends per share for the entire fiscal year will amount to ¥6, or ¥120 per 20 common shares.

MEDIUM-TERM MANAGEMENT STRATEGY

Through the implementation of measures aimed at improving profitability, including urgent measures for raising profits, Kubota's operating income has improved. Nevertheless, Kubota's operating income in fiscal 2001 was far below the record-breaking amount achieved in fiscal 1997. To emerge from this static situation, we have formulated a new medium-term management strategy, under which we aim to surpass the amount of operating income achieved in 1997 within the three-year period ending March 31, 2004. We are making Companywide efforts to achieve this objective as we implement this management strategy.

In closing, we ask our friends and shareholders for their continued support.

June 2001

Osamu Okamoto

Chairman and Representative Director

Yoshikuni Dobashi

President and Representative Director

KUBOTA TRACTOR CORPORATION (KTC)

Moriya Hayashi, President (Left),
Greg Embury, Vice President, Sales and Marketing

Headquartered in Torrance, a suburb of Los Angeles, California, KTC has met the needs of the U.S. market during the approximately 30 years since its establishment through a structure that now comprises close to 1,000 dealers and four branch offices. At present, KTC engages in the sale of such products as lawn mowers, compact tractors, utility tractors, small-sized construction machinery, and electric power generators. KTC's sister companies include Kubota Credit Corporation, U.S.A., a retail financing company for Kubota's products; Kubota Manufacturing of America Corporation, a Georgia-based manufacturing company; and Kubota Engine America Corporation, a diesel engine sales company in suburban Chicago.

KTC's business philosophy is to expand its business together with dealers, which it considers valuable business partners.

KTC has built a solid and distinctive presence in the United States that includes a strong network of dealers, who share an immense pride in selling Kubota products. In addition, KTC commands an approximately 30% share (on a unit basis) of the U.S. market for high-quality tractors in the below-100hp class.

Despite the adverse influence of the appreciation of the yen, KTC achieved an all-time high in business results in the year ended December 2000. Besides benefiting from the buoyant U.S. economy, the strong performance by KTC was underpinned by particularly favorable sales of the new-concept BX series of 18hp and 22hp sub-compact tractors and a utility tractor with an outstanding cab.

At the end of 2000 and the beginning of 2001, we progressed with the building of our e-business infrastructure. By increasing direct communication with our dealers and customers through this infrastructure, we have completed the groundwork for pursuing new business models.

With the dawn of the 21st century, KTC aims to strengthen its partnerships with dealers and customers by rapidly supplying outstanding and unrivalled products in advance of competitors.

KUBOTA MANUFACTURING OF AMERICA CORPORATION (KMA)

KMA is headquartered in Gainesville, a town in northern Georgia nestled among the lakes and greenery of Appalachia. KMA commenced operations in 1988 as Kubota's North American manufacturing base and presently has approximately 840 regular employees.

KMA manufactures two main types of products, one of which is implements for tractors. Implements produced by KMA include loaders and backhoes, which are installed on Kubota-manufactured tractors. Since its establishment, KMA has carried out integrated production, which ranges from such functions as procurement of steel materials to machinery processing, welding, painting, and assembly. Also, as Kubota's U.S. production base for tractors, KMA began producing the T and TG series of lawn tractors for mowing in 1994 and the BX series of general-use sub-compact tractors in 1999. KMA further expanded its line of products in 2001 with the commencement of production of the zero-turn mid-mount turf mowers.

Juichi Shiraishi, President (on zero-turn mower), and employees

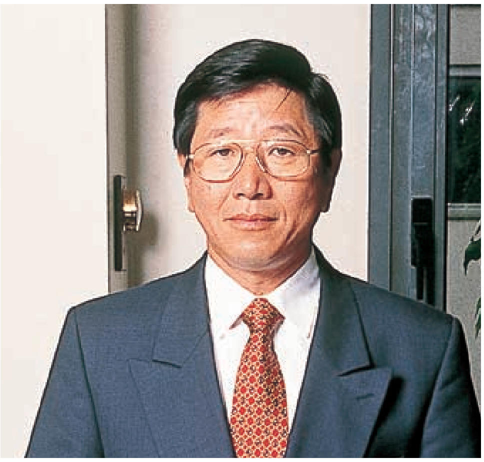
As illustrated by these activities, for over 10 years KMA has played an instrumental role in driving growth in Kubota's tractor business in North America while expanding the scale of its own business operations.

In fiscal 2000, KMA inaugurated full-scale shipments of the BX series of general-use sub-compact tractors to markets worldwide, enabling it to achieve an all-time high of $240 million in net sales. KMA also posted record profits in fiscal 2000.

KMA markets its products not only in the United States but also exports them to Canada, Australia, and European countries. Similarly, KMA has expanded its procurement activities beyond North America to include sources in Europe and Asia. By adopting this approach, KMA is carrying out activities truly befitting a Kubota overseas base.

Having achieved smooth growth in the scale of its operations, KMA is making improvements to its production plant and building a flexible manufacturing structure under the guidance of President Juichi Shiraishi, who assumed the duties of KMA president in November 2000. Through these measures, KMA is strengthening its operations with the aim of continuing to create the high-quality products that customers have come to expect and depend on. KMA remains committed to creating a corporate culture that encourages speed and flexibility.

KUBOTA EUROPE S.A. (KE)



Teruhisa Furuta, President

Approaching its 27th year of operations, KE was established in 1974 as the Machinery Division's product sales base in Europe. Since its inception, KE has supported product development, introduced and sold products, and provided product-related services.

In fiscal 2000, KE achieved a sharp rise in sales thanks largely to the smooth and successive introduction of various types of machinery developed for the European market. Although currency exchange rates had an adverse influence on profits, the increase in sales enabled KE to maintain profits at the same level as recorded in fiscal 1999.

KE has a balanced revenue structure, deriving its revenues almost evenly from three fields, including 30.9% of sales from farm equipment related products, 31.8% from construction machinery, and 28.1% from industrial engines. The remaining 9.2% is derived from sales of service parts.

One of the chief characteristics of KE's operations is the existence of marketing divisions that each specialize in different product fields and that also sell their products through their own respective sales channels. At the same time, KE has combined all administrative divisions, logistic divisions, and service parts divisions, which has contributed to a reduction in fixed costs.

KE has achieved increases in sales revenues and volumes for the past three years and expects this upward trend to sustain momentum. In the present European economic environment, there appear to be no significant obstacles looming on the horizon, and sound economic fundamentals are generally likely to persist. Our new products, which are increasingly produced in Europe, are expected to contribute to increased sales and market share. We have also been handling a sharp increase in products from Kubota's manufacturing plants in the United States and Germany and expect that the share of products manufactured in Japan will decrease to 50% of all products handled by KE. As reflected by these trends, 2001 can be called "a year of internationalization" for KE.

It should also be noted that 2001 is the final year for the integration of currencies of countries in the euro zone, and at the end of 2001 the euro will become a circulating currency. Internally, KE has completed its shift to the use of the euro. While working to expand its sales, we look forward with anticipation toward this monumental event.

KUBOTA BAUMASCHINEN GMBH (KBM)

KBM was established in 1988 in Zweibrücken, Germany. In April 1989, KBM commenced sales of mini-construction machinery and presently manufactures six types of equipment in the one-to-four-ton class. In 1995, KBM expanded its manufacturing and sales to include two types of wheel loaders. The year 2000, when it marked its 12th year of operations, was eventful for KBM on several fronts. Amid brisk market activity, KBM took steps at the beginning of the year to increase production, made preparations for the introduction of new models from the middle of the year, and recorded all-time highs in production, sales volumes, and profits. Also, in December 2000, the last month of a strong fiscal year, KBM achieved a noteworthy milestone when its cumulative production of mini-construction machinery reached 30,000 units.

Noriyuki Miyoshi, President

In 2001, although significant growth in demand for mini-construction machinery is unlikely, we expect to maintain our market share through the introduction of new models. As it undertakes its future business activities, KBM will focus on the following three key issues.

1. We will raise our product quality, manufacturing, and service-related capabilities to achieve the objectives of the medium-term management strategy.
2. To become the number-one product manufacturing base in Europe, we will further strengthen our improvement activities based on the "5-Gen." (See Note)
3. We will implement optimal after-sales services for the more than 30,000 units of construction machinery owned by customers. Furthermore, we will emphasize implementing optimal preliminary services for the new products we will produce in the future.

Note: 5-Gen

5-Gen is one of the measures for improving productivity in actual manufacturing shops by being at the actual Shop (GEN-BA), looking at actual Products (GEN-BUTSU), recognizing Reality (GEN-JITSU), and referring to Principles (GEN-RI) and Fundamental Rules (GEN-SOKU).

Thanks to the implementation of ***measures aimed at recovering profitability,*** including urgent measures for raising profits, Kubota's consolidated operating income has improved. Nevertheless, Kubota's operating income in fiscal 2001 was far below the record-breaking amount of ¥62.7 billion achieved in fiscal 1997, causing the Company to view fiscal 2001 income as unsatisfactory.

To emerge from this static situation, Kubota has formulated its new ***medium-term management strategy,*** with which the Company aims to "surpass its all-time high in operating income," recorded in fiscal 1997, within the three-year period ending March 31, 2004.

The strategy, means, and specific measures for attaining this goal do not represent any novel concepts. However, with vigorous and steady implementation of this strategy and its related measures, the Company believes that accomplishment of the goals should satisfy the expectations of stakeholders.

1. Medium-term financial goals

Billions of Yen	Fiscal 1997 Actual	Fiscal 2001 Actual	Fiscal 2002 Projected	Change from previous year	Fiscal 2004 Target	Change from fiscal 2002
Net sales	1,141.5	994.5	1,000.0	0.6%	1,100.0	10.0%
Operating income	62.7	43.2	48.0	11.1%	65.0	35.4%
Income before income taxes, equity in net income of affiliated companies and cumulative effects of an accounting change	60.2	59.3	48.0	(19.1)%	63.0	31.3%
Net income	28.9	9.8	27.0	175.5%	34.0	25.9%
ROE (%)	5.7%	2.2%	6.1%		7.0%	
ROA (%)	1.7%	0.8%	2.1%		2.6%	

2. Measures aimed at recovery in profitability

(1) Urgent measures to increase profits

1) Reducing personnel costs and expenses

[1] Reducing the number of employees

On a non-consolidated basis, Kubota will reduce its number of employees by 2,000, from 15,500 to 13,500, over a three-year period from the beginning of fiscal 2000 to the end of fiscal 2002. As of April 1, 2001, the Company had reduced staff to 13,784, and expects to exceed its initial target of staff reduction to 13,500.

[2] Reducing costs in corporate staff departments

Kubota will prune costs in corporate staff departments by 30% compared with fiscal 1999 over a three-year period from the start of fiscal 2000 to the end of fiscal 2002. We had attained a 20% reduction in costs in corporate staff departments as of the end of fiscal 2001.

[3] Raising productivity

Kubota has been striving for a 20% increase in physical productivity through extensive measures to eliminate waste in production in every factory over a two-year period covering fiscal 2001 and fiscal 2002.

Example: In the Johkasou Systems (septic tanks) production shops, thorough implementation of *5-Gen* has allowed us to reduce the number of staff at workshops and to attain speedier changes to production arrangements, yielding a 45% increase in productivity.

2) Strengthening and rationalizing the functions of corporate staff departments

Kubota had reduced the number of corporate staff departments from 40 to 25 as of October 2000.

(2) Withdrawal from unprofitable businesses and discontinuation of production of unprofitable products

Kubota closed down the Tokai Plant (castings) as of September 2000 and withdrew from business involving such products as unit bathrooms and European-style roofing materials as of March 2001.

(3) Reduction in consolidated interest-bearing debt

Kubota has embarked on trimming interest-bearing debt ¥100 billion, from approximately ¥430 billion in fiscal 1999 to approximately ¥330 billion in fiscal 2002. As of the end of fiscal 2001, Kubota had cut interest-bearing debt ¥57.9 billion.

(4) Reform of management structure

1) Reducing the number of directors

Kubota has reduced the number of directors by nine, from 35 to 26, as of June 2000.

2) Reforming its decision-making structure

Kubota has fortified the functions of the Innovation and Strategy Committee, which is composed of a few senior directors.

(5) Reform of corporate culture

1) Reforming human resources system

[1] Kubota has implemented a new appraisal program—the "performance (against self-produced targets) oriented" system—for managerial positions.

[2] Kubota has introduced the *"Hatsu-ratsu"* Plan, a re-employment system for retired employees.

2) Invigorating investor relations

[1] Kubota had formed a group dedicated to investor relations (IR), as of July 2000.

[2] Kubota hosted plant tours and exhibitions for introducing new products, convened IR meetings, and implemented IR visits to institutional investors in Japan and overseas.

[3] Kubota held IR meetings attended by top management to explain its financial results in Japan.

[4] Kubota has upgraded the disclosure of IR information on its Web site.

3) Strengthening legal compliance structure

[1] The Compliance and Auditing Department has been in charge of checking in-house structures to ensure compliance with relevant laws.

[2] The Company has formulated and distributed employee action standards.

[3] Kubota has solicited prominent external advisers.

[4] Kubota has set up a negotiation group within the Legal Department.

3. Medium-term management strategy

(1) Reform of business structure and profit structure	(2) Reform of business operating structure	(3) Financial strategies
1) Strengthen profitability of current businesses 2) Rebuild "reviving" businesses 3) Reform business activities by aggressively taking advantage of IT 4) Develop new businesses and businesses in business fields adjacent to current ones	1) Build more autonomous management structure by business division 2) Renew the Corporate staff departments	1) Achieve the target on reducing interest-bearing debt 2) Reshaping balance sheets

Medium-Term Management Strategy: Specific Measures

I. Reform of Business Structure and Profit Structure

(1) Strengthening profitability of current businesses

In order to bolster profitability, Kubota will focus on further strengthening the competitiveness of its core businesses, which are already extremely competitive, but operate in markets which are not expected to grow significantly in the future. Kubota will also aggressively allocate resources toward its strategic businesses to enable these businesses to attain growth in line with expansion of their markets.

Core Businesses	Businesses that are expected to maintain and expand profits	Domestic agricultural machinery, ductile iron pipes, other pipe systems, and others
Strategic Businesses	Businesses that are expected to expand sales and profits	Internal combustion engine and machinery, centering on tractors, in overseas markets and environmental engineering

(2) Rebuilding reviving businesses

Over the next three years, Kubota will press forward with efforts to achieve profitability in currently less-profitable or low-profit businesses which should be revived.

Industrial Castings	Achieved profitability in the second half of fiscal 2001. Aim to ensure profitability on a full-year basis.
Housing-related	Aggressively respond to needs in the household renovation business. Strengthen profitability in housing materials and prefabricated houses.

(3) Reforming business operations by aggressively deploying IT (Information Technology)

Vigorously deploy IT throughout the Company as a vital tool for strengthening profitability of current businesses and for raising efficiency of and speeding up operations.

Constructing an information system to enable reform of business operations

Customer/Market | Marketing/Sales Companies | Production/Distribution | Procurement | Development/Design

CRM (Customer Relationship Management)

PDM (Product Data Management)

EC (Electronic Commerce)

SCM (Supply Chain Management)

Achieve 20% improvement in the following indicators : Reductions in both inventories and the number of staff in administrative divisions and increases in sales per employee.

Note:

CRM (Customer Relationship Management)
This concept involves the integrated management of chronological information on customer contacts acquired through such sales channels as stores, direct marketing activities, sales agencies, telephones, and the Internet to allow for an optimal response to each individual customer. This, in turn, enables companies to secure additional customers and raise customer retention rates.

PDM (Product Data Management)
This is the software used for management of such data as product design blueprints and component displays. PDM facilitates the optimization of flows—centering on design—related to production and procurement. This is a vital function for managing design blueprints, monitoring the process of design work, and managing components.

EC (Electronic Commerce)
Business-to-business as well as business-to-consumer transactions are carried out electronically on open networks, beginning with the Internet.

SCM (Supply Chain Management)
This is a management method whereby functions ranging from materials procurement to distribution, production, and sales are linked through networks, and business information is shared by companies and business divisions on a real-time basis. SCM enables speeding up of and raising of efficiency throughout the entire value chain.

(4) Development of new businesses and businesses in business fields adjacent to current ones

Kubota will strive to raise the proportion of sales accounted for by new businesses and businesses adjacent to current ones to 10% of total sales after three years through M&A, the introduction of new technologies, and the formation of a "new business search team."

Fields to be focused on immediately

Environment-protection fields | Materials fields | New energy fields

II. Change Business Operating Structure

(1) Building a more autonomous management structure by business division

The Company will undertake an extensive review of authority and responsibility for Company headquarters and business divisions and build a structure under which each business division bears responsibility and has sufficient authority for agile decision making to carry out businesses, which will lead to a more autonomous management structure by business division.

Business division: Business responsibility / Sufficient authority

\+ Agile decision making

→ Toward an operating structure based on increased autonomy by business division

(2) Renewing corporate staff departments in headquarters

Kubota will strengthen the strategic functions of its headquarters and progress with measures to raise the efficiency of its business operations.

Headquarters

Leaner organization in the headquarters based on such functions as corporate planning, technologies management, and compliance

Leaner organization

Improved efficiency in business operations

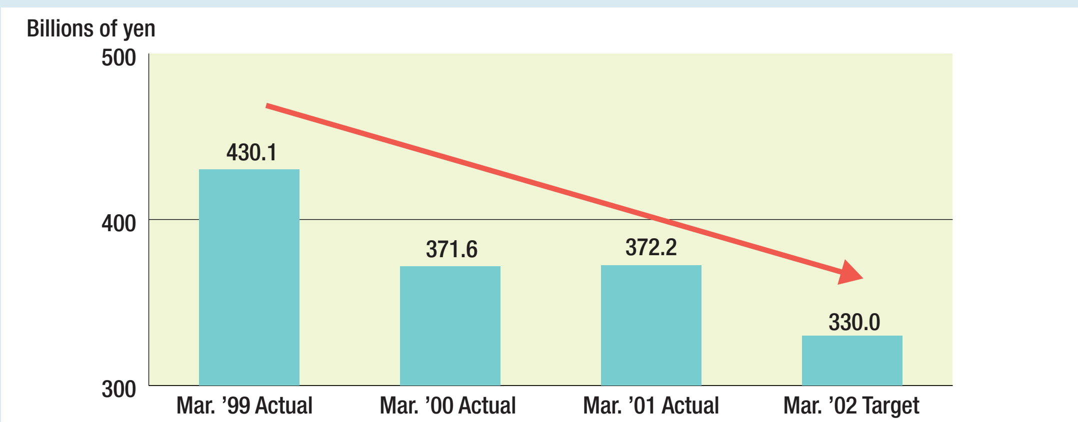
Investigate possibility of establishing separate companies

Supporting operations for business divisions: Accounting, cashier, payroll, intellectual property, and others

III. Strengthen Financial Structure

(1) Achieving targets for reducing consolidated interest-bearing debt

Kubota aims to reduce interest-bearing debt to approximately ¥330 billion by the end of fiscal 2002.



(2) Reshaping balance sheets

Kubota will utilize its cash flows provided by balance sheet streamlining and by operating activities for possible M&A transactions as well as for possible share buybacks.

Improve asset efficiency

- Reduction in cash and cash equivalents
- Securitization of accounts receivable
- Reduction in inventories
- Selling of marketable securities
- Selling of idle real estate

		Billions of Yen				
		1997	1998	1999	2000	**2001**
Net Sales		¥1,141.5	¥1,029.4	¥976.7	¥987.3	**¥994.5**
Internal Combustion Engine and Machinery		401.9	388.7	370.0	385.8	**423.7**
Sales by Sector	Farm Equipment and Engines	358.8	348.1	334.3	348.1	**381.7**
	Construction Machinery	43.1	40.6	35.7	37.7	**42.0**
Sales by Geographic Segment	Japan	275.3	239.4	204.2	213.9	**242.5**
	Overseas	126.6	149.3	165.8	171.9	**181.2**
Industrial Products and Engineering		550.2	507.5	489.5	475.6	**459.2**
Sales by Sector	Pipe and Fluid Systems Engineering	306.8	282.3	271.2	265.6	**251.0**
	Industrial Castings	47.6	45.5	38.8	34.3	**34.8**
	Environmental Control Plant	96.1	107.3	105.9	104.6	**97.3**
	Industrial Machinery	99.7	72.4	73.6	71.1	**76.1**
Sales by Geographic Segment	Japan	495.8	481.9	467.7	460.6	**444.9**
	Overseas	54.4	25.6	21.8	15.0	**14.3**
Building Materials and Housing		189.4	133.2	117.2	125.9	**111.6**
Sales by Sector	Building Materials	96.6	76.8	61.9	65.7	**60.4**
	Housing	92.8	56.4	55.3	60.2	**51.2**
Sales by Geographic Segment	Japan	189.4	133.2	117.2	125.9	**111.6**
	Overseas	0.0	0.0	0.0	0.0	**0.0**

INTERNAL COMBUSTION ENGINE AND MACHINERY

Sales in Internal Combustion Engine and Machinery increased 9.8% from the previous fiscal year to ¥423.7 billion ($3,417 million), comprising 42.6% of consolidated net sales. Domestic sales advanced 13.4%, to ¥242.5 billion ($1,956 million), while overseas sales were up 5.4%, to ¥181.2 billion ($1,461 million).


Wheel loader


Combine harvester

FARM EQUIPMENT AND ENGINES

Sales of farm equipment increased from the previous fiscal year. The main factors for the increase in sales were the satisfactory sales of both the “JOYCOM” series of tractor, rice transplanter, and combine harvester and the compact tractor “NEW GRANBIA.” Both of these products were introduced for farmers in suburban or mountainous regions. Increased sales were also due, in part, to the favorable sales of “WELSTAR” (a new rice transplanter) and the “AERO” series of combine harvester. Both of these products were introduced for large-scale farming applications.

In the overseas market, especially in North America—the Company’s main foreign market—the Company fortified its supply system for the spring season, in which demand for agricultural machinery is highest. The Company attempted to expand sales and improve profitability by shortening lead times and reducing distribution costs.


Mini-excavator

The new concept sub-compact tractor series “BX” with 18hp and 22hp engines was received exceptionally well by consumers. In the U.S.A., the Company was able to maintain a more than 40% market share for below-40hp tractors, which is the mainstay of the tractor business within the Company. With the number of tractors sold in the U.S. market this year, the Company recorded an all-time high.

In Europe, due to stable business conditions and an equally good reception of the sub-compact tractor series “BX,” sales of tractors grew, especially in France, Germany, the U.K., and certain southern European countries.

In Asian markets, under the influence of China’s policy of reducing rice-paddy acreage, sales of our combine harvester declined.

Sales of engines decreased compared with the previous fiscal year. In the domestic market, due to the Japanese recession and reductions in public investment, sales to manufacturers of both construction machinery and industrial


Diesel zero-turn mower: ZD21

machinery declined. In the U.S.A., sales of engines to original equipment manufacturers declined. The main reason was that manufacturers of generator units for leisure vehicles or refrigeration units for freight vehicles reduced their production. However, sales of engines for lawn mowers grew favorably as a result of steady new housing starts and private consumption. In


Sub-compact tractor model: BX1800D

Electric scooter

European markets, overall sales held steady, thanks to good economic conditions.

Sales of construction machinery increased compared with the previous fiscal year. In the domestic market, affected by sluggish demand, sales of mini-excavators continued to decrease. However, due to an increase in the number of consolidated subsidiaries, total sales increased. In EU countries, the market continued to grow due to good economic conditions. In North America, the U.S. economy started to show signs of a slowdown, but mini-excavators were still needed, and fortunately both sales and market share for our mini-excavators expanded.

Mini-excavator in Europe

INDUSTRIAL PRODUCTS AND ENGINEERING

Sales in Industrial Products and Engineering declined 3.4%, to ¥459.2 billion ($3,703 million), compared with the previous fiscal year, accounting for 46.2% of consolidated net sales. Domestic sales were down 3.4% to ¥444.9 billion ($3,587 million), and overseas sales decreased 4.1%, to ¥14.3 billion ($116 million).

PIPE AND FLUID SYSTEMS ENGINEERING

Sales in pipe and fluid systems engineering retreated 5.5%, to ¥251.0 billion ($2,025 million). Domestic sales were down 5.8%, to ¥245.2 billion ($1,977 million), but overseas sales increased 10.1%, to ¥5.8 billion ($48 million). Due to lower demand from large local governments and stagnant investment from medium-sized and small local governments, sales of ductile iron pipe, the mainstay of this business segment, centering on sales in the water supply market, decreased. Sales of unplasticized polyvinyl chloride (PVC) pipes decreased compared with the previous fiscal year, especially in the telecommunication-related product market. Sales of spiral-welded steel pipes were down, influenced by reductions in public-sector investment and deferred investment by electric power companies. Sales of pumps retreated due to a decreased demand for large-sized products from local governments. In addition, the Company has been excluded from public bidding for some local government contracts for a certain period of time, due to a violation of the Japanese Commercial Code. Sales of valves also retreated, influenced by reductions in public investment and exclusion from public bidding. Sales by Kubota Construction Co., Ltd., decreased due to regional governments beginning to curtail the number of public construction projects, owing to their own internal financial difficulties.

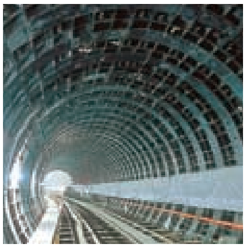
Ductile iron pipe

INDUSTRIAL CASTING

Sales of industrial castings increased 1.4%, to ¥34.8 billion ($280 million). Domestic sales were up 4.3%, to ¥27.2 billion ($219 million), however, overseas sales were down 7.9%, to ¥7.6 billion ($61 million). In the public works market, sales of ductile segments for tunnels decreased but sales of G-piles (cast steel piles for preventing landslides) increased due to

Gasification and melting furnace

increased market competitiveness caused by the development of a new type of joint for these piles. Additionally, sales of sewage pipe increased, supported by favorable demand for the construction of condominiums. Sales of rolls for steel mills increased, thanks in part to the large volume of exports to South Korea. In overseas markets, Kubota Metal Corporation, a Canadian subsidiary of the Company, recorded decreased sales because of the economic slowdown in North America. Demand from the chemical industry has decreased, and the Company's European competitors gained higher market shares under cover of the depreciation of the euro.



Ductile segments used in underground tunnels

ENVIRONMENTAL CONTROL PLANT

Sales in environmental control plant were down 7.0%, to ¥97.3 billion ($785 million). Domestic sales decreased 6.8%, to ¥97.0 billion ($782 million). Overseas sales were down 47.3%, to ¥0.3 billion ($3 million). Orders for sewage treatment plants, the mainstay within this business unit, declined due to reductions in public investment budgets. However, sales throughout the year increased slightly, thanks to the satisfactory amount of orders in the previous fiscal year. Sales of landfill waste leachate treatment plants increased. Both orders for and sales of advanced water purification plants declined. However, recovery in demand is expected from replacement demand from water purification plants due to deterioration and demand for our activated sludge system with submerged membranes for the elimination of Cryptosporidium. Both sales of and orders for night-soil treatment plants declined, just as in the previous fiscal year. On the other hand, both sales of and orders for refuse incineration plants and recycling plants increased. The increase was especially notable in the business of refuse incineration plants, where the rotating-type surface melting furnace, which is on original Kubota product, is highly acclaimed. The reason was that many regional governments have given priority to remodeling their refuse incineration plants, preparing for new regulations concerning dioxins in waste gas emissions. This led to several large orders.

Refuse incineration plant

INDUSTRIAL MACHINERY

Sales of industrial machinery rose 6.9%, to ¥76.1 billion ($613 million) from the previous fiscal year. Domestic sales increased 7.3%, to ¥75.5 billion ($609 million), but overseas sales declined 28.8%, to ¥0.6 billion ($4 million).

Butterfly valves

BUILDING MATERIALS AND HOUSING

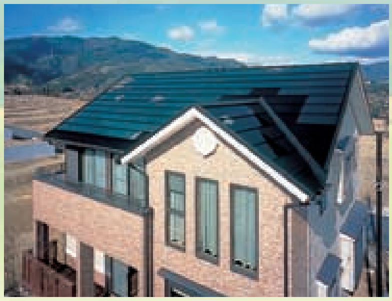
Sales of Building Materials and Housing decreased 11.3%, to ¥111.6 billion ($900 million), accounting for 11.2% of consolidated net sales.

Sales of roofing materials declined, affected partly by shrinking demand for roofing materials and the effort to reduce inventories in distribution channels. Sales of unit bathrooms, for which production has since been discontinued, also decreased. On the other hand, sales of siding materials kept a steady level compared to the previous fiscal year, thanks to the aggressive strengthening of our product lineup and fortification of the sales force. Sales of Johkasou systems (septic tanks) rose, because these systems have been converted from single use, for night soil only, to dual use, for both night soil and wastewater from people's daily lives.

Colored cement roofing materials

Kubota House Co., Ltd., was split into two companies in October 2000. The new Kubota House Co., Ltd., which is responsible for sales of prefabricated houses, recorded lower sales compared with the previous year due mainly to lackluster new housing starts and fierce competition. Kubota House is striving to strengthen its sales force by introducing an incentive plan which more accurately reflects and rewards the performance of each employee. Kubota House is also striving to aggressively expand sales of the new "Celeb" series of housing.

Prefabricated house: "Celeb"



Roof-system fixed photovoltaic (PV) shingles: "New Ecolony"

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, 1999, 1998, and 1997

	Millions of Yen (Except Per Share Information)					Thousands of U.S. Dollars (Except Per Share Information)
	2001	2000	1999	1998	1997	**2001**
For the year						
Net sales	**¥ 994,493**	¥ 987,265	¥ 976,652	¥1,029,437	¥1,141,510	**$ 8,020,105**
Percentage of previous year	**100.7%**	101.1%	94.9%	90.2%	106.5%	
Cost of sales	**742,516**	738,838	729,488	767,588	859,711	**5,988,032**
Selling, general, and administrative expenses	**208,295**	212,757	214,361	214,345	217,710	**1,679,798**
Loss from disposal of businesses and fixed assets	**489**	6,499	1,819	34,792	1,414	**3,944**
Operating income	**43,193**	29,171	30,984	12,712	62,675	**348,331**
Cumulative effect of an accounting change	**(21,559)**	—	—	—	—	**(173,863)**
Net income	**9,795**	16,428	15,106	27,683	28,945	**78,992**
Percentage of previous year	**59.6%**	108.8%	54.6%	95.6%	112.6%	
Percentage of net sales	**1.0%**	1.7%	1.5%	2.7%	2.5%	
Net income per 20 common shares (Yen and U.S. Dollars):						
Basic	**¥139**	¥233	¥214	¥393	¥411	**$1.12**
Diluted	**137**	221	203	361	377	**1.10**
Pro forma amounts assuming accounting change was applied retroactively:						
Net income (loss)	**¥ 31,354**	¥ 14,881	¥ (1,137)	¥ 27,985	¥ 28,806	**$ 252,855**
Net income (loss) per 20 common shares: (Yen and U.S. Dollars):						
Basic	**¥ 445**	¥ 211	¥ (16)	¥ 397	¥ 409	**$ 3.59**
Diluted	**415**	201	(16)	365	375	**3.35**
At year-end						
Total assets	**¥1,290,756**	¥1,320,605	¥1,378,324	¥1,431,105	¥1,565,666	**$10,409,323**
Working capital	**201,013**	226,351	237,297	218,442	220,055	**1,621,072**
Long-term debt	**182,238**	233,257	266,195	254,354	291,657	**1,469,661**
Total shareholders' equity	**434,979**	449,647	424,443	434,481	474,166	**3,507,895**
Shareholders' equity per 20 common shares outstanding (Yen and U.S. Dollars):	**¥6,171**	¥6,380	¥6,022	¥6,164	¥6,727	**$50**

Notes:
1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥124=US$1. See Note 1 to the consolidated financial statements.
2. The Company has not accounted for a nonmonetary security exchange transaction in accordance with accounting principles generally accepted in the United States of America. See Note 1 to the consolidated financial statements.
3. Pro forma data reflects the effect of an accounting change in retirement and pension costs described in Note 6 to the consolidated financial statements.
4. Certain reclassifications have been made to amounts previously presented in the Five-Year Financial Summary for 2000, 1999, 1998, and 1997 to conform with classifications used in 2001. See Note 1 to the consolidated financial statements.

1. SALES AND EARNINGS

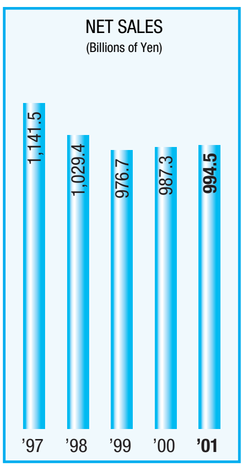
The Japanese economy, in the first half of the year ended March 31, 2001, followed a path of moderate recovery, stimulated by brisk capital expenditures due in part to the recovery of corporate profitability. Under harsh conditions surrounding employment and income, private consumption remained sluggish. In the latter half of the year under review, the economy became more stagnant as a result of decreasing foreign demand and depression of the Japanese stock market. In the United States, the economic slowdown gained attention, with a focus on IT-related industry, but new housing starts and private consumption have been steady. European countries also had moderate economic growth as a whole.

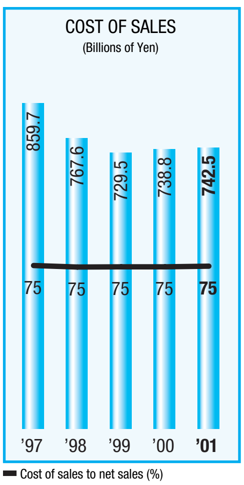
Under such conditions, consolidated net sales of the Company in the year under review were ¥994.5 billion ($8,020 million), a 0.7% increase from the previous fiscal year. Sales in Internal Combustion Engine and Machinery rose 9.8%, to ¥423.7 billion ($3,417 million). On the other hand, sales in Industrial Products and Engineering decreased 3.4%, to ¥459.2 billion ($3,703 million), and sales in Building Materials and Housing decreased 11.3%, to ¥111.6 billion ($900 million). Domestic sales were ¥799.0 billion ($6,443 million), a 0.2% decrease from the previous fiscal year, and sales in overseas countries were ¥195.5 billion ($1,577 million), a 4.6% increase from the previous fiscal year.

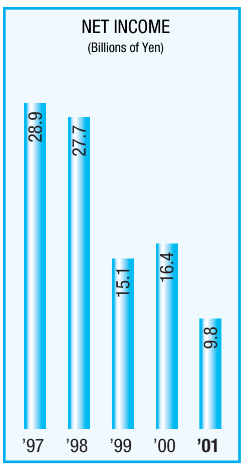
In Japan, sales in Internal Combustion Engine and Machinery advanced favorably. Sales of farm equipment and engines increased from the previous fiscal year, due to satisfactory sales of products that were introduced for farmers in suburban or mountainous regions. Increased sales were also due in part to the favorable sales of products introduced for large-scale farming applications. In Industrial Products and Engineering, although sales in industrial castings increased, sales in ductile iron pipes, pumps, and unplasticized PVC pipes, which are the mainstay products in this segment, decreased due to the reduction of public works spending. As a result, total sales in this segment declined. Sales in Building Materials and Housing decreased, affected directly by lackluster domestic new housing starts and fierce competition. As a result, total domestic sales decreased 0.2%, to ¥799.0 billion ($6,443 million).

Overseas sales increased 4.6%, to ¥195.5 billion ($1,577 million), driven by North America, the main foreign market, due mainly to exceptionally good acceptance of the new concept sub-compact tractor "BX" series with 18hp and 22hp engines.

Consolidated operating income increased 48.1% from the previous fiscal year, to ¥43.2 billion ($348 million), which as a percentage of net sales represents a 1.3 percentage point rise, to 4.3%.







Operating income in each industry segment (before elimination of the intersegment profits and corporate expenses) was ¥43.2 billion ($348 million) in Internal Combustion Engine and Machinery, ¥24.5 billion ($197 million) in Industrial Products and Engineering, and a ¥6.6 billion ($53 million) operating loss in Building Materials and Housing. Cost of sales increased 0.5% compared with the previous fiscal year, to ¥742.5 billion ($5,988 million). The cost of sales ratio decreased 0.1 percentage point, to 74.7%.

Consolidated selling, general, and administrative (SG&A) expenses decreased 2.1% compared with the previous fiscal year, to ¥208.3 billion ($1,680 million). This is primarily because corporate office costs were reduced under urgent measures to recover profitability, and pension costs also declined. SG&A expenses as a percentage of net sales improved 0.7 percentage point, to 20.9%.

R&D expenses in fiscal 2001 were down ¥2.9 billion from the previous fiscal year, to ¥30.3 billion ($244 million). As a percentage of net sales, R&D expenses declined 0.4 percentage point, to 3.0%. The fields of study where R&D expenses were mainly spent were the development of new tractors for overseas markets, improvement in diesel engines, and developments in water-purification systems.

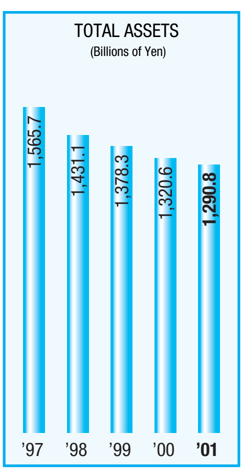
Other income, net, increased ¥22.1 billion, to ¥16.2 billion ($130 million). Interest and dividend income increased and interest expense decreased, but this increase in other income was explained mainly by the gain on contribution of securities to the employee retirement benefit trust.

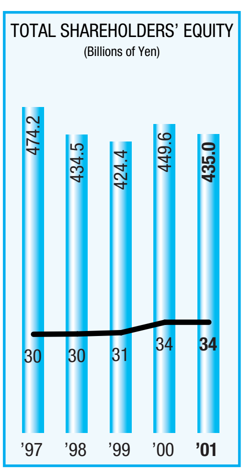
Consolidated income before income taxes, equity in net income of affiliated companies and cumulative effects of an accounting change increased ¥36.1 billion, to ¥59.3 billion ($479 million). Excluding the gain on contribution of securities, consolidated income before income taxes, equity in net income of affiliated companies and cumulative effect of an accounting change would have been ¥40.1 billion ($323 million).

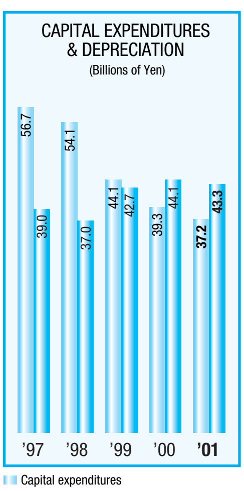
Total income taxes increased ¥19.4 billion compared with the previous fiscal year, to ¥28.2 billion ($228 million). This is mainly due to the ¥15.0 billion increase in income taxes–deferred, in addition to the ¥4.5 billion increase in income taxes–current.

Equity in net income of affiliated companies decreased to ¥0.2 billion ($2 million). The main reason for the decrease was the consolidation of 16 sales companies for agricultural and construction machinery, previously accounted for as affiliates.

Consolidated net income decreased ¥6.6 billion, to ¥9.8 billion ($79 million). The ratio of net income to net sales decreased 0.7 percentage point, to 1.0%. Pro forma income before cumulative effects of an accounting







change assuming the accounting change was applied retroactively, was ¥31.4 billion ($253 million).

The return on shareholders' equity decreased 1.6 percentage points, to 2.2%. Basic net income per 20 common shares was ¥139, a ¥94 decrease from the previous fiscal year, and diluted net income per 20 common shares was ¥137, an ¥84 decrease from the previous fiscal year.

The Company's basic policy for the allocation of profit is to "maintain or raise dividends." The Company's policy is to determine the most appropriate use of retained earnings, by considering current business operations as well as the future business environment. A year-end cash dividend per share of Kubota Corporation at the rate of ¥3 was approved at the Ordinary General Meeting of Shareholders, held on June 27, 2001. Kubota Corporation also paid a ¥3 per share interim dividend to each shareholder. Accordingly, the annual cash dividends per share were ¥6.

2. LIQUIDITY AND CAPITAL RESOURCES

The Company's financial policy is to maintain the strength of its balance sheet, by assuring adequate financing and liquidity for its operations. Through cash and cash equivalents or other current assets, free cash flow, and borrowing from the capital markets, the Company is in a position to finance its expansion of business, R&D, and capital expenditures for future and new business projects.

Current financial strategies are "Reduction of interest-bearing debt" and "Reshaping the balance sheet." As for the reduction of the interest-bearing debt, the Company plans to reduce interest-bearing debt to ¥330 billion, by the end of March 2002. The amount at the end of March 2001 was ¥372.2 billion ($3,002 million).

The amount of interest-bearing debt increased ¥1.1 billion compared with the previous fiscal year. This increase was due to U.S. subsidiaries, such as Kubota Credit Corporation, U.S.A., Kubota Tractor Corporation, and Kubota Manufacturing of America Corporation, increasing their short-term borrowings, although interest-bearing debt of the parent company was reduced ¥25.5 billion through the reduction of capital expenditures and inventories. Sales of such subsidiaries were brisk, thanks to good economic conditions in the U.S.A., which led to an increase in short-term borrowings.

As for reshaping the balance sheet, such financing necessary for IT-related investment, M&A, and other investment will be raised through reshaping the balance sheet and net cash provided by operating activities.

In order to enhance financing efficiency, the Company has established lines of credit totaling ¥30 billion ($242 million) with specific banks and maintained liquidity, while reducing surplus cash as much as possible.

Currently, the Company has adequate financing resources. The currency in which the Company has its debt is mainly Japanese yen. There are no restrictions on the way in which the financing will be spent. Our demand for financing varies seasonally. From April to June, the Company usually has surplus funds. This is because in such periods the Company has a lot of collections from notes and accounts receivable with local governments every year.

Total assets at fiscal year-end amounted to ¥1,290.8 billion ($10,409 million), ¥29.8 billion less than at the previous fiscal year-end. This was mainly due to a decline in the amount of investments.

Cash and cash equivalents decreased to ¥78.6 billion ($634 million), due mainly to a reduction of short-term financial assets. Notes and accounts receivable increased ¥58.9 billion, to ¥463.8 billion ($3,741 million), primarily because the last day of the fiscal year fell on a holiday for financial institutions. Inventories increased ¥7.2 billion, to ¥180.3 billion ($1,454 million). In the business of ductile iron pipes and housing building materials, inventories were reduced, but overseas subsidiaries and domestic sales companies for agricultural machinery increased their inventories. As a result, total inventories increased. Therefore, total current assets increased ¥57.8 billion, to ¥766.9 billion ($6,184 million).

Total investments decreased ¥86.3 billion, to ¥207.8 billion ($1,676 million). This decrease was mainly caused by a decrease in net unrealized holding gains on securities (¥49.3 billion), and contribution of securities valued at ¥33.1 billion ($267 million) to the employee retirement benefit trust.

On the liabilities side, total liabilities amounted to ¥855.8 billion ($6,901 million), a ¥15.2 billion decrease compared with the previous fiscal year. Current liabilities increased primarily because overseas subsidiaries increased their short-term borrowings.

Total long-term liabilities declined ¥98.3 billion to ¥289.9 billion ($2,338 million), thanks to the decrease in long-term debt, which was primarily due to the redemption and conversion of bonds.

Working capital at fiscal year-end decreased ¥25.3 billion, to ¥201.0 billion ($1,621 million). The current ratio was down 11.4 percentage points from the previous fiscal year-end, to 135.5%. This was due to an increase in both short-term borrowings and trade notes and accounts payable.

Due to a decrease in net unrealized holding gains on securities, total shareholders' equity decreased ¥14.7 billion, to ¥435.0 billion ($3,508 million). Therefore, the shareholders' equity ratio decreased 0.3 percentage point, to 33.7%.

Based on the number of shares outstanding at fiscal year-end, shareholders' equity per 20 common shares decreased ¥209, to ¥6,171.

3. CASH FLOWS

Cash and cash equivalents at fiscal year-end was the same as that of the previous fiscal year, ¥78.6 billion ($634 million), which includes the positive effect of exchange rate changes on cash and cash equivalents of ¥0.6 billion ($5 million).

Net cash provided by operating activities decreased ¥30.8 billion, to ¥48.5 billion ($391 million). This decrease was derived primarily from the large increase in notes and accounts receivable. The main reason for this was that the last day of the fiscal year fell on a holiday for financial institutions.

Net cash used in investing activities amounted to ¥23.0 billion ($186 million), compared with ¥29.2 billion in the previous fiscal year. Capital expenditures and purchases of investments, while the proceeds from sales of property, plant, and equipment increased. As a result, net cash used in investing activities decreased.

Net cash used in financing activities amounted to ¥26.1 billion ($211 million), compared with ¥65.3 billion in the previous fiscal year. The reduction in long-term debt continued from the previous fiscal year, although short-term borrowings increased, centering on overseas subsidiaries. As a whole, net cash used in financing activities declined.

4. DERIVATIVES

To minimize or avoid currency and interest rate fluctuation risks, the Company uses various types of derivatives, including foreign exchange forward contracts, currency swaps, and interest rate swaps. As a basic policy, Kubota conducts its derivative transactions within the range of its outstanding credits and obligations, and the Company does not engage in speculative derivative transactions. Because the counterparties for derivative transactions are financial institutions with high creditability, the Company does not anticipate any credit risk for such transactions. For more specific details, please refer to Note 12 to the consolidated financial statements.

SEGMENT INFORMATION

The following segment information for the years ended March 31, 2001 and 2000, which is required under the regulations of the Securities and Exchange Law of Japan, is not consistent with accounting principles generally accepted in the United States of America.

Industry Segments

	Millions of Yen					
Year Ended March 31, 2001	Internal Combustion Engine & Machinery	Industrial Products & Engineering	Building Materials & Housing	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**¥423,678**	**¥459,194**	**¥111,621**	**¥ 994,493**	**¥ —**	**¥ 994,493**
Intersegment	**114**	**9,919**	**598**	**10,631**	**(10,631)**	**—**
Total	**423,792**	**469,113**	**112,219**	**1,005,124**	**(10,631)**	**994,493**
Cost of sales and operating expenses	**380,634**	**444,655**	**118,825**	**944,114**	**7,186**	**951,300**
Operating income (loss)	**¥ 43,158**	**¥ 24,458**	**¥ (6,606)**	**¥ 61,010**	**¥ (17,817)**	**¥ 43,193**
Identifiable assets at March 31, 2001	**¥480,274**	**¥485,732**	**¥109,101**	**¥1,075,107**	**¥215,649**	**¥1,290,756**
Depreciation	**14,939**	**21,861**	**3,820**	**40,620**	**2,691**	**43,311**
Capital expenditures	**11,078**	**19,871**	**2,416**	**33,365**	**3,805**	**37,170**

	Millions of Yen					
Year Ended March 31, 2000	Internal Combustion Engine & Machinery	Industrial Products & Engineering	Building Materials & Housing	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥385,799	¥475,575	¥125,891	¥ 987,265	¥ —	¥ 987,265
Intersegment	10	10,518	187	10,715	(10,715)	—
Total	385,809	486,093	126,078	997,980	(10,715)	987,265
Cost of sales and operating expenses	348,978	458,727	133,836	941,541	16,553	958,094
Operating income (loss)	¥ 36,831	¥ 27,366	¥ (7,758)	¥ 56,439	¥ (27,268)	¥ 29,171
Identifiable assets at March 31, 2000	¥424,194	¥504,531	¥123,740	¥1,052,465	¥268,140	¥1,320,605
Depreciation	13,987	22,633	4,552	41,172	2,977	44,149
Capital expenditures	14,964	19,713	2,526	37,203	2,091	39,294

	Thousands of U.S. Dollars					
Year Ended March 31, 2001	Internal Combustion Engine & Machinery	Industrial Products & Engineering	Building Materials & Housing	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**$3,416,758**	**$3,703,178**	**$900,169**	**$8,020,105**	**$ —**	**$ 8,020,105**
Intersegment	**919**	**79,992**	**4,823**	**85,734**	**(85,734)**	**—**
Total	**3,417,677**	**3,783,170**	**904,992**	**8,105,839**	**(85,734)**	**8,020,105**
Cost of sales and operating expenses	**3,069,629**	**3,585,928**	**958,266**	**7,613,823**	**57,951**	**7,671,774**
Operating income (loss)	**$ 348,048**	**$ 197,242**	**$ (53,274)**	**$ 492,016**	**$ (143,685)**	**$ 348,331**
Identifiable assets at March 31, 2001	**$3,873,177**	**$3,917,194**	**$879,847**	**$8,670,218**	**$1,739,105**	**$10,409,323**
Depreciation	**120,476**	**176,298**	**30,807**	**327,581**	**21,701**	**349,282**
Capital expenditures	**89,339**	**160,250**	**19,484**	**269,073**	**30,685**	**299,758**

Geographic Segments

	Millions of Yen					
Year Ended March 31, 2001	Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**¥818,024**	**¥133,115**	**¥43,354**	**¥ 994,493**	**¥ —**	**¥ 994,493**
Intersegment	**109,553**	**2,729**	**760**	**113,042**	**(113,042)**	**—**
Total	**927,577**	**135,844**	**44,114**	**1,107,535**	**(113,042)**	**994,493**
Cost of sales and operating expenses	**883,123**	**121,271**	**41,408**	**1,045,802**	**(94,502)**	**951,300**
Operating income	**¥ 44,454**	**¥ 14,573**	**¥ 2,706**	**¥ 61,733**	**¥ (18,540)**	**¥ 43,193**
Identifiable assets at March 31, 2001	**¥906,422**	**¥125,169**	**¥36,501**	**¥1,068,092**	**¥222,664**	**¥1,290,756**

	Millions of Yen					
Year Ended March 31, 2000	Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥821,031	¥118,660	¥47,574	¥ 987,265	¥ —	¥ 987,265
Intersegment	115,780	1,651	613	118,044	(118,044)	—
Total	936,811	120,311	48,187	1,105,309	(118,044)	987,265
Cost of sales and operating expenses	893,647	109,690	44,601	1,047,938	(89,844)	958,094
Operating income	¥ 43,164	¥ 10,621	¥ 3,586	¥ 57,371	¥ (28,200)	¥ 29,171
Identifiable assets at March 31, 2000	¥921,900	¥ 80,340	¥38,105	¥1,040,345	¥280,260	¥1,320,605

	Thousands of U.S. Dollars					
Year Ended March 31, 2001	Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**$6,596,968**	**$1,073,508**	**$349,629**	**$8,020,105**	**$ —**	**$ 8,020,105**
Intersegment	**883,492**	**22,008**	**6,129**	**911,629**	**(911,629)**	**—**
Total	**7,480,460**	**1,095,516**	**355,758**	**8,931,734**	**(911,629)**	**8,020,105**
Cost of sales and operating expenses	**7,121,960**	**977,992**	**333,935**	**8,433,887**	**(762,113)**	**7,671,774**
Operating income	**$ 358,500**	**$ 117,524**	**$ 21,823**	**$ 497,847**	**$ (149,516)**	**$ 348,331**
Identifiable assets at March 31, 2001	**$7,309,855**	**$1,009,427**	**$294,363**	**$8,613,645**	**$1,795,678**	**$10,409,323**

Sales by Region

	Millions of Yen				Thousands of U.S. Dollars
Years Ended March 31, 2001 and 2000	**2001**		2000		**2001**
Japan	**¥798,986**	**80.3%**	¥800,414	81.1%	**$6,443,436**
Overseas:					
North America	**132,410**	**13.3**	121,583	12.3	**1,067,823**
Other Areas	**63,097**	**6.4**	65,268	6.6	**508,846**
Subtotal	**195,507**	**19.7**	186,851	18.9	**1,576,669**
Total	**¥994,493**	**100.0%**	¥987,265	100.0%	**$8,020,105**

Sales by region represent sales to unaffiliated customers based on the customers' locations.

Kubota Corporation and Subsidiaries March 31, 2001 and 2000

ASSETS	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 1) 2001
Current assets:			
Cash and cash equivalents	**¥ 78,633**	¥ 78,642	**$ 634,137**
Short-term investments (Note 4)	**2,348**	8,015	**18,936**
Notes and accounts receivable (Note 3):			
Trade notes	**115,526**	117,047	**931,661**
Trade accounts	**258,405**	216,777	**2,083,911**
Finance receivables	**92,254**	68,059	**743,984**
Other	**12,270**	13,069	**98,952**
Less: Unearned income	**(9,752)**	(6,579)	**(78,645)**
Allowance for doubtful receivables	**(4,858)**	(3,454)	**(39,178)**
Inventories (Note 2)	**180,318**	173,080	**1,454,177**
Prepaid expenses and other (Note 9)	**41,720**	44,454	**336,452**
Total current assets	**766,864**	709,110	**6,184,387**
Investments:			
Investments in and advances to affiliated companies (Note 3)	**10,778**	14,072	**86,919**
Other investments (Note 4)	**196,997**	280,014	**1,588,686**
Total investments	**207,775**	294,086	**1,675,605**
Property, plant, and equipment (Note 5):			
Land	**92,508**	85,346	**746,032**
Buildings	**196,893**	192,142	**1,587,847**
Machinery and equipment	**458,798**	462,671	**3,699,984**
Construction in progress	**3,637**	3,905	**29,331**
Total	**751,836**	744,064	**6,063,194**
Accumulated depreciation	**(461,763)**	(453,550)	**(3,723,895)**
Net property, plant, and equipment	**290,073**	290,514	**2,339,299**
Other assets (Note 9)	**26,044**	26,895	**210,032**
Total	**¥1,290,756**	¥1,320,605	**$10,409,323**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 1) 2001
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 122,384**	¥ 88,967	**$ 986,968**
Trade notes payable	**75,987**	63,365	**612,798**
Trade accounts payable	**170,631**	155,397	**1,376,057**
Advances received from customers	**8,711**	10,348	**70,250**
Notes and accounts payable for capital expenditures	**14,533**	13,456	**117,202**
Accrued payroll costs	**24,329**	23,945	**196,202**
Income taxes payable	**13,769**	10,780	**111,040**
Other current liabilities	**67,895**	67,542	**547,540**
Current portion of long-term debt (Note 5)	**67,612**	48,959	**545,258**
Total current liabilities	**565,851**	482,759	**4,563,315**
Long-term liabilities:			
Long-term debt (Note 5)	**182,238**	233,257	**1,469,661**
Accrued retirement and pension costs (Note 6)	**89,641**	110,095	**722,911**
Other long-term liabilities (Note 9)	**18,047**	44,847	**145,541**
Total long-term liabilities	**289,926**	388,199	**2,338,113**
Commitments and contingencies (Notes 12 and 14)			
Shareholders' equity (Notes 7 and 11):			
Common stock, ¥50 par value— authorized 2,000,000,000 shares; issued and outstanding 1,409,808,978 shares and 1,409,655,369 shares in 2001 and 2000, respectively	**78,156**	78,107	**630,290**
Additional paid-in capital	**87,263**	87,213	**703,734**
Legal reserve	**19,539**	19,527	**157,572**
Retained earnings	**215,739**	214,414	**1,739,831**
Accumulated other comprehensive income	**34,282**	50,386	**276,468**
Total shareholders' equity	**434,979**	449,647	**3,507,895**
Total	**¥1,290,756**	¥1,320,605	**$10,409,323**

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	**2001**
Net sales (Note 3)	**¥994,493**	¥987,265	¥976,652	**$8,020,105**
Cost of sales	**742,516**	738,838	729,488	**5,988,032**
Selling, general, and administrative expenses	**208,295**	212,757	214,361	**1,679,798**
Loss from disposal of businesses and fixed assets (Note 13)	**489**	6,499	1,819	**3,944**
Operating income	**43,193**	29,171	30,984	**348,331**
Other income (expenses):				
Interest and dividend income	**10,042**	8,635	11,680	**80,984**
Interest expense	**(8,140)**	(10,021)	(13,913)	**(65,645)**
Gain on contribution of securities to the employee retirement benefit trust (Notes 4 and 6)	**19,277**	—	—	**155,459**
Other—net (Note 8)	**(5,023)**	(4,553)	3,547	**(40,508)**
Other income (expenses), net	**16,156**	(5,939)	1,314	**130,290**
Income before income taxes, equity in net income (loss) of affiliated companies and cumulative effect of an accounting change	**59,349**	23,232	32,298	**478,621**
Income taxes (Note 9):				
Current	**25,192**	20,738	23,300	**203,161**
Deferred	**3,038**	(11,952)	(7,513)	**24,500**
Total income taxes	**28,230**	8,786	15,787	**227,661**
Equity in net income (loss) of affiliated companies (Note 3)	**235**	1,982	(1,405)	**1,895**
Income before cumulative effect of an accounting change	**31,354**	16,428	15,106	**252,855**
Cumulative effect of an accounting change (Note 6)	**(21,559)**	—	—	**(173,863)**
Net income	**¥9,795**	¥ 16,428	¥ 15,106	**$78,992**
	Yen			U.S. Dollars (Note 1)
Net income per 20 common shares (Note 10):				
Basic:				
Income before cumulative effect of an accounting change	**¥445**	¥233	¥214	**$3.59**
Cumulative effect of an accounting change	**(306)**	—	—	**(2.47)**
Net income	**139**	233	214	**1.12**
Diluted:				
Income before cumulative effect of an accounting change	**415**	221	203	**3.35**
Cumulative effect of an accounting change	**(278)**	—	—	**(2.25)**
Net income	**137**	221	203	**1.10**
Cash dividends per 20 common shares	**120**	120	120	**0.97**
	Millions of Yen (Except Per Share Information)			Thousands of U.S. Dollars (Except Per Share Information)
Pro forma amounts assuming accounting change was applied retroactively:				
Net income (loss)	**¥31,354**	¥14,881	¥(1,137)	**$252,855**
Net income (loss) per 20 common shares:				
Basic	**¥ 445**	¥ 211	¥ (16)	**$ 3.59**
Diluted	**415**	201	(16)	**3.35**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	**2001**
Net income	**¥ 9,795**	¥16,428	¥15,106	**$ 78,992**
Other comprehensive income (loss), net of tax (Note 11):				
Foreign currency translation adjustments	**5,657**	(6,712)	(3,372)	**45,621**
Unrealized gains (losses) on securities	**(38,568)**	8,571	(6,973)	**(311,032)**
Minimum pension liability adjustment	**16,807**	15,375	(6,341)	**135,540**
Other comprehensive income (loss)	**(16,104)**	17,234	(16,686)	**(129,871)**
Comprehensive income (loss)	**¥ (6,309)**	¥33,662	¥ (1,580)	**$ (50,879)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, and 1999

		Millions of Yen				
	Shares of Common Stock Outstanding (Thousands)	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income
Balance, April 1, 1998	1,409,655	¥78,107	¥87,213	¥19,527	¥199,796	¥49,838
Net income					15,106	
Other comprehensive loss						(16,686)
Cash dividends, ¥120 per 20 common shares					(8,458)	
Balance, March 31, 1999	1,409,655	78,107	87,213	19,527	206,444	33,152
Net income					16,428	
Other comprehensive income						17,234
Cash dividends, ¥120 per 20 common shares					(8,458)	
Balance, March 31, 2000	1,409,655	78,107	87,213	19,527	214,414	50,386
Stock issued on conversion of debt	**154**	**49**	**50**			
Net income					**9,795**	
Other comprehensive loss						**(16,104)**
Cash dividends, ¥120 per 20 common shares					**(8,458)**	
Transfer to legal reserve				**12**	**(12)**	
Balance, March 31, 2001	**1,409,809**	**¥78,156**	**¥87,263**	**¥19,539**	**¥215,739**	**¥34,282**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income
Balance, March 31, 2000	$629,895	$703,331	$157,475	$1,729,146	$406,339
Stock issued on conversion of debt	**395**	**403**			
Net income				**78,992**	
Other comprehensive loss					**(129,871)**
Cash dividends, $0.97 per 20 common shares				**(68,210)**	
Transfer to legal reserve			**97**	**(97)**	
Balance, March 31, 2001	**$630,290**	**$703,734**	**$157,572**	**$1,739,831**	**$276,468**

See notes to consolidated financial statements.

Kubota Corporation and Subsidiaries Years Ended March 31, 2001, 2000, and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	**2001**
Operating activities:				
Net income	**¥ 9,795**	¥16,428	¥15,106	**$ 78,992**
Adjustments to reconcile net income to net cash provided by operating activities:				
Cumulative effect of an accounting change	**21,559**	—	—	**173,863**
Depreciation and amortization	**43,926**	45,164	45,636	**354,242**
Provision for (reversal of) doubtful receivables	**1,090**	(836)	403	**8,790**
Provision for retirement and pension costs, less payments	**3,896**	7,742	9,944	**31,419**
Gain on sales of securities	**(821)**	(2,814)	(4,859)	**(6,621)**
Loss (gain) on disposals of fixed assets	**(1,532)**	1,826	1,819	**(12,355)**
Gain on contribution of securities to the employee retirement benefit trust	**(19,277)**	—	—	**(155,459)**
Gain on exchange of securities	**—**	—	(576)	**—**
Equity in net (income) loss of affiliated companies, less dividends	**200**	(1,427)	1,438	**1,613**
Deferred income taxes	**3,038**	(11,952)	(7,513)	**24,500**
Decrease (increase) in notes and accounts receivable	**(46,549)**	27,093	18,399	**(375,395)**
Decrease (increase) in inventories	**3,474**	4,838	(733)	**28,016**
Decrease (increase) in other current assets	**854**	(16,433)	244	**6,887**
Increase in trade notes and accounts payable	**19,053**	1,742	3,003	**153,653**
Increase (decrease) in income taxes payable	**2,526**	(3,062)	8,603	**20,371**
Increase (decrease) in other current liabilities	**(3,919)**	6,646	775	**(31,605)**
Other	**11,214**	4,324	(2,687)	**90,436**
Net cash provided by operating activities	**48,527**	79,279	89,002	**391,347**
Investing activities:				
Purchases of fixed assets	**(36,250)**	(45,962)	(43,769)	**(292,339)**
Purchases of investments and change in advances	**(327)**	384	(9,771)	**(2,637)**
Proceeds from sales of property, plant, and equipment	**5,519**	1,802	796	**44,508**
Proceeds from sales of investments	**2,955**	10,138	15,271	**23,831**
Net decrease in short-term investments	**5,565**	4,126	10,989	**44,879**
Other	**(486)**	338	(958)	**(3,920)**
Net cash used in investing activities	**(23,024)**	(29,174)	(27,442)	**(185,678)**
Financing activities:				
Proceeds from issuance of long-term debt	**11,416**	12,807	60,357	**92,065**
Repayments of long-term debt	**(49,365)**	(44,352)	(74,368)	**(398,105)**
Net increase (decrease) in short-term borrowings	**20,289**	(25,303)	(24,222)	**163,621**
Cash dividends	**(8,458)**	(8,458)	(8,458)	**(68,210)**
Net cash used in financing activities	**(26,118)**	(65,306)	(46,691)	**(210,629)**
Effect of exchange rate changes on cash and cash equivalents	**606**	(872)	(369)	**4,887**
Net increase (decrease) in cash and cash equivalents	**(9)**	(16,073)	14,500	**(73)**
Cash and cash equivalents, beginning of year	**78,642**	94,715	80,215	**634,210**
Cash and cash equivalents, end of year	**¥78,633**	¥78,642	¥94,715	**$634,137**

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

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

Certain reclassifications have been made to the consolidated financial statements for 2000 and 1999 to conform with classifications used in 2001.

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, 2001 of ¥124=US$1, solely for convenience. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into United States dollars.

Consolidation

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

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

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

Revenue Recognition

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.

The above-described revenue recognition criteria are met, in most cases, when products are shipped. As for environmental and other plant and equipment, sales are recorded at the time when the installation of plant and equipment is completed and accepted by the customer. 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.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101, as amended, summarizes certain of the SEC's views in applying US GAAP to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. The Company adopted SAB 101 in the year ended March 31, 2001. Adoption of this guidance did not have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

Inventories

Manufacturing inventories are stated at the lower of cost, substantially determined using the average method, or market. Completed real estate projects are stated at the lower of acquisition cost or fair value less estimated costs to sell. The fair value of those assets are estimates based on the appraised values for tax purpose. 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 amount exceeds the undiscounted future cash flows expected to be realized from them, and is measured based on the present value 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 impairment of marketable and nonmarketable securities, if any, are charged to expense 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 income would have decreased by ¥1,650 million ($13,306 thousand) for the year ended March 31, 2001, decreased by ¥663 million for the year ended March 31, 1999, and increased by ¥3,081 million for the year ended March 31, 1997, respectively. Retained earnings would have increased by ¥768 million ($6,194 thousand) at March 31, 2001, and ¥2,418 million at March 31, 2000, respectively, with a corresponding decrease in accumulated other comprehensive income. These amounts primarily reflect the unrecognized gain on the initial nonmonetary exchange in 1997, reversal of the gain recognized on partial sale of the investment in 1999, and on impairment of the investment in 2001.

Property, Plant, and Equipment

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

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 difference between the financial statement and the income tax bases of assets and liabilities and tax loss and other carryforwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that management believes will more likely than not be realized.

Advertising

The costs of advertising are expensed as incurred.

Net Income and Cash Dividends per 20 Common Shares

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

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

Diluted net income per 20 common shares reflects the potential dilution and has been computed on the basis that all convertible debentures were converted at the beginning of the year or at the time of issuance (if later).

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

Derivative Financial Instruments

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

Risks and Uncertainties

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

The manufacturing operations of the Company are conducted primarily at 21 plants in Japan and at 5 overseas plants located in the United States and certain other countries. Farm equipment, construction machinery, ductile iron pipe, and certain other products are not only sold in Japan but are also sold in overseas markets which consist mainly of North America, Europe, and Asia.

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. Management believes that such concentrations are not significantly unfavorable.

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

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

Valuation of Long-Lived Assets

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

Cash Flow Information

The Company considers all time deposits with original maturities of one year or less, which can be withdrawn at least at face amount at any time, to be cash equivalents. At March 31, 2001, 2000, and 1999, time deposits of which original maturities were substantially three months or less amounting to ¥13,176 million ($106,258 thousand), ¥33,134 million, and ¥38,117 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥8,048 million ($64,903 thousand), ¥10,830 million, and ¥12,873 million, and for income taxes amounted to ¥22,800 million ($183,871 thousand), ¥23,610 million, and ¥4,758 million in 2001, 2000, and 1999, respectively.

Noncash transactions in 2001 included a contribution of securities to the employee retirement benefit trust of ¥33,116 million ($267,064 thousand).

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. These statements are effective for fiscal years beginning after June 15, 2000. The Company adopted these statements on April 1, 2001, and the effect of the adoption was not material.

2. INVENTORIES

Inventories at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Manufacturing:			
Finished products	**¥102,104**	¥ 96,113	**$ 823,419**
Spare parts	**16,455**	13,507	**132,702**
Work in process	**31,239**	29,247	**251,927**
Raw materials and supplies	**16,944**	16,089	**136,645**
Subtotal	**166,742**	154,956	**1,344,693**
Real estate:			
Completed projects, land to be developed, and projects under development	**13,576**	18,124	**109,484**
	¥180,318	¥173,080	**$1,454,177**

For the year ended March 31, 2001, the Company wrote down the value of land to be developed, projects under development, and completed projects by ¥4,862 million ($39,210 thousand). 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, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Investments	**¥ 9,411**	¥11,203	**$75,895**
Advances	**1,367**	2,869	**11,024**
	¥10,778	¥14,072	**$86,919**

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

	Millions of Yen		Thousands of U.S. Dollars
At March 31, 2001 and 2000	**2001**	2000	**2001**
Current assets	**¥ 89,385**	¥123,478	**$ 720,847**
Noncurrent assets	**58,325**	70,821	**470,363**
Total assets	**147,710**	194,299	**1,191,210**
Current liabilities	**96,212**	134,470	**775,904**
Noncurrent liabilities	**26,350**	31,622	**212,500**
Net assets	**¥ 25,148**	¥ 28,207	**$ 202,806**

Years ended March 31, 2001, 2000, and 1999	Millions of Yen 2001	2000	1999	Thousands of U.S. Dollars 2001
Net sales	**¥182,855**	¥246,078	¥251,784	**$1,474,637**
Cost of sales	**140,668**	188,953	194,543	**1,134,419**
Other income—net	**1,731**	3,652	3,153	**13,960**
Net income (loss)	**482**	3,594	(1,358)	**3,887**

Trade notes and accounts receivable from affiliated companies at March 31, 2001 and 2000 were ¥27,797 million ($224,169 thousand) and ¥39,136 million, respectively.

Sales to affiliated companies aggregated ¥80,339 million ($647,895 thousand), ¥114,534 million, and ¥113,123 million in 2001, 2000, and 1999, respectively.

Cash dividends received from affiliated companies were ¥448 million ($3,613 thousand), ¥555 million, and ¥33 million in 2001, 2000, and 1999, 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, 2001 and 2000 were as follows:

	Millions of Yen							
	2001				2000			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:								
Available-for-sale:								
Governmental and corporate debt securities	**¥ 2,348**	**¥ 2,348**	**¥ —**	**¥ —**	¥ 8,113	¥ 8,010	¥ 1	¥ 104
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**61,639**	**135,167**	**75,048**	**1,520**	75,908	211,006	135,383	285
Other equity securities	**26,508**	**46,804**	**21,325**	**1,029**	28,417	54,460	27,873	1,830
Other	**8,404**	**8,227**	**74**	**251**	1,886	1,967	81	—
	¥98,899	**¥192,546**	**¥96,447**	**¥2,800**	¥114,324	¥275,443	¥163,338	¥2,219

	Thousands of U.S. Dollars			
	2001			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Short-term investments:				
Available-for-sale:				
Governmental and corporate debt securities	**$ 18,936**	**$ 18,936**	**$ —**	**$ —**
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**497,089**	**1,090,057**	**605,226**	**12,258**
Other equity securities	**213,774**	**377,451**	**171,976**	**8,299**
Other	**67,774**	**66,346**	**596**	**2,024**
	$797,573	**$1,552,790**	**$777,798**	**$22,581**

Proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales for the years ended March 31, 2001, 2000, and 1999 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Proceeds from sales	**¥2,955**	¥10,138	¥15,271	**$23,831**
Gross realized gains	**1,354**	3,842	6,824	**10,919**
Gross realized losses	**(533)**	(1,028)	(1,965)	**(4,298)**

In addition to these sales, the Company contributed available-for-sale marketable equity securities with a fair value of ¥33,116 million ($267,064 thousand) to a newly established employee retirement benefit trust, and recognized a gain on this contribution of ¥19,277 million ($155,459 thousand), in the year ended March 31, 2001. There were no proceeds to the Company from this transaction (also see Note 6).

At March 31, 2001, the cost of debt securities classified as available-for-sale due within one year and due over one year were ¥2,279 million ($18,379 thousand) and ¥7,033 million ($56,718 thousand), respectively.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The balances of short-term borrowings at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Notes payable to banks	**¥122,384**	¥88,469	**$986,968**
Commercial paper	**—**	498	**—**
	¥122,384	¥88,967	**$986,968**

Stated annual interest rates of short-term borrowings ranged primarily from 0.33% to 7.68% and from 0.39% to 7.16% at March 31, 2001 and 2000, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2001 and 2000 were 3.4% and 2.3%, respectively.

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

Lines of credit with certain banks totaled ¥30,000 million ($241,935 thousand) and ¥20,000 million at March 31, 2001 and 2000, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Maturities, Years Ending March 31	Millions of Yen		Thousands of U.S. Dollars
		2001	2000	**2001**
Unsecured bonds:				
Floating rate (six-month Euro LIBOR plus 1.0%) Euro bonds	2001	**¥ —**	¥ 8,673	**$ —**
2.2% Yen bonds	2002	**10,000**	10,000	**80,645**
2.05% Yen bonds	2002	**10,000**	10,000	**80,645**
1.51% Yen bonds	2003	**10,000**	10,000	**80,645**
2.7% Yen bonds	2004	**10,000**	10,000	**80,645**
1.475% Yen bonds	2004	**10,000**	10,000	**80,645**
1.8% Yen bonds	2006	**10,000**	10,000	**80,645**
Unsecured convertible bonds:				
1.5% Yen bonds	2001	**—**	24,854	**—**
1.55% Yen bonds	2002	**9,708**	9,708	**78,290**
1.6% Yen bonds	2003	**9,772**	9,772	**78,806**
0.8% Yen bonds	2004	**29,756**	29,756	**239,968**
0.85% Yen bonds	2005	**19,513**	19,513	**157,363**
0.9% Yen bonds	2006	**18,627**	18,627	**150,218**
Loans, principally from banks and insurance companies, maturing serially through 2025:				
Collateralized		**524**	717	**4,227**
Unsecured		**101,950**	100,596	**822,177**
Total		**249,850**	282,216	**2,014,919**
Less current portion		**(67,612)**	(48,959)	**(545,258)**
		¥182,238	¥233,257	**$1,469,661**

The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2001 and 2000 were 1.7% and 1.8%, respectively.

Annual maturities of long-term debt at March 31, 2001 during the next five years are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31,		
2002	¥67,612	$545,258
2003	39,064	315,032
2004	70,093	565,266
2005	23,164	186,806
2006	39,627	319,573

At March 31, 2001, the Company had outstanding interest rate swaps to hedge certain short-term borrowings and long-term debt as follows:

	Weighted Average Rates		Maturities, Years Ending March 31	Notional Amount	
	Pay	Receive		Millions of Yen	Thousands of U.S. Dollars
Pay fixed rate, receive variable rate	1.6%	0.4%	2002~2006	¥4,800	$38,710

At March 31, 2001, property, plant, and equipment of ¥148 million ($1,194 thousand) were pledged as collateral on long-term debt of ¥524 million ($4,226 thousand), including current portion of ¥72 million ($581 thousand).

The conversion prices of the unsecured yen convertible bonds range from ¥769 to ¥651 per share and the number of shares into which outstanding bonds were convertible at March 31, 2001 totaled 118,214 thousand shares.

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

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

6. RETIREMENT AND PENSION PLANS

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

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

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

During the year ended March 31, 2001, the Company established the Employee Retirement Benefit Trust (the "Trust"). The purpose of the Trust is to hold and administer certain securities contributed to the Contributory Plan. Additionally, during the year ended March 31, 2001, the Company contributed marketable equity securities valued at ¥33,116 million ($267,064 thousand) to the Trust.

Net periodic benefit cost for the Noncontributory Plan and the Contributory Plan of the parent company and for the unfunded severance indemnity plans and noncontributory defined benefit pension plans of certain subsidiaries for the years ended March 31, 2001, 2000, and 1999 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Service cost	**¥13,970**	¥12,410	¥11,282	**$112,661**
Interest cost	**10,563**	10,992	11,730	**85,186**
Expected return on plan assets	**(6,817)**	(5,944)	(5,621)	**(54,976)**
Amortization of transition obligation	**1,615**	1,614	1,614	**13,024**
Amortization of prior service cost	**981**	1,233	1,233	**7,911**
Recognized actuarial loss	**210**	6,270	5,378	**1,694**
Actuarial periodic benefit cost	**20,522**	26,575	25,616	**165,500**
Employee contributions	**(1,288)**	(1,365)	(1,401)	**(10,387)**
Net periodic benefit cost	**¥19,234**	¥25,210	¥24,215	**$155,113**

The above net periodic benefit cost excludes the cumulative effect of ¥46,716 million ($376,742 thousand) of an accounting change in 2001, described below.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥354,997**	¥368,456	**$2,862,879**
Service cost, less employee contributions	**12,682**	11,045	**102,274**
Interest cost	**10,563**	10,992	**85,186**
Employee contributions	**1,288**	1,365	**10,387**
Amendments	**(5,764)**	(3,498)	**(46,484)**
Actuarial gain	**(19,621)**	(13,442)	**(158,234)**
Benefits paid	**(17,860)**	(19,906)	**(144,032)**
Foreign currency exchange rate changes	**74**	(15)	**597**
Benefit obligations at end of year	**336,359**	354,997	**2,712,573**
Change in plan assets:			
Fair value of plan assets at beginning of year	**194,798**	171,643	**1,570,952**
Actual return on plan assets	**(18,604)**	24,258	**(150,032)**
Employer contribution	**10,965**	11,096	**88,427**
Employee contributions	**1,288**	1,365	**10,387**
Contribution of securities to the employee retirement benefit trust	**33,116**	—	**267,064**
Benefits paid	**(14,116)**	(13,551)	**(113,839)**
Foreign currency exchange rate changes	**72**	(13)	**581**
Fair value of plan assets at end of year	**207,519**	194,798	**1,673,540**
Plans' funded status at end of year:			
Funded status	**(128,840)**	(160,199)	**(1,039,033)**
Unrecognized actuarial loss	**43,712**	84,838	**352,516**
Unrecognized prior service cost (benefit)	**(3,493)**	3,252	**(28,169)**
Unrecognized net obligation at the date of initial application of SFAS No. 87	**4,354**	5,969	**35,113**
Net amount recognized	**(84,267)**	(66,140)	**(679,573)**
Amounts recognized in the consolidated balance sheets:			
Accrued retirement and pension costs	**(89,641)**	(110,095)	**(722,911)**
Prepaid expenses for benefit plans, included in other assets	**290**	—	**2,338**
Intangible assets, included in other assets	**5,084**	5,433	**41,000**
Accumulated other comprehensive income	**—**	38,522	**—**
Net amount recognized	**¥ (84,267)**	¥ (66,140)	**$ (679,573)**
Actuarial assumptions:			
Discount rate	**3.0%**	3.0%	
Expected return on plan assets	**3.5%**	3.5%	
Rate of compensation increase	**6.5%**	5.4%	
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥335,320**	¥354,997	**$2,704,194**
Accumulated benefit obligations	**297,829**	304,893	**2,401,847**
Fair value of plan assets	**206,422**	194,798	**1,664,694**

The unrecognized net obligation at the date of initial application and the prior service costs (benefits) due to amendments of the benefit plans are being amortized over 15 years and approximately 14 years, respectively.

Prior to April 1, 2000, the Company amortized unrecognized actuarial gains and losses in excess of ten percent of larger of the benefit obligations or plan assets over the average plan participants' remaining service period. From April 1, 2000, the Company changed its method of accounting to immediately recognize actuarial gains and losses in excess of twenty percent of the larger of the benefit obligations or plan assets, and amortize actuarial gains and losses between ten and twenty percent over the average participants' remaining service period (approximately 14 years). The Company believes that this accelerated recognition of the unrecognized gains or losses more appropriately records the pension liability at an amount closer to its economic liability.

As a result of the change, net income for the year ended March 31, 2001, decreased by ¥19,610 million ($158,145 thousand), including a charge for the cumulative effect on prior years of ¥21,559 million ($173,863 thousand), net of tax benefit of ¥25,157 million ($202,879 thousand). Basic net income per 20 common shares and diluted net income per 20 common shares decreased by ¥278 ($2.24) and ¥254 ($2.05), respectively.

7. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings as recorded on the books of the parent company. Certain adjustments, not recorded on the parent company's books, are reflected in the consolidated financial statements as described in Note 1. At March 31, 2001, retained earnings recorded on the parent company's books of account were ¥199,476 million ($1,608,677 thousand).

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

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

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

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

8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2001, 2000, and 1999 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Gain on sales of securities	**¥ 821**	¥ 2,814	¥4,859	**$ 6,621**
Gain on exchange of securities	**—**	—	576	**—**
Foreign exchange gain (loss)—net	**(2,368)**	(1,494)	234	**(19,097)**
Loss from write-downs of securities	**(2,922)**	(3,260)	(991)	**(23,564)**
Other—net	**(554)**	(2,613)	(1,131)	**(4,468)**
	¥(5,023)	¥(4,553)	¥3,547	**$(40,508)**

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, 2001 and 2000 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2000		**2001**	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Allowance for doubtful receivables	**¥ 2,574**	**¥ 507**	¥ 1,942	¥ 616	**$ 20,758**	**$ 4,089**
Intercompany profits	**12,471**	**—**	11,666	—	**100,573**	**—**
Adjustments of investment securities	**2,216**	**40,872**	43	68,315	**17,871**	**329,613**
Impairment of assets	**7,661**	**—**	6,708	—	**61,782**	**—**
Enterprise tax	**1,159**	**—**	890	8	**9,347**	**—**
Accrued bonus	**3,742**	**—**	2,418	—	**30,177**	**—**
Retirement and pension costs	**35,752**	**—**	38,754	—	**288,323**	**—**
Other temporary differences	**6,822**	**3,384**	7,565	3,373	**55,016**	**27,290**
Tax loss and credit carryforwards	**6,310**	**—**	5,251	—	**50,887**	**—**
Subtotal	**78,707**	**44,763**	75,237	72,312	**634,734**	**360,992**
Less valuation allowance	**12,454**	**—**	10,186	—	**100,436**	**—**
	¥66,253	**¥44,763**	¥65,051	¥72,312	**$534,298**	**$360,992**

Net deferred tax balances at March 31, 2001 and 2000 were reflected on the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Prepaid expenses and other	**¥19,177**	¥18,709	**$154,653**
Other assets	**2,675**	801	**21,572**
Other long-term liabilities	**(362)**	(26,771)	**(2,919)**
Net deferred tax assets (liabilities)	**¥21,490**	¥ (7,261)	**$173,306**

At March 31, 2001, a valuation allowance of ¥12,454 million ($100,436 thousand) was recorded against the deferred tax assets for items which may not be realized. The net changes in the valuation allowance for the years ended March 31, 2001, 2000, and 1999 were an increase of ¥2,268 million ($18,290 thousand), a decrease of ¥3,164 million, and a decrease of ¥10,381 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, 2001.

At March 31, 2001, the tax loss carryforwards in the aggregate amounted to approximately ¥15,000 million ($120,968 thousand), which are available to offset future taxable income, and will expire substantially in the period from 2002 through 2006.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2001 differed from the normal Japanese statutory tax rates as follows:

	2001	2000	1999
Normal Japanese statutory tax rates	**42.0%**	42.0%	47.5%
Increase (decrease) in taxes resulting from:			
Increase (decrease) in valuation allowance	**3.8**	(13.6)	4.9
Change in tax rate	**—**	—	(9.4)
Permanently nondeductible expenses	**1.1**	4.9	2.8
Nontaxable dividend income	**(1.1)**	(2.7)	(3.2)
Tax differences related to intercompany profits	**0.4**	4.2	2.1
Other—net	**1.4**	3.0	4.2
Effective income tax rates	**47.6%**	37.8%	48.9%

As of March 31, 2001, provisions totaling ¥617 million ($4,976 thousand) were made for taxes on unremitted earnings of all foreign subsidiaries and affiliates of which earnings are not deemed to be permanently reinvested. The undistributed earnings of domestic subsidiaries would not, under present Japanese tax law, be subject to tax through tax-free distributions.

10. NET INCOME PER 20 COMMON SHARES

A reconciliation of the numerators and denominators of the basic and diluted net income per 20 common shares computation for the years ended March 31, 2001, 2000, and 1999 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Income before cumulative effect of an accounting change	**¥31,354**	¥16,428	¥15,106	**$252,855**
Effect of dilutive convertible bonds	**770**	887	827	**6,210**
Diluted income before cumulative effect of an accounting change	**¥32,124**	¥17,315	¥15,933	**$259,065**

	Number of Shares (Thousands)		
Weighted average common shares outstanding	**1,409,758**	1,409,655	1,409,655
Effect of dilutive convertible bonds	**137,278**	156,413	158,814
Diluted common shares outstanding	**1,547,036**	1,566,068	1,568,469

11. OTHER COMPREHENSIVE INCOME (LOSS)

Each component of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2001, 2000, and 1999 was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2001			**2001**		
	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	**¥ 5,686**	**¥ 13**	**¥ 5,699**	**$ 45,855**	**$ 105**	**$ 45,960**
Reclassification adjustment for gains realized in net income	**(42)**	**—**	**(42)**	**(339)**	**—**	**(339)**
	5,644	**13**	**5,657**	**45,516**	**105**	**45,621**
Unrealized losses on securities:						
Unrealized losses on securities arising during period	**(49,321)**	**20,715**	**(28,606)**	**(397,750)**	**167,057**	**(230,693)**
Reclassification adjustment for gains realized in net income	**(17,176)**	**7,214**	**(9,962)**	**(138,516)**	**58,177**	**(80,339)**
	(66,497)	**27,929**	**(38,568)**	**(536,266)**	**225,234**	**(311,032)**
Minimum pension liability adjustment	**38,522**	**(21,715)**	**16,807**	**310,661**	**(175,121)**	**135,540**
Other comprehensive loss	**¥(22,331)**	**¥ 6,227**	**¥(16,104)**	**$(180,089)**	**$ 50,218**	**$(129,871)**

	Millions of Yen		
	2000		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
Foreign currency translation adjustments:	¥ (6,779)	¥ 67	¥ (6,712)
Unrealized gains on securities:			
Unrealized gains on securities arising during period	14,329	(6,017)	8,312
Reclassification adjustment for losses realized in net income	446	(187)	259
	14,775	(6,204)	8,571
Minimum pension liability adjustment	26,510	(11,135)	15,375
Other comprehensive income	¥34,506	¥(17,272)	¥17,234

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

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

	Millions of Yen			
	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, April 1, 2000	¥(12,295)	¥79,488	¥(16,807)	¥50,386
Current—period change	5,657	(38,568)	16,807	(16,104)
Balance, March 31, 2001	**¥ (6,638)**	**¥40,920**	**¥ —**	**¥34,282**

	Thousands of U.S. Dollars			
	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, April 1, 2000	$(99,153)	$641,032	$(135,540)	$406,339
Current—period change	45,621	(311,032)	135,540	(129,871)
Balance, March 31, 2001	**$(53,532)**	**$330,000**	**$ —**	**$276,468**

12. FINANCIAL INSTRUMENTS

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

Market Risk Management

Market Risk Exposures

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

Foreign Currency Exchange Risks

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in its international operations and long-term debt denominated in foreign currencies. The Company entered into foreign exchange forward contracts 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, 2001, which was translated into Japanese yen at the year-end spot rate.

Foreign Exchange Forward Contracts

	Millions of Yen		Thousands of U.S. Dollars	
	Receive	Pay	Receive	Pay
Buy Yen, sell U.S. Dollar	¥28,339	¥31,665	$228,540	$255,363
Buy Yen, sell Euro	5,249	5,341	42,331	43,073
Buy Deutsche Mark, sell Sterling Pound	990	958	7,984	7,726

At March 31, 2000, the Company's foreign exchange forward contracts and currency swap agreements, in the aggregate, were to pay ¥50,814 million and receive ¥46,894 million in Japanese yen and foreign currencies through fiscal 2001, as translated into Japanese yen at the year-end spot rate.

Interest Rate Risks

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

The following table provides information, by maturity date, about the Company's interest rate swap contracts. Financial instruments that are sensitive to interest rate changes were disclosed in Note 5. The table represents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts as of March 31, 2001, which are translated into Japanese yen at the year-end spot 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
2002	0.38%	1.62%	¥4,800	$38,710
2003	0.38	1.43	4,300	34,677
2004	0.38	1.43	4,300	34,677
2005	0.28	1.30	3,000	24,194
2006	0.28	1.30	3,000	24,194

At March 31, 2000, the Company's interest rate swap contracts, in the aggregate, were to pay 4.4% and receive 3.2% of weighted average rate of interest through fiscal 2004 on the basis of notional principal amount of ¥16,380 million.

Equity Price Risks

The Company's short-term and other investments are exposed to changes in equity price risks and consist entirely of available-for-sale securities. Fair value 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, 2001 and 2000:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2000		**2001**	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:						
Finance receivables	**¥ 81,148**	**¥ 81,223**	¥ 60,530	¥ 60,741	**$ 654,419**	**$ 655,024**
Other investments	**196,997**	**196,977**	280,014	280,014	**1,588,685**	**1,588,685**
Financial liabilities:						
Long-term debt	**(246,121)**	**(251,668)**	(277,344)	(276,179)	**(1,984,847)**	**(2,029,581)**
Derivative financial instruments related principally to long-term debt:						
Foreign exchange instruments recorded as assets (liabilities)	**(2,965)**	**(2,937)**	(3)	315	**(23,911)**	**(23,685)**
Interest rate swaps and other instruments	**—**	**(114)**	—	(128)	**—**	**(919)**

Contract or notional amounts of financial instruments with off-balance-sheet risk at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Foreign exchange instruments	**¥37,964**	¥46,983	**$306,161**
Interest rate swaps and other instruments	**4,800**	11,980	**38,710**
Financial guarantees	**13,014**	14,687	**104,952**

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

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

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

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

13. SUPPLEMENTAL EXPENSE INFORMATION

Research and development expenses for the years ended March 31, 2001, 2000, and 1999 amounted to ¥30,257 million ($244,008 thousand), ¥33,148 million, and ¥36,759 million, respectively. Advertising costs expensed as incurred for the years ended March 31, 2001, 2000, and 1999 amounted to ¥9,608 million ($77,484 thousand), ¥8,619 million, and ¥11,598 million, respectively.

Loss from disposal of businesses and fixed assets for the year ended March 31, 2000 included loss of ¥4,673 million resulting from management's decision to substantially discontinue certain lines of business, including the unit bathroom business, in fiscal 2001. The losses primarily consisted of impairment of assets related to these businesses.

14. COMMITMENTS AND CONTINGENCIES

At March 31, 2001, the Company was contingently liable for trade notes discounted with banks in the amount of ¥78 million ($629 thousand), which are accounted for as sales when discounted. The banks retain a right of recourse against the Company in the event of nonpayment by customers, for which the Company's management believes that the recourse is remote from exercise.

Commitments for capital expenditures outstanding at March 31, 2001 approximated ¥2,541 million ($20,492 thousand).

The Company leases certain offices and other facilities under lease agreements, all of which are substantially cancelable at their option. Rental expenses for the years ended March 31, 2001, 2000, and 1999 amounted to ¥9,472 million ($76,387 thousand), ¥10,662 million, and ¥9,972 million, respectively.

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

In connection with this investigation, on December 24, 1999, the Company received a surcharge order of ¥7,072 million 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, 2001. Under Section 49 of the Anti-Monopoly Law, upon the initiation of the procedures, the surcharge order lost effect. In addition, Section 7-2 of the law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2, and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter. An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. The Company is not able to estimate the likelihood of such an unfavorable outcome.

15. SUBSEQUENT EVENT

On May 24, 2001, a resolution was made by the Company's Board of Directors for the payment of a cash dividend to shareholders of record on March 31, 2001 of ¥3 per common share (¥60 per 20 common shares) or a total of ¥4,229 million ($34,105 thousand), subject to shareholders' approval at the annual meeting to be held on June 27, 2001.

Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited the accompanying consolidated balance sheets of Kubota Corporation and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" has not been presented in the accompanying consolidated financial statements. In our opinion, presentation concerning operating segments and other information is required for a complete presentation of the Company's consolidated financial statements.

The Company has not accounted for a nonmonetary security exchange transaction, that occurred during the year ended March 31, 1997, in accordance with accounting principles generally accepted in the United States of America. In our opinion, the recognition of the nonmonetary exchange gain, including the related impact in subsequent periods, is required by accounting principles generally accepted in the United States of America. The Company has disclosed the effects of the departure and other relevant information in Note 1 to the consolidated financial statements.

In our opinion, except for the omission of segment and other information required by SFAS No. 131 and the effect of not properly recording on a nonmonetary security exchange transaction, as discussed in the preceding paragraphs, such consolidated financial statements present fairly, in all material respects, the financial position of Kubota Corporation and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, the Company changed its method of amortizing unrecognized actuarial gains and losses related to accounting for retirement and pension costs effective April 1, 2000.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

Osaka, Japan
June 4, 2001

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