KUBOTA Corporation

Annual Report 2006

Profile

More than a century since its founding, Kubota Corporation and its subsidiaries (collectively "the Company") have continued to help improve people's quality of life, by offering products and services—including farm equipment, pipes for water supply and sewage systems, environmental control plants, industrial castings, and building materials. The Company has as its management principle that the Company contributes to the development of society and the preservation of the earth's environment through its products, technology, and services that provide the foundation for society and for affluent lifestyles. While adhering to this management principle, the Company is implementing management policies that are focused on prioritizing allocation of its resources, emphasizing agility in its operations and strengthening consolidated operations. Through these measures, the Company aims to improve its adaptability to respond with flexibility to the changing times, resulting in a high enterprise value.

Financial Highlights

Kubota Corporation and Subsidiaries Years Ended March 31, 2006, 2005, and 2004

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Net sales	¥1,051,040	¥983,226	¥929,876	$8,983,248
Percentage of previous year	106.9%	105.7%	100.4%	
Net income	81,034	117,901	11,700	692,598
Percentage of previous year	68.7%	1,007.7%	–	
Percentage of net sales	7.7%	12.0%	1.3%	
Net income per common share (Yen and U.S. Dollars):				
Basic	¥62.14	¥89.11	¥8.72	$0.53
Diluted	61.67	86.83	8.53	0.53
Net income per 5 common shares (Yen and U.S. Dollars):				
Basic	311	446	44	2.66
Diluted	308	434	43	2.63
Cash dividends paid per common share (Yen and U.S. Dollars)	9	6	6	0.08
Cash dividends paid per 5 common shares (Yen and U.S. Dollars)	45	30	30	0.38
Capital expenditures	¥33,805	¥26,097	¥21,396	$288,932
Depreciation	25,390	25,468	27,254	217,009
R&D expenses	22,731	21,963	23,261	194,282
Number of shareholders (At year-end)	46,214	55,828	56,514	

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117=US$1. See Note 1 to the consolidated financial statements.
2. Per share amounts have been calculated per 5 common shares since each American Depositary Share represents 5 shares of common stock.

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To Our Shareholders and Friends

Performance over the Past Year

In fiscal 2006, ended March 31, 2006, Kubota Corporation and its subsidiaries maintained the high levels of core performance reported for the prior year. In terms of operating income, which is the indicator of the true strengths of the Company's business activities, the Company recorded the highest level of operating income in its history. Many factors made these breakthroughs possible, including expansion in the Company's overseas activities through the introduction of new products well-suited to market needs and the development of new markets, and continued steady improvements in competitiveness based on activities to reduce costs and to improve productivity, all while the Company made efforts to attain the objective of "Reforming the business structure and profit structure".

We are also pleased to report that as a result of the implementation of our two-year Medium-Term Management Strategy, which was completed during the year under review, we have attained virtually all the objectives of our medium-term strategy, including a main target of creating a business and profit structure that enables us to maintain a stable 8% ratio of operating income to net sales.

For the year under review, consolidated net sales of the Company rose to ¥1,051.0 billion (an increase of ¥67.8 billion, 6.9%). This gain in companywide performance was driven by the sustained high rates of growth in the Internal Combustion Engine and Machinery segment's overseas sales of tractors, engines, construction machinery, and other products.

Operating income also rose, to ¥113.5 billion (an increase of ¥26.7 billion, 30.8%), exceeding the ¥100 billion level for the first time in the Company's history. This strong performance reflected the combination of expansion in net sales and the effectiveness of its thoroughgoing measures to cut costs. In addition, the ratio of operating income to net sales rose to the record high level of 10.8%.

Daisuke Hatakake
President and Representative Director

Despite the rise in operating income, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies declined ¥15.6 billion (10.0%), to ¥140.4 billion, due to the ¥58.6 billion gain reported in the prior year on the transfer of the substitutional portion of the Company's accumulated pension benefit obligations to the Japanese government. Net income decreased ¥36.9 billion (31.3%), to ¥81.0 billion. The large decline in net income was mainly due to the low level of income taxes for the prior year and to the absence during the year under review of ¥11.1 billion of income from discontinued operations, net of taxes, recorded in the prior year.

Regarding dividends, to expand the return to shareholders, the Company has decided to increase the cash dividend applicable to the fiscal year ended March 31, 2006, including dividends to be paid after the end of the fiscal year, to ¥10 per common share, or ¥50 per five common shares, compared with ¥8 per common share, or ¥40 per five common shares applicable to the prior fiscal year. Accordingly, in addition to the interim dividend of ¥4 per common share, or ¥20 per five common shares already paid, the Company will pay ¥6 per common share, or ¥30 per five common shares as a year-end cash dividend.

With the objectives of improving capital efficiency and raising the value of Kubota's stock, the Company has adopted a policy of flexibly buying back portions of shares outstanding. The Company purchased 16.19 million shares of treasury stock (¥14.8 billion). On the other hand, the Company retired 56.3 million shares of treasury stock (¥36.3 billion), which consisted of 39.0 million shares of treasury stock (¥20.9 billion) retired on June 30, 2005 and 17.3 million shares of treasury stock (¥15.4 billion) retired on March 31, 2006.

Principal Business Policies for Continuous Profit Growth

To realize further development in the medium-to-long term as a company characterized by a combination of growth capabilities, profitability, and stability, Kubota is aggressively implementing the following emphasized measures.

Accelerating Business Expansion in Overseas Operations

The primary engine driving the Company's growth and the most important source of profit are the overseas operations in Internal Combustion Engine and Machinery. The Company intends to move forward with plans to emphasize the investment of resources in all aspects of these operations, including new product development, peripheral market development, production capacity expansion, and marketing network expansion. In these ways, the Company is working to expand its business by strengthening the Kubota brand and increasing its market share. While responding quickly and accurately to future changes in its business environment, the Company is moving ahead with measures to accelerate the expansion of overseas operations.

In product development, the Company is combining its small-sized diesel engines, which are globally competitive, and its various top-level vehicle technologies, to aggressively move forward with the development and introduction of new models in the fields of tractors, construction machinery, rice-farming machinery, and utility vehicles (four-wheel multipurpose vehicles). The Company is also working to expand business domains by concentrating on supplying engines to other manufacturers and developing products for peripheral applications.

By region, the Company intends to expand its business worldwide further than ever before. In North America and the EU, which are currently principal markets, the Company is working to further strengthen its supply chains for products and services. In Asia, where rapid market growth is expected, the Company is aggressively advancing with the creation of manufacturing and marketing bases, especially in Thailand and China.

Also, in response to the rapid expansion in overseas activities, the Company is beginning to make capital investments in a broad range of locations in Japan and overseas to expand production capacity for engines, tractors, construction machinery, combines, and other products. A major task currently is to complete these investment projects quickly and smoothly.

Restructuring Public Works Related Businesses

The continuous decline in domestic public works spending is presenting the Company's public works related businesses (Pipes, Valves, and Industrial Castings segment and Environmental Engineering segment) with very severe operating environments. Recognizing that the continued deterioration of the market environment for such operations is a structural problem rather than a temporary trend, the Company is working to fundamentally respond to this problem by restructuring its activities in these areas. In response to declining demand and falling prices, the Company is addressing the challenges of greatly reducing costs and boosting productivity while also aggressively moving forward with changes designed to make its operations comprehensively oriented toward market trends and competitive principles.

In Pipes, Valves, and Industrial Castings, such measures are generating steady results, and the Company is gradually making progress in strengthening profitability. Regarding Environmental Engineering, however, the deterioration of market conditions and the intensification of competition have proceeded more quickly than anticipated, and the Company's efforts to reform its business structures are unable to keep up with the pace of changes in the operating environment. Going forward, by accurately monitoring the direction and speed of changes in its business environment, the Company will strive to take measures that anticipate such changes and thereby strengthen its profitability. Having fully assessed and analyzed the strengths and weaknesses of its resources and operations, the Company intends to broadly leverage the manufacturing and development technologies it has accumulated in Internal Combustion Engine and Machinery operations to thoroughly reduce costs, differentiate its offerings from those of competitors in terms of technology, strengthen its capabilities for making proposals to customers, and implement other measures. Regarding future market issues, the Company is devoting its great efforts to develop business in Japan's private-sector markets and overseas markets so that it can shift from a business structure dependent on public works-related demand to a private-demand-oriented business structure not vulnerable to the impact of public investment trends.

Corporate Social Responsibility for Attainment of Sustainable Development

To attain sustainable growth and development, the Company believes that it is necessary for the Company not only to aim for growth on business continuously but also to meet various expectations and trust from each stakeholder on a constant basis. The Company must be a trusted member of the community contributing to and acting in harmony with society. Based on this fundamental awareness, the Company states management based on corporate social responsibility (CSR) as a principal management issue of highest priority, and intends to act with strong awareness of CSR on every business activity.

The Company has reviewed its Corporate Mission Statement, Charter for Action, and Code of Conduct from a viewpoint of CSR, and, in the light of the demands of society today, the Company issued revised versions of these corporate statements in April 2006. Going forward, the Company plans to inform these corporate statements and put them into practice throughout all Group companies.

Even under harsh market circumstances, the Company was able to achieve a strong performance in the year under review. Without doubt, the Company will continue to conduct business in a challenging and competitive operating environment. While adhering to CSR as a management principle, the Company devotes its fullest efforts to attaining sustained growth in corporate value by offering products, technologies, and services that meet the necessities of society.

The Company is fully committed to this task and looks forward to the continued support of its shareholders and associates.

June 2006

幡掛大輔

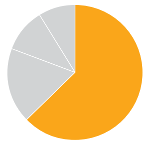
Daisuke Hatakake

President and Representative Director

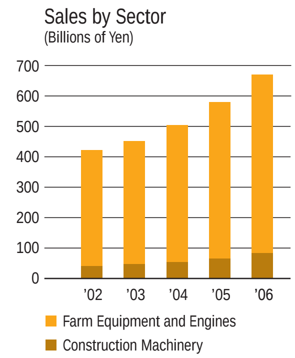
Internal Combustion Engine and Machinery

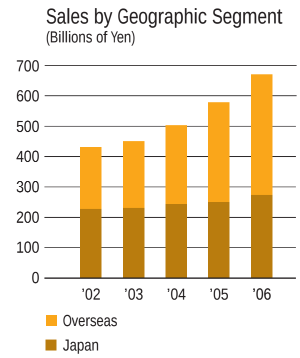
Tractors
Utility Vehicles
Lawn Mowers
Combine Harvesters
Rice Transplanters
Engines
Mini-Excavators
Etc.

62.7%

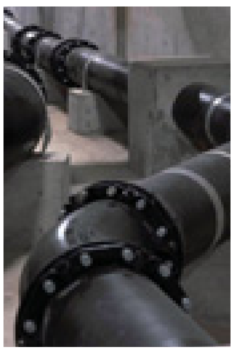


Sales for the year ended March 31, 2006



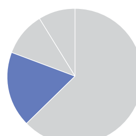


Pipes, Valves, and Industrial Castings

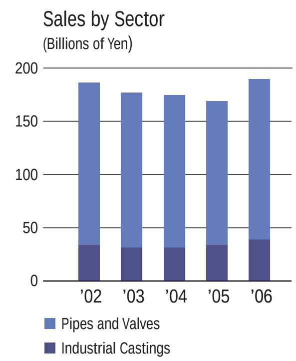


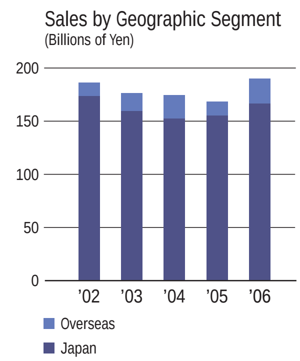
Ductile Iron Pipes
PVC Pipes
Spiral Welded Steel Pipes
Valves
Industrial Castings
Etc.

18.0%

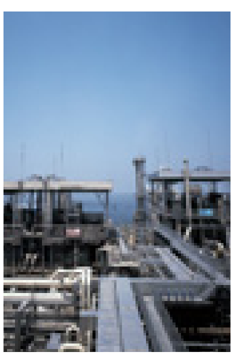


Sales for the year ended March 31, 2006



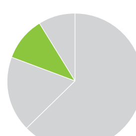


Environmental Engineering

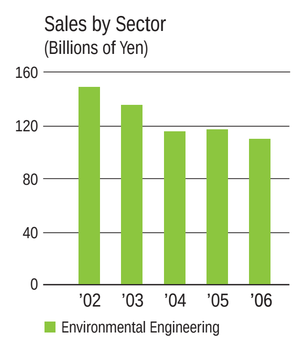


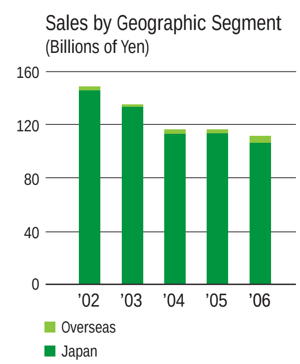
Sewage Treatment Plants
Water Purification Plants
Incinerators
Industrial Waste Treatment Plants
Pumps
Etc.

10.5%



Sales for the year ended March 31, 2006

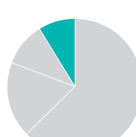




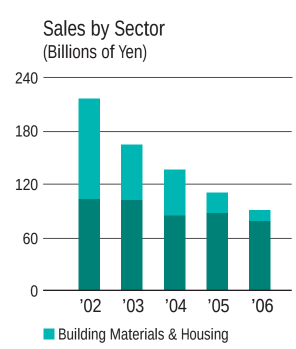
Other

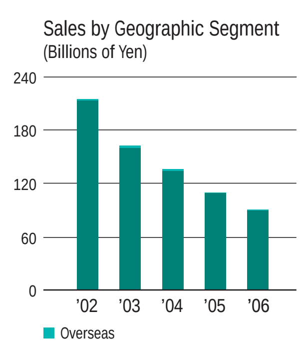
Vending Machines
Weighing Measuring Systems
Air-Conditioning Equipment
Septic Tanks
Etc.

8.8%



Sales for the year ended March 31, 2006





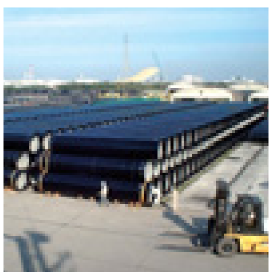

Tractor


Zero-Turn Mower


Combine Harvester


Diesel Engine


Mini-Excavator


Ductile Iron Pipes

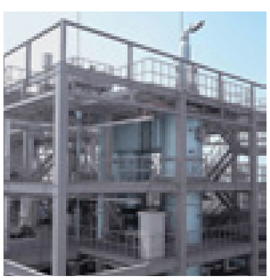

Spiral Welded Steel Pipe

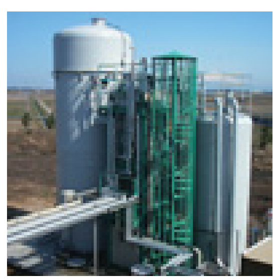

Valves


Ductile Tunnel Segments


Reformer Tubes


Advanced Water Treatment Plant


Incinerator

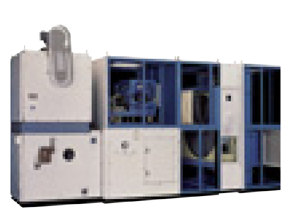

Biogas Plant


Pump


Submerged Membrane System


Vending Machine


Septic Tank


Air-Conditioning Equipment


Scale


LPG Filling System

Internal Combustion Engine and Machinery

Tractor: M105X

Billions of Yen

		2002	2003	2004	2005	2006
Net Sales		¥965.4	¥925.8	¥929.9	¥983.2	¥1,051.0
Internal Combustion Engine and Machinery		415.1	444.2	501.5	582.7	658.8
Sales by Sector	Farm Equipment and Engines	377.0	399.4	450.7	519.4	578.2
	Construction Machinery	38.1	44.8	50.8	63.3	80.6
Sales in Japan and Overseas	Japan	218.2	225.5	243.0	257.0	267.3
	Overseas	196.9	218.7	258.5	325.7	391.5

Lawn & Garden Tractor: GR2100

Utility Vehicle: RTV900

Diesel Engines

Sales in Internal Combustion Engine and Machinery were ¥658.8 billion, 13.1% higher than in the prior year, comprising 62.7% of consolidated net sales. Domestic sales increased 4.0%, to ¥267.3 billion, and overseas sales also increased, up 20.2%, to ¥391.5 billion. This segment consists of farm equipment, engines, and construction machinery.

In the domestic market, sales of farm equipment increased from the prior year. Although the domestic farm equipment market did not report briskness against a background of declining numbers of farmers in Japan and the division of middle-scale farmers into large-scale and small-scale farmers, the Company executed an aggressive sales promotion with finely tuned marketing programs and solution-providing activities for individual farmers in response to the changing environment surrounding Japanese farmers. Additionally, there was an upward trend in the domestic construction machinery market, and sales of construction machinery increased due to expansion of sales for the major rental companies supplying high-quality products in terms of safety and convenience. Sales of engines increased largely due to expansion of sales of existing and new manufacturers of construction machinery and industrial machinery.

In overseas markets, sales of tractors in North America increased steadily due to a sales promotion called the "Thanks a million" campaign, which was carried out after achieving sales of one million tractors in the United States. Sales in European markets increased substantially due to launching new models of garden tractors and utility vehicles (4-wheel multi-purpose vehicles), which achieved a successful outcome in the United States. In Asian markets, sales of rice-farming machinery continue to increase, especially tractors in Thailand and combine harvesters in China. As for construction machinery, sales in European markets expanded largely due to the introduction of new products and an increasing market share. Sales of construction machinery in North America increased significantly due to improved recognition of the usefulness of the Company's mini-backhoes. With regard to engines, sales in the North American and European markets increased largely due to brisk business activities of existing major customers, the development of new customers, and the expansion of new applications.

Combine Harvester: PRO588

Mini-Excavator: KX121-3

Pipes, Valves, and Industrial Castings

Sales in Pipes, Valves, and Industrial Castings were ¥189.7 billion, 11.2% higher than in the prior year, comprising 18.0% of consolidated net sales. Domestic sales increased 7.5%, to ¥167.2 billion, and overseas sales increased 48.7%, to ¥22.5 billion. This segment consists of pipes, valves, and industrial castings.

In the domestic market, sales of ductile iron pipes decreased due to declining demand. On the other hand, sales of plastic pipes steadily increased due to the business integration with C.I.Kasei Co., Ltd., from April 2005, and sales of industrial castings also increased largely due to the demand related to brisk capital expenditure in the steel and energy industries.

In overseas markets, sales of ductile iron pipes increased from the prior year due to steady sales in the Middle East, and sales of industrial castings also increased from the prior year.

Unplasticized Vinyl Chloride (PVC-U) Pipes and Fittings

Cracking Coils

Billions of Yen

		2002	2003	2004	2005	2006
Net Sales		¥965.4	¥925.8	¥929.9	¥983.2	¥1,051.0
Pipes, Valves, and Industrial Castings		184.5	177.2	175.2	170.6	189.7
Sales by Sector	Pipes and Valves	151.3	145.6	143.8	136.6	150.6
	Industrial Castings	33.2	31.6	31.4	34.0	39.1
Sales in Japan and Overseas	Japan	173.4	159.0	152.5	155.4	167.2
	Overseas	11.1	18.2	22.7	15.2	22.5

Environmental Engineering

Sales in Environmental Engineering were ¥110.5 billion, 6.1% lower than the prior year, comprising 10.5% of consolidated net sales. Domestic sales decreased 7.4%, to ¥105.5 billion, and overseas sales increased 32.4%, to ¥5.0 billion. This segment consists of environmental control plants and pumps.

With regard to the domestic market, the Company operated this business in a severe market where intensifying competition combined with price declines due to decreasing budgets for public works are in progress. Under such conditions, sales in the Water & Sewage Engineering Division increased, but sales in the Pumps Division slightly decreased and sales in the Waste Engineering Division decreased significantly. In overseas markets, sales of pumps and submerged membrane systems increased steadily.

Pumps

Billions of Yen

		2002	2003	2004	2005	2006
Net Sales		¥965.4	¥925.8	¥929.9	¥983.2	¥1,051.0
Environmental Engineering		148.0	136.4	115.7	117.6	110.5
Sales by Sector	Environmental Engineering	148.0	136.4	115.7	117.6	110.5
Sales in Japan and Overseas	Japan	144.9	134.5	112.4	113.9	105.5
	Overseas	3.1	1.9	3.3	3.7	5.0

Other

Sales in Other were ¥92.1 billion, 18.0% lower than the prior year, comprising 8.8% of consolidated net sales. Domestic sales decreased 18.6%, to ¥90.8 billion, and overseas sales increased 65.5%, to ¥1.2 billion. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Sales of electronic-equipped machinery increased steadily. However, sales of vending machines slightly decreased, and sales of air-conditioning equipment, construction, septic tanks, and condominiums also declined. In addition, there was a drop in sales due to the sale of a certain subsidiary. As a consequence, sales of this segment decreased substantially from the prior year.


Belt Weighing Feeders: Wide Range B-FW

Billions of Yen

		2002	2003	2004	2005	2006
Net Sales		¥965.4	¥925.8	¥929.9	¥983.2	¥1,051.0
Other		217.8	168.0	137.5	112.3	92.1
Sales by Sector	Building Materials & Housing	110.9	64.3	51.8	24.9	13.5
	Other	106.9	103.7	85.7	87.4	78.6
Sales in Japan and Overseas	Japan	216.3	164.9	135.2	111.6	90.8
	Overseas	1.5	3.1	2.3	0.7	1.2

Five-Year Financial Summary

Kubota Corporation and Subsidiaries   Years Ended March 31, 2006, 2005, 2004, 2003, and 2002

	Millions of Yen (Except Per Share Information)					Thousands of U.S. Dollars (Except Per Share Information) (Note 1)
	2006	2005	2004	2003	2002	**2006**
For the year						
Net sales	**¥1,051,040**	¥ 983,226	¥ 929,876	¥ 925,788	¥ 965,429	**$ 8,983,248**
Percentage of previous year	**106.9%**	105.7%	100.4%	95.9%	98.1%	
Cost of sales	**747,380**	713,312	701,718	695,543	729,834	**6,387,864**
Selling, general, and administrative expenses	**185,451**	181,727	199,189	180,857	188,112	**1,585,051**
Loss from disposal and impairment of businesses and fixed assets	**4,709**	1,414	6,359	2,816	12,788	**40,248**
Operating income	**113,500**	86,773	22,610	46,572	34,695	**970,085**
Income from continuing operations	**81,034**	106,801	12,495	8,995	9,838	**692,598**
Income (loss) from discontinued operations, net of taxes	**—**	11,100	(795)	(16,999)	(308)	**—**
Net income (loss):	**81,034**	117,901	11,700	(8,004)	9,530	**692,598**
Percentage of previous year	**68.7%**	1,007.7%	—	—	97.3%	
Percentage of net sales	**7.7%**	12.0%	1.3%	(0.9)%	1.0%	
Net income (loss) per common share (Yen and U.S. Dollars):						
Basic	**¥62.14**	¥89.11	¥8.72	¥(5.84)	¥6.78	**$0.53**
Diluted	**61.67**	86.83	8.53	(5.84)	6.67	**0.53**
Net income (loss) per 5 common shares (Yen and U.S. Dollars):						
Basic	**¥311**	¥446	¥44	¥(29)	¥34	**$2.66**
Diluted	**308**	434	43	(29)	33	**2.63**
Cash dividends per common share (Yen and U.S. Dollars):	**¥9**	¥6	¥6	¥6	¥6	**$0.08**
Cash dividends per 5 common shares (Yen and U.S. Dollars):	**¥45**	¥30	¥30	¥30	¥30	**$0.38**
At year-end						
Total assets	**¥1,405,402**	¥1,193,056	¥1,124,225	¥1,139,011	¥1,200,117	**$12,011,983**
Working capital	**241,786**	171,326	199,747	159,221	169,428	**2,066,547**
Long-term debt	**152,024**	117,488	144,845	155,966	167,850	**1,299,351**
Total shareholders' equity	**606,484**	481,019	391,082	315,443	394,970	**5,183,624**
Shareholders' equity per common share outstanding (Yen and U.S. Dollars):	**¥466.71**	¥369.90	¥291.81	¥234.45	¥284.07	**$3.99**
Shareholders' equity per 5 common shares outstanding (Yen and U.S. Dollars):	**¥2,334**	¥1,849	¥1,459	¥1,172	¥1,420	**$19.95**

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117=US$1. See Note 1 to the consolidated financial statements.
2. 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. See Note 1 to the consolidated financial statements.
3. Per share amounts have been calculated per common share and per 5 common shares since each American Depository Share represents 5 shares of common stock.
4. Cash dividends per common share are based on dividends paid during the year.

1. SALES AND EARNINGS

Sales

For the year under review, net sales of the Company rose 6.9%, to ¥1,051.0 billion ($8,983 million). In the domestic market, sales in Internal Combustion Engine and Machinery increased due to steady sales of engines and construction machinery, and sales in Pipes, Valves, and Industrial Castings increased due to favorable sales of industrial castings and business integration in the plastic pipes business. However, sales in Environmental Engineering decreased due to severe conditions of the public works related business, and sales in Other decreased, resulting from a sale of a subsidiary at the beginning of this fiscal year. Total domestic sales decreased 1.1%, to ¥630.8 billion ($5,392 million) from the prior year.

On the other hand, sales in overseas markets increased largely as a result of sustained high growth in the Company's overseas operations in Internal Combustion Engine and Machinery. Sales in North America increased due to steady sales of tractors and brisk sales of engines and construction machinery. In Europe, sales of tractors, construction machinery, and engines increased largely from the prior year. In Asia, sales of rice-farming equipment rose substantially. As a consequence, overseas sales increased 21.7%, to ¥420.2 billion ($3,592 million) from the prior year. The percentage of overseas sales accounted for 40.0% of net sales, 4.9 percentage points higher than in the prior year.

Sales in Internal Combustion Engine and Machinery were ¥658.8 billion ($5,631 million), 13.1% higher than in the prior year, comprising 62.7% of consolidated net sales. Sales in Pipes, Valves, and Industrial Castings were ¥189.7 billion ($1,621 million), 11.2% higher than the prior year, comprising 18.0% of consolidated net sales. Sales in Environmental Engineering were ¥110.5 billion ($944 million), 6.1% lower than the prior year, comprising 10.5% of consolidated net sales. Other sales were ¥92.1 billion ($787 million), 18.0% lower than the prior year, comprising 8.8% of consolidated net sales.

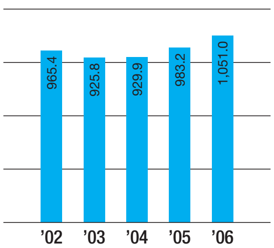
Operating Income

Operating income also rose, by 30.8%, to ¥113.5 billion ($970 million), exceeding ¥100 billion for the first time in the history of the Company. The Company achieved higher operating income due to increased sales in Internal Combustion Engine and Machinery and a reduction in costs of the public works related business. The ratio of operating income to net sales also recorded a new high of 10.8%.

Operating income or loss in each industry segment (before elimination of intersegment profits and corporate expenses) was as follows: Internal Combustion Engine and Machinery, operating income of ¥103.1 billion ($881 million), a 30.3% increase; Pipes, Valves, and Industrial Castings, operating income of ¥19.3 billion ($165 million), a 67.8% increase; Environmental Engineering, operating income of ¥4.2 billion ($36 million), a 26.3% decrease; and Other, operating income of ¥2.2 billion ($19 million), a 43.8% decrease.

Although there was a negative impact of high prices of raw materials, profitability of Internal Combustion Engine and Machinery improved from the prior year due to favorable sales in the European, Asian, and U.S. markets. Profitability of Pipes, Valves, and Industrial Castings improved from the prior year due to rigorous cost controls and the demand related to brisk capital expenditures in the steel and energy industries, while personnel expenses related to employee transfers to a subsidiary were recorded. Profitability in Environmental Engineering deteriorated because the Company is operating this business in a severe market in which intensifying competition together with price declines due to decreasing budgets for public works are in progress. Profitability in Other deteriorated mainly due to personnel expenses related to employee transfers to an affiliated company.

Net Sales
(Billions of Yen)



Cost of Sales

The cost of sales increased 4.8% from the prior year, to ¥747.4 billion ($6,388 million). The cost of sales as a percentage of consolidated net sales decreased 1.4 percentage points, to 71.1%. The decrease in the ratio was attributable to thoroughgoing activities for cost reductions and controls, increased efficiency of the manufacturing process over past years, and a substantial decrease in pension costs.

SG&A Expenses

Selling, general, and administrative (SG&A) expenses increased 2.0% from the prior year, to ¥185.5 billion ($1,585 million). The ratio of SG&A expenses to net sales decreased 0.9 percentage point, to 17.6%. The decrease in pension costs as well as the Company's efforts to control spending in all aspects of business operations contributed to the decrease in the ratio.

These SG&A expenses include an expense for covering costs related to the health hazard resulting from the use of asbestos. Please refer "9. MATTERS RELATED TO THE HEALTH HAZARD OF ASBESTOS" for details.

Loss from Disposal and Impairment of Businesses and Fixed Assets

Loss from disposal and impairment of businesses and fixed assets increased 233.0% from the prior year, to ¥4.7 billion ($40 million). This loss increased mainly due to personnel expenses related to employee transfers to a subsidiary and an affiliated company.

Other Income

Other income, net, was ¥26.9 billion ($230 million), a decrease of ¥42.4 billion from the prior year.

While there was a gain of ¥15.9 billion ($136 million) from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., with UFJ Holdings, Inc., the gain on the transfer of the substitutional portion of the Company's accumulated pension benefit obligations to the Japanese government, which amounted to ¥58.6 billion, was reported in the prior year.

Income from Continuing Operations before Income Taxes, Minority Interests in Earnings of Subsidiaries, and Equity in Net Income of Affiliated Companies

Due to the factors described above, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥140.4 billion ($1,200 million), a decrease of ¥15.6 billion from the prior year.

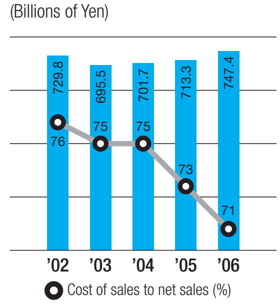
Income Taxes

Income taxes increased 16.5% from the prior year, to ¥56.1 billion ($479 million). The effective tax rate was 39.9%.

Minority Interests in Earnings of Subsidiaries and Equity in Net Income of Affiliated Companies

Minority interests in earnings of subsidiaries increased ¥1.5 billion, to ¥4.9 billion ($42 million). Equity in net income of affiliated companies decreased ¥0.7 billion from the prior year, to ¥1.6 billion ($14 million). This decrease was due to a drop of net income of Kubota Matsushitadenko Exterior Works, Ltd. (KMEW). Net income of KMEW for the prior year was extraordinarily high due to the low level of income taxes related to the merger.

Cost of Sales
(Billions of Yen)



Net Income from Continuing Operations

Due to the factors described previously, net income from continuing operations was ¥81.0 billion ($693 million), compared with ¥106.8 billion in the prior year.

Income from Discontinued Operations, Net of Taxes

Income from discontinued operations, net of taxes, was not recorded during the year under review. In the prior year, income from discontinued operations, net of taxes, was recorded aggregating ¥11.1 billion.

Net Income

Due to the factors described above, net income was ¥81.0 billion ($693 million), compared with ¥117.9 billion in the prior year. Return on shareholders' equity decreased 12.1 percentage points, to 14.9%, from the prior year.

Income per ADS

Basic net income per ADS (five common shares) was ¥311 ($2.66), as compared to ¥446 in the prior year.

Dividends

The Company's basic policy for the allocation of profit is to maintain or raise dividends. To this end, the Company determines the most appropriate use of retained earnings by considering requirements of maintaining stable current business operations as well as the future business environment. A year-end cash dividend per ADS at the rate of ¥30 ($0.26) was approved at the general meeting of shareholders, held on June 23, 2006. The Company also paid a ¥20 ($0.17) per ADS interim dividend to each shareholder.

Comprehensive Income

Comprehensive income was ¥140.3 billion ($1,199 million), a ¥21.0 billion improvement from the prior year. This increase was mainly due to an increase in unrecognized gains on securities.

2. FINANCE AND LIQUIDITY MANAGEMENT

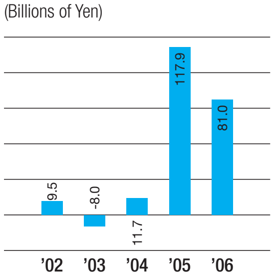
Finance and Liquidity Management

The Company's financial policy is to ensure adequate financing and liquidity for its operations and to maintain the strength of its balance sheet. Through cash and cash equivalents, other current assets, cash flows provided by operating activities, and borrowing, the Company is in a position to fully finance the expansion of its business, R&D, and capital expenditures for current and future business projects. The specific methods of obtaining financing available to the Company are borrowing from financial institutions, the securitization of trade notes and accounts receivable, establishing committed lines of credit, and the issuance of bonds and commercial paper (CP) in the capital markets.

Annual interest rates of short-term borrowings ranged primarily from 0.31% to 4.71% at March 31, 2006. The weighted average interest rate on such short-term borrowings was 4.02%. As for long-term debt, interest rates were primarily fixed, and the weighted average interest rate on such long-term debt at March 31, 2006, was 2.31%.

In North America, the Company maintains an accounts receivable securitization program of trade receivables and finance receivables. The Company may sell both trade and finance receivables through independent securitization trusts. Trade receivables sold under the securitization program and finance receivables sold under the securitization program are excluded from receivables in the accompanying consolidated balance sheets. On the other hand, in the prior year, a subsidiary in the United States has decided to obtain borrowings using finance receivables as collateral instead of selling finance receivables under the securitization program.

Net Income (Loss)
(Billions of Yen)



Regarding the lines of credit, the Company has established committed lines of credit totaling ¥20.0 billion ($171 million) with some Japanese banks. However, the Company currently does not use these lines as it is focused on the reduction of interest-bearing debt. In the United States, Europe, and Asia, the Company maintains adequate uncommitted lines of credit with financial institutions. The Company also maintains a CP program allowing for the issuance of CP of up to ¥100.0 billion ($855 million). The Company has not issued CP as of the end of March 2006.

The Company utilizes Group financing. With Group financing, the Company is centralizing and pursuing the efficiency of cash management domestically through the Kubota Cash Management System, under which the excess or shortage of cash at most of its subsidiaries in Japan is invested or funded, as necessary.

To maintain the strength of its balance sheet and help secure adequate funding resources, the Company is reducing its interest-bearing debt excluding debt related to sale financing programs. The Company is providing sale financing programs to support machinery sales in the United States and Japan. As the Company believes an increase of debt related to sales financing programs is a result of business expansion and it is not appropriate to target reduction of the related debt, the additional debt carried on its books to fund this program is excluded when determining the target. At the end of March 2006, the amount of interest-bearing debt excluding debt related to sale financing programs was ¥114.8 billion ($981 million), and the amount of total interest-bearing debt was ¥334.3 billion ($2,857 million). Of the ¥334.3 billion, ¥314.3 billion was borrowings from financial institutions, and the remaining ¥20.0 billion consisted of corporate bonds.

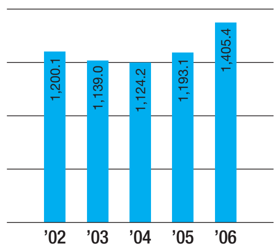
The amount of working capital increased ¥70.5 billion, to ¥241.8 billion ($2,067 million), from the prior year-end. Additionally, the ratio of current assets to current liabilities increased 12.8 percentage points, to 146.8%. The primary reason for this increase was a substantial decrease in the current portion of long-term debt due to repayment of corporate bonds during the year under review. There is some seasonality to the Company's liquidity and capital resources because a high percentage of the notes and accounts receivable from local governments are collected during April through June each year.

All things considered, the Company believes that it can support its current and anticipated capital and operating expenditures for the foreseeable future. The currencies in which the Company has its debt are mainly Japanese yen and U.S. dollars. There are no restrictions regarding the manner in which the funds may be used.

Ratings

The Company has obtained a credit rating from Rating and Investment Information, Inc. (R&I), a rating agency in Japan, to facilitate access to funds from the capital market in Japan. The Company's current rating is A+ as of March 2006 and its outlook is stable. The Company's favorable credit rating provides it access to capital markets and investors.

Total Assets
(Billions of Yen)



■ ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

Assets

Total assets at the end of March 2006 amounted to ¥1,405.4 billion ($12,012 million), an increase of ¥212.3 billion (17.8%) from the end of the prior year. Current assets were ¥758.2 billion ($6,481 million), an increase of ¥82.9 billion from the end of the prior year. Current assets increased due mainly to increases in short-term finance receivables and inventories. The increases in short-term finance receivables and inventories were mainly due to a sales increase in overseas markets. Inventory turnover dropped 0.3 point, to 6.3 times. In addition to the increase in current assets, investments and long-term finance receivables increased due to increases in long-term finance receivables and other investments, which resulted from an increase in the unrealized gain on securities accompanied by a rise in Japanese stock prices. A substantial increase in short- and long-term finance receivables originated from a rapid expansion of business as well as a reduction in sales of finance receivables in North America. Property, plant, and equipment increased ¥6.6 billion, to ¥226.4 billion ($1,935 million). On the other hand, other assets decreased ¥11.9 billion, to ¥46.5 billion ($398 million). This decrease was due to the large decrease in long-term deferred tax assets, which was related to an increase in the unrealized holding gain on securities.

Liabilities

Total liabilities amounted to ¥770.0 billion ($6,581 million), an increase of ¥79.6 billion from the prior year-end. Long-term liabilities increased largely due to an increase in long-term debt and other long-term liabilities. Long-term liabilities includes ¥20.0 billion of corporate bonds. Other long-term liabilities increased mainly due to an increase in long-term deferred tax liabilities related to an increase in the unrealized holding gain on securities.

Minority Interests

Minority interests increased ¥7.3 billion, to ¥28.9 billion ($247 million), due to favorable results of operations of the subsidiaries and an increase in the number of subsidiaries that are not 100% owned, including Kubota C-I Co., Ltd.

Shareholders' Equity

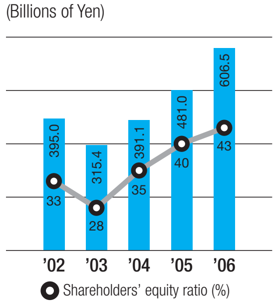
Total shareholders' equity increased ¥125.5 billion, to ¥606.5 billion ($5,184 million). Shareholders' equity substantially increased due to the recording of net income and an increase in accumulated other comprehensive income that mainly resulted from an increase in unrealized gains on securities and partial conversion of convertible bonds to common stock. The shareholders' equity ratio* was 43.2%, 2.9 percentage points higher than at the prior year-end.

In order to reduce the number of outstanding shares and create more value for shareholders, the Company commenced a program for the purchase of shares of treasury stock in December 2001. During the year under review, the Company purchased 16.29 million shares of treasury stock (¥14.9 billion). The Company retired an aggregate of 56.3 million shares of treasury stock (¥36.3 billion), which consists of 39.0 million shares of treasury stock (¥20.9 billion) on June 30, 2005, and 17.3 million shares of treasury stock (¥15.4 billion) on March 31, 2006. For these purchases, the Company used net cash provided by operating activities. Next fiscal year, the Company plans to continue the purchase of treasury stock. The debt-to-equity ratio** was 55.1%, 8.1 percentage points lower than at the prior year-end, due to growth in shareholders' equity that resulted from net income, conversion of bonds, and an increased unrealized gain on securities.

* Shareholders' equity ratio = shareholders' equity / total assets

** Debt-to-equity ratio = interest-bearing debt / shareholders' equity

Total Shareholders' Equity
(Billions of Yen)



Contractual Obligations

The following summarizes contractual obligations at March 31, 2006.

	Millions of Yen				
		Payments Due by Period			
Year Ended March 31, 2006	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term borrowings	¥132,209	¥132,209	¥ —	¥ —	¥ —
Capital lease obligations	6,023	2,829	2,972	177	45
Long-term debt	196,021	47,191	94,441	39,511	14,878
Deposits from customers	2,609	2,609	—	—	—
Operating lease obligations	1,550	406	541	234	369
Commitments for capital expenditures	1,336	1,336	—	—	—
Interest payments	9,564	3,906	4,237	1,037	384
Total	¥349,312	¥190,486	¥102,191	¥40,959	¥15,676

	Thousands of U.S. Dollars				
		Payments Due by Period			
Year Ended March 31, 2006	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term borrowings	$1,129,991	$1,129,991	$ —	$ —	$ —
Capital lease obligations	51,479	24,179	25,402	1,513	385
Long-term debt	1,675,393	403,342	807,188	337,701	127,162
Deposits from customers	22,299	22,299	—	—	—
Operating lease obligations	13,248	3,470	4,624	2,000	3,154
Commitments for capital expenditures	11,419	11,419	—	—	—
Interest payments	81,744	33,385	36,214	8,863	3,282
Total	$2,985,573	$1,628,085	$873,428	$350,077	$133,983

The Company's contributions to pension plans for the year ending March 31, 2007 are expected to be ¥13,597 million ($116,214 thousand).

3. CASH FLOWS

Net cash provided by operating activities during the year under review was ¥87.9 billion ($751 million), an increase of ¥20.9 billion from the prior year. Although net income decreased sharply from the prior year, the Company's cash position was not affected because the subsidy from the government recorded in the prior year, which was the primary reason for the year-over-year decrease, was a nonmonetary gain. The large increase in net cash provided by operating activities was mainly due to the favorable performance of business operations, especially due to operations in Internal Combustion Engine and Machinery.

Net cash used in investing activities was ¥61.3 billion ($524 million), a decrease of ¥16.9 billion from the prior year. The decrease in net cash used in investing activities was due to increases in the collection of finance receivables, in proceeds from sales of finance receivables in North America, and in proceeds from land and securities.

Net cash used in financing activities was ¥10.2 billion ($87 million), an increase of ¥14.7 billion from the prior year. The Company controlled an increase in interest-bearing debt, including short-term borrowings, and increased cash dividends. As a result of these activities, net cash used in financing activities increased.

As a result, including the effect of changes in exchange rates, cash and cash equivalents at the end of March 2006 were ¥91.9 billion ($785 million), an increase of ¥17.3 billion from the prior year-end.

4. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of the consolidated financial statements requires management to make estimates and assumptions on the selection and application of significant accounting policies. The Company reviews these estimates and assumptions periodically. Actual results may differ from estimated results. The following critical accounting policies that affect financial conditions and operations require management to make significant estimates and assumptions:

Inventory Valuation

Completed real estate projects are stated at the lower of acquisition cost or fair value, less estimated costs to sell. The fair values of those assets are estimated based on the appraised values in the market. Land to be developed and projects under development are carried at cost unless those assets are impaired. If carrying amounts of those assets exceed the undiscounted future cash flows expected to be realized from them, those assets are considered impaired, and an impairment loss is measured based on the amount by which the carrying value exceeds the fair value of those assets. If the market conditions and demand in the housing business are less favorable than management's projection, additional write-downs may be required.

Impairment of Investments

The Company classifies all its debt securities and marketable equity securities as available for sale. When a decline in the value of the marketable security is deemed to be other than temporary, the Company recognizes an impairment loss to the extent of the decline. In determining if and when such a decline in value is other than temporary, the Company evaluates the extent to which cost exceeds market value, the duration of market declines, and other key measures. Other non-marketable securities are stated at cost and reviewed periodically for impairment. If equity markets decline or operating results of the issuer of the security become worse, additional impairment losses may be required in the future.

Allowance for Doubtful Receivables

The Company evaluates the collectibility of the notes and accounts receivable, with the estimate based on various judgments, including the customers' financial conditions, historical experience, and the current economic circumstances. If the customers' financial conditions or current economic circumstances become worse, additional allowances may be required in the future.

Deferred Tax Assets

The Company provides a valuation allowance for deferred tax assets with a valuation allowance to adjust the carrying amount when it is more likely than not that the deferred tax assets will not be realized. The valuation of deferred tax assets principally depends on the estimation of future taxable income and tax planning strategies. If future taxable income is lower than expected due to a change in economic circumstances and poor operating results, significant adjustments to deferred tax assets may be required.

Impairment of Long-Lived Assets

When events and circumstances indicate that the carrying amount of long-lived assets to be held and used may not be recoverable and the carrying amounts of those assets exceed the undiscounted future cash flows, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived assets. Fair value is determined primarily using anticipated future cash flows discounted at a rate commensurate with the risk involved. If estimates of future cash flows fall below management's projection due to an unexpected change in economic circumstances, additional impairment may be required.

Retirement and Pension Plans

Benefit obligations and periodic benefit cost are valued based on assumptions developed by the Company and used by actuaries in calculating such amounts. These assumptions include the discount rate, retirement rate, rate of compensation increase, timing of estimated average promotion, mortality rate, expected rate of return on plan assets, and other factors. These assumptions are based upon current statistical data and are reviewed every fiscal year. Differences in actual experience or changes in assumptions may affect the benefit obligations and future periodic benefit cost.

The Company recognizes actuarial gains and losses in excess of 20% of the larger of the projected benefit obligation or plan assets in the year following the year in which such gains and losses were incurred, and amortizes actuarial gains and losses between 10% and 20% over the participants' remaining service period (approximately 15 years). Significant unrecognized actuarial gains or losses may have a material effect on periodic benefit cost in the next fiscal year.

To determine the discount rate, the Company considers current market interest rates. The Company assumed that the discount rate was 2.5% for the years ended March 31, 2004, 2005, and 2006. A further decrease of 50 basis points in the discount rate would increase the benefit obligations as of March 31, 2006 by approximately ¥8.3 billion ($71 million).

To determine the timing of estimated average promotion which is used in calculating benefit obligations under the point-based benefits system, the Company considers employees' age, current job classification, official retirement age of 60, and past experiences.

To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years and the current and expected components of plan assets, and anticipated market trends. Plan assets are managed by asset management companies and trust banks, and are invested primarily in fixed income and equity securities of Japanese and foreign issuers. The Company assumed that the long-term rate of return on plan assets was 3.5% for the years ended March 31, 2004 and 2005, and 3.0% for the year ended March 31, 2006. An actual return on plan assets in the past 10 years was 3.1%, and an asset allocation assumption was 55% on fixed income securities with an expected rate of return of 1.0%, and 45% on equity securities with an expected rate of return of 5.5% for the year ended March 31, 2006 and thereafter. A decrease of 50 basis points in the expected rate of return on plan assets would result in an increase of periodic benefit cost for the year ending March 31, 2007 of approximately ¥0.5 billion ($4 million).

In accordance with EITF No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company recognized the difference of ¥58.6 billion between the substitutional portion of accumulated benefit obligation settled and the related plan assets transferred to the Japanese government as a government subsidy in other income (expenses) in the consolidated statement of income for the year ended March 31, 2005. The Company also recognized derecognition of previously accrued salary progression of ¥11.1 billion and a settlement loss for the proportionate amount of the net unrecognized loss of ¥13.4 billion. The net amount of ¥2.3 billion of derecognition of previously accrued salary progression and the settlement loss was allocated to cost of sales of ¥1.5 billion and selling, general, and administrative expenses of ¥0.7 billion.

Revenue Recognition for Long-Term Contracts

Long-term contracts are accounted for using the percentage of completion method. The Company believes that it is able to develop reasonably dependable estimates of the extent of progress toward completion of individual contracts. Concerning the method of measuring the extent of progress toward completion, the Company uses the cost-to-cost method in measuring the extent of progress toward completion.

Generally, output measures are considered to be the best measures of progress toward completion. But, in case of the Company, most contracts with customers include the delivery and installation of component units. Accordingly, measuring the extent of progress toward completion cannot be properly measured. The Company deems that the measuring method based on the accrual cost method is the most appropriate. Among the various input measure methods available, the Company believes the cost-to-cost method to be preferable rather than others, such as labor hours, labor cost, machine hours, or material quantities.

The Company's senior management and the Board of Corporate Auditors had proactive discussions about these critical accounting policies, and they agreed that estimates and assumptions were appropriate in light of the current and expected market conditions, the Company's businesses, and numerous other factors.

5. BUSINESS RISKS

Declines in economic conditions in Kubota's major markets, including private-sector capital expenditure, construction investment, and domestic public investment, may adversely impact the results of operations of the Company.

Industrial and capital goods make up a substantial portion of the Company's products. Accordingly, sales of the Company may be sensitive to declines in general economic conditions, including private-sector capital expenditure, construction investment, and domestic public investment. In addition, governmental agricultural policies, such as a reduction in rice acreage or change in agricultural basic law, may affect domestic sales of agriculture-related products. In overseas markets, especially those of North America and Europe, sales of the Company's products, such as utility/compact tractors, may also be adversely affected by declines in general economic conditions, including private consumption and residential construction investment in those regions.

Fluctuations of foreign exchange rates, including a stronger yen, may reduce net sales and adversely affect the results of operations of the Company.

The Company has overseas sales and manufacturing subsidiaries. The financial results of each overseas subsidiary are consolidated into the results of the parent company after translation into Japanese yen. In addition, the transactions between the parent company and overseas subsidiaries or customers are generally denominated in the local currencies. The payments received in local currencies on such transactions are converted to Japanese yen. As a result, fluctuations in foreign exchange rates will affect the consolidated financial results.

The Company is subject to the risks of international operations.

In some businesses of the Company, substantial overseas operations are conducted. Accordingly, the Company is subject to a number of risks inherent in doing business in those markets. Such risks may affect sales and profitability of the Company or they may hinder growth of the Company in specific countries. The following risks are important concerns for the Company:

- Unexpected changes in international, or in an individual country's, tax regulations
- Unexpected legal or regulatory changes in a country
- Difficulties in retaining qualified personnel
- Underqualified technological skills or instability between management and employee unions in developing countries
- Political instability in those countries

The major markets with the above risks are markets in the United States, the EU, and Asian countries.

Among the United States, the EU, and Asian countries, which are major markets for the Company, risks in Asian countries seem to be relatively higher than those of other regions.

The Company utilizes estimates on some accounts in the consolidated financial statements, which may require additional accruals due to unanticipated changes in the basis of assumptions.

The Company appropriately records its employee benefit obligations, valuation of inventories, valuation allowances for deferred tax assets, probability of collection of notes and accounts receivable, impairment losses on long-lived assets, and revenue recognition for long-term contracts in the consolidated financial statements based on the information that it has available. However, these are based on various assumptions about future economic results. If actual results differ from any of these assumptions, unanticipated additional accruals may be required.

Strategic alliances, mergers, and acquisitions may not generate successful results as planned.

The Company expects to use strategic alliances, mergers, and acquisitions to seek further growth. The success of these activities depends on such factors as the Company's business environment, the ability of its business counterparts, and whether the Company and its counterparts share common goals. Therefore, if these activities are not successful and returns on related investments are lower than expected, the Company may lose competitiveness in relevant markets. Consequently, the Company's profitability may deteriorate.

The Company may not be able to successfully create new businesses or businesses complementary to the current ones.

As part of its structural renovation, the Company is attempting to cultivate new businesses or businesses that are complementary to the current ones. However, in those markets, there are numerous competitors, and competition will be very harsh. If the Company fails to develop the required personnel or abilities to produce and market appropriate products, subsequent impairment charges may be taken, or there may be a negative impact on the Company's financial position.

Impairment losses on investments in marketable securities may occur as a result of stock market fluctuations.

As of March 31, 2006, the Company owns securities with a fair value of approximately ¥225.4 billion. Most of these securities are equity securities, and, accordingly, depending on stock market fluctuations, unrealized and realized losses may occur.

In each of its businesses, Kubota is subject to intensifying competitive pressures. The Company must compete successfully to maintain sales and profits.

The Company is exposed to severe competition in each of its businesses. Unless the Company surpasses other companies in such areas as terms of trade, R&D, and quality, sales and/or net income may decrease in the future.

The Company may be required to incur significant financial expenses if its products and services have serious defects.

If the Company's products and services have serious defects, the Company may have liability for considerable reparation payments. Such payment and other associated expenses may have a material effect on the Company's consolidated results of operations and financial position. In case such problems occur, the Company may lose the trust of the public and suffer a reduction in its brand value, which may result in decreased sales and demand for its products.

The Company is subject to various environmental laws and regulations, and may be required to incur considerable expenses in order to comply with such laws and regulations.

The Company is subject to various environmental laws and regulations that apply to its products and activities. If these environmental laws and regulations, such as those that impose carbon dioxide emission controls, emission controls, and usage restrictions for certain materials which are used in the Company's products, are strengthened or newly established in jurisdictions in which the Company conducts its businesses, the Company may be required to incur considerable expenses in order to comply with such laws and regulations. Such expenses may have a material effect on the Company's consolidated results of operations and financial position. To the extent that the Company determines that it is not economical to continue to comply with such laws and regulations, the Company may have to curtail or discontinue its activities in the affected business areas.

The Company may be required to incur significant financial expenses in connection with environmental damage it may cause in its activities.

The Company may cause environmental pollution while conducting its activities, such as the release of hazardous materials and causing air pollution, water pollution, and/or ground pollution. In such an event, the Company may have to implement corrective actions to resolve any problem associated with such hazardous materials or pollution with substantial expense and may face litigation regarding these issues. These factors may have a material effect on the Company's consolidated results of operations and financial position.

The Company may be required to incur significant expenses relevant to asbestos-related issues.

The Company previously manufactured products containing asbestos from 1954 to 2001.

The Company may be required to incur various expenses, including expenditures for environmental remediation payments or payments to the individual concerned or face lawsuits related to the asbestos-related health hazards of employees (including former employees) who engaged in the manufacturing of products containing asbestos, and residents who lived near the Company's factory at which these products were manufactured. If such expenses become significant or any lawsuits result in judgments unfavorable to the Company, there may be a material adverse effect on the Company's consolidated results of operations, financial position, and its liquidity.

The Company may experience a material effect on its consolidated results of operations and financial position if it faces issues related to compliance.

The Company declared its intention to conduct its corporate activities based on compliance with legal regulations and ethical principles, and to exert efforts to make all management and staff of the Company not to act in violation of various legal regulations, ethical standards, or internal regulations throughout all Group companies. However, in the event that the Company is confronted with compliance issues arising from such activities, there is a possibility that it may undergo disciplinary action by government ministries supervising its activities, may be subjected to lawsuits, and may suffer a loss of public confidence that could have a material effect on the Company's consolidated results of operations and financial position.

Damage by Natural Disasters

Japan is a country with frequent earthquakes. In case of a strong earthquake or related tidal wave, the Company may be affected in the operation of its manufacturing, logistics, and sales activities, and may lose sales and profits depending on the severity of the earthquake or tidal wave. Japan also is hit by typhoons very frequently. In case major plants are struck by a large and powerful typhoon, the Company's operations may suffer great losses.

6. MARKET RISKS

Derivatives

To offset 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, the Company conducts its derivative transactions within the range of its outstanding credit and obligations, and the Company does not engage in speculative derivative transactions. The counterparties for the Company's derivative transactions are financial institutions with high creditworthiness; therefore, the Company does not anticipate any credit losses on such transactions. For more specific details, please refer to Note 15 to the consolidated financial statements.

Countermeasures for the Removal of Government Deposit Guarantees

Effective from April 2002 in Japan, limits were placed on government guarantees of certain short-term deposits held by financial institutions. As a countermeasure, the Company maintains its deposits with a diverse group of financial institutions with high credit ratings. In addition, the Company centralizes its risk management with financial institutions mainly through concentrating cash within the parent company.

7. RESEARCH AND DEVELOPMENT

R&D expenses were ¥22.7 billion ($194 million), an increase of ¥0.7 billion from the prior year, and its ratio to net sales declined 0.08 percentage point, to 2.16%. R&D expenses were mainly spent on R&D activities of the Internal Combustion Engine and Machinery segment.

8. CAPITAL EXPENDITURES

Capital expenditures amounted to ¥33.8 billion ($289 million), a 29.5% increase from the prior year. Capital expenditures were spent primarily on expanding production capacity, including building a new factory, and rationalization measures. The amount of depreciation expense was ¥25.4 billion ($217 million), ¥0.1 billion less than the prior year. The funds for these capital expenditures were mainly provided by internal operations. The principal capital expenditures as of March 31, 2006 were related to expansion of capacity for engine manufacturing.

9. MATTERS RELATED TO THE HEALTH HAZARD OF ASBESTOS

Background

Until 1995, the Company's plant in Amagasaki, Hyogo Prefecture, which is now a company office, had produced products containing asbestos. In April 2005, the Company was advised that some residents who lived near the former plant suffered from mesothelioma, a form of lung cancer that is said to be mainly caused by the aspiration of asbestos. After discussing this issue with those patients and their private support groups, and deliberating internally and consulting with outside advisers, the Company announced its intention in June 2005 to act seriously and faithfully concerning various issues of the health hazard of asbestos from the viewpoint of corporate social responsibility (CSR) as a company that had once manufactured products containing asbestos for a long time.

According to the Company's basic policy, the Company started in August 2005 the program of consolation payments to patients with mesothelioma who lived near the former plant and to the families of residents who died from mesothelioma. Subsequently, the Company decided to establish the relief payment system in place of the consolation payment system and make additional payment to the residents to whom consolation payment or condolence payment were eligible to be paid or payable. The new supporting system will be applied to the residents who claim for payment in the future.

With regard to current and former employees who are suffering from, or died of, asbestos-related diseases, the Company has paid, or is paying, compensation in accordance with policies that were established in the early 1990s, which include compensation for medical expenses, special health checkups for retired employees, and certain additional payments to workers' compensation that are not required by law but are voluntarily made by the Company.

As a result of the asbestos issue becoming an object of public concern, the Japanese government newly established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases ("New Asbestos Law") in March 2006. This law was enacted for the purpose of promptly providing relief to people suffering from asbestos-related diseases who are not eligible for relief by compensation from the Workers' Accident Compensation Insurance in accordance with the Workers' Accident Compensation Insurance Law. Based on the New Asbestos Law, a Fund for the Relief of Patients Suffering from Asbestos-Related Diseases (the "Fund") was established by the Environmental Restoration and Conservation Agency of Japan, which is an independent administrative institution, for the purpose of providing financial assistance to eligible patients. The Fund is to commence the supply of funds to those individuals with asbestos-related illnesses as soon as they are identified as eligible patients under the New Asbestos Law. The Fund, from which the relief aid is paid, is funded by the national government, municipal governments, and business entities. The amount of contribution to be made by each business entity is now under consideration by the national government and is to be decided in the year ending March 31, 2007, and the business entities shall commence the payment of the contribution from the year ending March 31, 2008.

Contingencies Regarding Asbestos-Related Matters

The Company expenses payments to certain residents and current and former employees when the Company determines that a payment is warranted based on the medical condition of the individual concerned and in accordance with the Company's policies and procedures. The amounts of these expenses during the year under review were approximately ¥4.2 billion. The Company has no grounds to project the number of current and former employees and residents who lived close to the Company's plants that are going to newly apply for payments. In addition, Kubota's liability under the New Asbestos Law has not been determined yet, and, although the Company has not been involved in any lawsuits up to the present time related to the asbestos-related diseases of its current and former employees and residents who lived close to the Company's plants, the Company recognizes the possibility that it may face lawsuits related to this issue. Therefore, the Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to this contingency. However, the Company believes asbestos-related issues contain potentially material risks for the Company's consolidated results of operations, financial position, and its liquidity.

10. OUTLOOK FOR THE NEXT FISCAL YEAR

Financial Outlook

In the Company's forecast of consolidated net sales for the year ending March 31, 2007, the Company believes that domestic sales are expected to be almost the same amount as those of the year under review. As for overseas sales, the Company expects increased sales due to sales expansion in the Pipes, Valves, and Industrial Castings segment and the Environmental Engineering segment as well as sales expansion in the Internal Combustion Engine and Machinery segment.

The Company expects a steady improvement in operating income. Although the price increases in raw materials will cause downward pressure on operating income, an increase in overseas sales of Internal Combustion Engine and Machinery and corporate-wide cost reduction are expected to contribute to the increase in operating income.

Net income is forecast to slightly decrease from the year under review due to the significant decrease in other income—net due to an absence of the gain on nonmonetary exchange of securities (¥15.9 billion) recorded in the year under review.

Cautionary Statements with Respect to Forward-Looking Statements

This document may contain forward-looking statements that are based on management's expectations, estimates, projections, and assumptions. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results may differ materially from what is forecast in the forward-looking statements due to a variety of factors, including, and without limitation, general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures, both in the public and private sectors, foreign currency exchange rates, continued competitive pricing pressures in the marketplace, as well as the Company's ability to continue to gain acceptance of its products among the public.

■ **SEGMENT INFORMATION**

The following segment information for the years ended March 31, 2006 and 2005, 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, 2006	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
Net sales:							
Unaffiliated customers	**¥658,776**	**¥189,708**	**¥110,479**	**¥ 92,077**	**¥1,051,040**	**¥ —**	**¥1,051,040**
Intersegment	**40**	**2,184**	**209**	**15,176**	**17,609**	**(17,609)**	**—**
Total	**658,816**	**191,892**	**110,688**	**107,253**	**1,068,649**	**(17,609)**	**1,051,040**
Cost of sales and operating expenses	**555,687**	**172,637**	**106,475**	**105,073**	**939,872**	**(2,332)**	**937,540**
Operating income	**¥103,129**	**¥ 19,255**	**¥ 4,213**	**¥ 2,180**	**¥ 128,777**	**¥ (15,277)**	**¥ 113,500**
Identifiable assets at March 31, 2006	**¥760,001**	**¥181,740**	**¥ 92,996**	**¥ 81,461**	**¥1,116,198**	**¥289,204**	**¥1,405,402**
Depreciation	**15,284**	**5,308**	**798**	**1,492**	**22,882**	**2,508**	**25,390**
Loss from impairment	**61**	**82**	**59**	**836**	**1,038**	**—**	**1,038**
Capital expenditures	**25,482**	**3,585**	**389**	**1,479**	**30,935**	**2,870**	**33,805**

	Millions of Yen						
Year Ended March 31, 2005	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
Net sales:							
Unaffiliated customers	¥582,664	¥170,629	¥117,633	¥112,300	¥ 983,226	¥ —	¥ 983,226
Intersegment	88	8,237	249	14,956	23,530	(23,530)	—
Total	582,752	178,866	117,882	127,256	1,006,756	(23,530)	983,226
Cost of sales and operating expenses	503,596	167,391	112,167	123,374	906,528	(10,075)	896,453
Operating income	¥ 79,156	¥ 11,475	¥ 5,715	¥ 3,882	¥ 100,228	¥ (13,455)	¥ 86,773
Identifiable assets at March 31, 2005	¥614,123	¥190,669	¥105,890	¥100,874	¥1,011,556	¥181,500	¥1,193,056
Depreciation	14,154	6,368	930	1,678	23,130	2,338	25,468
Loss from impairment	77	—	42	976	1,095	—	1,095
Capital expenditures	17,482	1,823	358	1,388	21,051	5,046	26,097

	Thousands of U.S. Dollars						
Year Ended March 31, 2006	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
Net sales:							
Unaffiliated customers	**$5,630,564**	**$1,621,436**	**$944,265**	**$786,983**	**$8,983,248**	**$ —**	**$ 8,983,248**
Intersegment	**342**	**18,667**	**1,786**	**129,709**	**150,504**	**(150,504)**	**—**
Total	**5,630,906**	**1,640,103**	**946,051**	**916,692**	**9,133,752**	**(150,504)**	**8,983,248**
Cost of sales and operating expenses	**4,749,462**	**1,475,530**	**910,043**	**898,060**	**8,033,095**	**(19,932)**	**8,013,163**
Operating income	**$ 881,444**	**$ 164,573**	**$ 36,008**	**$ 18,632**	**$1,100,657**	**$ (130,572)**	**$ 970,085**
Identifiable assets at March 31, 2006	**$6,495,735**	**$1,553,333**	**$794,838**	**$696,248**	**$9,540,154**	**$2,471,829**	**$12,011,983**
Depreciation	**130,632**	**45,368**	**6,821**	**12,752**	**195,573**	**21,436**	**217,009**
Loss from impairment	**522**	**701**	**504**	**7,145**	**8,872**	**—**	**8,872**
Capital expenditures	**217,795**	**30,641**	**3,325**	**12,641**	**264,402**	**24,530**	**288,932**

Geographic Segments

Year Ended March 31, 2006	Millions of Yen Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**¥659,062**	**¥273,078**	**¥118,900**	**¥1,051,040**	**¥ —**	**¥1,051,040**
Intersegment	**250,976**	**4,934**	**4,070**	**259,980**	**(259,980)**	**0**
Total	**910,038**	**278,012**	**122,970**	**1,311,020**	**(259,980)**	**1,051,040**
Cost of sales and operating expenses	**807,788**	**257,080**	**111,547**	**1,176,415**	**(238,875)**	**937,540**
Operating income	**¥102,250**	**¥ 20,932**	**¥ 11,423**	**¥ 134,605**	**¥ (21,105)**	**¥ 113,500**
Identifiable assets at March 31, 2006	**¥730,366**	**¥390,122**	**¥ 80,353**	**¥1,200,841**	**¥204,561**	**¥1,405,402**

Year Ended March 31, 2005	Millions of Yen Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	¥659,283	¥232,135	¥91,808	¥ 983,226	¥ —	¥ 983,226
Intersegment	193,242	3,000	2,792	199,034	(199,034)	—
Total	852,525	235,135	94,600	1,182,260	(199,034)	983,226
Cost of sales and operating expenses	778,412	215,044	87,207	1,080,663	(184,210)	896,453
Operating income	¥ 74,113	¥ 20,091	¥ 7,393	¥ 101,597	¥ (14,824)	¥ 86,773
Identifiable assets at March 31, 2005	¥746,627	¥259,218	¥64,737	¥1,070,582	¥ 122,474	¥1,193,056

Year Ended March 31, 2006	Thousands of U.S. Dollars Japan	North America	Other Areas	Total	Corporate & Eliminations	Consolidated
Net sales:						
Unaffiliated customers	**$5,633,009**	**$2,334,000**	**$1,016,239**	**$ 8,983,248**	**$ —**	**$ 8,983,248**
Intersegment	**2,145,094**	**42,171**	**34,786**	**2,222,051**	**(2,222,051)**	**0**
Total	**7,778,103**	**2,376,171**	**1,051,025**	**11,205,299**	**(2,222,051)**	**8,983,248**
Cost of sales and operating expenses	**6,904,171**	**2,197,265**	**953,393**	**10,054,829**	**(2,041,666)**	**8,013,163**
Operating income	**$ 873,932**	**$ 178,906**	**$ 97,632**	**$ 1,150,470**	**$ (180,385)**	**$ 970,085**
Identifiable assets at March 31, 2006	**$6,242,444**	**$3,334,376**	**$ 686,778**	**$10,263,598**	**$1,748,385**	**$12,011,983**

Sales by Region

Years Ended March 31, 2006 and 2005	Millions of Yen 2006		2005		Thousands of U.S. Dollars 2006
Japan	**¥ 630,811**	**60.0%**	¥637,902	64.9%	**$5,391,547**
Overseas:					
North America	**271,329**	**25.8**	232,631	23.6	**2,319,051**
Other Areas	**148,900**	**14.2**	112,693	11.5	**1,272,650**
Subtotal	**420,229**	**40.0**	345,324	35.1	**3,591,701**
Total	**¥1,051,040**	**100.0%**	¥983,226	100.0%	**$8,983,248**

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

Consolidated Balance Sheets

Kubota Corporation and Subsidiaries   March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and cash equivalents	**¥ 91,858**	¥ 74,563	**$ 785,111**
Notes and accounts receivable (Notes 3, 6, 7, 10 and 18):			
Trade notes	**70,007**	72,517	**598,351**
Trade accounts	**242,865**	248,338	**2,075,769**
Less: Allowance for doubtful notes and accounts receivable (Note 6)	**(2,155)**	(2,257)	**(18,419)**
Short-term finance receivables—net (Notes 5, 7 and 18)	**79,116**	50,921	**676,205**
Inventories (Note 2)	**175,660**	155,146	**1,501,368**
Other current assets (Notes 12 and 18)	**100,873**	76,143	**862,162**
Total current assets	**758,224**	675,371	**6,480,547**
Investments and long-term finance receivables:			
Investments in and advances to affiliated companies (Note 3)	**13,145**	11,808	**112,350**
Other investments (Notes 4 and 7)	**236,629**	146,979	**2,022,470**
Long-term finance receivables—net (Notes 5, 7 and 18)	**124,509**	80,725	**1,064,180**
Total investments and long-term finance receivables	**374,283**	239,512	**3,199,000**
Property, plant, and equipment (Note 7):			
Land	**82,978**	83,031	**709,214**
Buildings	**203,985**	200,173	**1,743,462**
Machinery and equipment	**367,150**	359,659	**3,138,034**
Construction in progress	**6,236**	4,499	**53,299**
Total	**660,349**	647,362	**5,644,009**
Accumulated depreciation	**(433,977)**	(427,612)	**(3,709,205)**
Net property, plant, and equipment	**226,372**	219,750	**1,934,804**
Other assets (Notes 6, 8 and 12)	**46,523**	58,423	**397,632**
Total	**¥1,405,402**	¥1,193,056	**$12,011,983**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 132,209**	¥ 119,802	**$ 1,129,991**
Trade notes payable	**33,560**	33,675	**286,838**
Trade accounts payable	**186,901**	183,367	**1,597,444**
Advances received from customers	**7,311**	4,104	**62,487**
Notes and accounts payable for capital expenditures	**13,348**	9,094	**114,086**
Accrued payroll costs	**24,310**	23,616	**207,778**
Accrued expenses	**28,587**	24,998	**244,333**
Income taxes payable	**12,376**	12,223	**105,778**
Other current liabilities (Note 17)	**27,816**	26,289	**237,744**
Current portion of long-term debt (Note 7)	**50,020**	66,877	**427,521**
Total current liabilities	**516,438**	504,045	**4,414,000**
Long-term liabilities:			
Long-term debt (Note 7)	**152,024**	117,488	**1,299,351**
Accrued retirement and pension costs (Note 8)	**53,633**	65,836	**458,402**
Other long-term liabilities (Note 12)	**47,925**	3,093	**409,615**
Total long-term liabilities	**253,582**	186,417	**2,167,368**
Commitments and contingencies (Note 17)			
Minority interests	**28,898**	21,575	**246,991**
Shareholders' equity (Notes 9 and 14):			
Common stock,			
authorized 1,874,700,000 shares and 1,931,000,000 shares in 2006 and 2005, respectively			
outstanding 1,299,487,964 shares and 1,300,413,082 shares in 2006 and 2005, respectively	**84,070**	78,156	**718,547**
Capital surplus	**93,150**	87,263	**796,154**
Legal reserve	**19,539**	19,539	**167,000**
Retained earnings	**323,116**	290,187	**2,761,675**
Accumulated other comprehensive income	**86,769**	27,507	**741,615**
Treasury stock (381,216 shares and 40,395,896 shares in 2006 and 2005, respectively), at cost	**(160)**	(21,633)	**(1,367)**
Total shareholders' equity	**606,484**	481,019	**5,183,624**
Total	**¥1,405,402**	¥1,193,056	**$12,011,983**

Consolidated Statements of Income

Kubota Corporation and Subsidiaries Years Ended March 31, 2006, 2005, and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	**2006**
Net sales (Note 3)	**¥1,051,040**	¥983,226	¥929,876	**$8,983,248**
Cost of sales	**747,380**	713,312	701,718	**6,387,864**
Selling, general, and administrative expenses	**185,451**	181,727	199,189	**1,585,051**
Loss from disposal and impairment of businesses and fixed assets (Note 16)	**4,709**	1,414	6,359	**40,248**
Operating income	**113,500**	86,773	22,610	**970,085**
Other income (expenses):				
Interest and dividend income	**14,355**	9,488	7,264	**122,692**
Interest expense	**(7,122)**	(4,699)	(4,252)	**(60,872)**
Gain on sales of securities—net	**4,703**	1,604	3,161	**40,197**
Gain on nonmonetary exchange of securities (Note 1)	**15,901**	—	—	**135,906**
Subsidy from the government (Note 8)	**—**	58,571	—	**—**
Other—net (Note 11)	**(931)**	4,298	(891)	**(7,957)**
Other income, net	**26,906**	69,262	5,282	**229,966**
Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies	**140,406**	156,035	27,892	**1,200,051**
Income taxes (Note 12):				
Current	**34,433**	34,491	29,255	**294,299**
Deferred	**21,634**	13,625	(15,554)	**184,906**
Total income taxes	**56,067**	48,116	13,701	**479,205**
Minority interests in earnings of subsidiaries	**4,938**	3,442	2,476	**42,205**
Equity in net income of affiliated companies (Note 3)	**1,633**	2,324	780	**13,957**
Income from continuing operations	**81,034**	106,801	12,495	**692,598**
Income (loss) from discontinued operations, net of taxes (Note 19)	**—**	11,100	(795)	**—**
Net income	**¥ 81,034**	¥117,901	¥ 11,700	**$ 692,598**

	Yen			U.S. Dollars (Note 1)
Net income (loss) per common share (Note 13):				
Basic:				
Continuing operations	**¥62.14**	¥80.72	¥9.31	**$0.53**
Discontinued operations	**—**	8.39	(0.59)	**—**
Net income	**¥62.14**	¥89.11	¥8.72	**$0.53**
Diluted:				
Continuing operations	**¥61.67**	¥78.67	¥9.09	**$0.53**
Discontinued operations	**—**	8.16	(0.56)	**—**
Net income	**¥61.67**	¥86.83	¥8.53	**$0.53**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Kubota Corporation and Subsidiaries Years Ended March 31, 2006, 2005, and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	**2006**
Net income	**¥ 81,034**	¥117,901	¥11,700	**$ 692,598**
Other comprehensive income (loss), net of tax (Note 14):				
Foreign currency translation adjustments	**13,570**	(1,468)	(7,535)	**115,983**
Unrealized gains on securities	**45,017**	517	43,368	**384,761**
Minimum pension liability adjustment	**—**	3,492	37,565	**—**
Unrealized gains (losses) on derivatives	**675**	(1,109)	772	**5,769**
Other comprehensive income	**59,262**	1,432	74,170	**506,513**
Comprehensive income	**¥140,296**	¥119,333	¥85,870	**$1,199,111**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kubota Corporation and Subsidiaries Years Ended March 31, 2006, 2005, and 2004

	Shares of Common Stock Outstanding (Thousands)	Millions of Yen					
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost
Balance, March 31, 2003	1,345,450	¥78,156	¥87,263	¥19,539	¥200,517	¥(48,095)	¥(21,937)
Net income					11,700		
Other comprehensive income						74,170	
Cash dividends, ¥6 per common share					(8,061)		
Purchases of treasury stock	(5,253)						(2,170)
Balance, March 31, 2004	1,340,197	78,156	87,263	19,539	204,156	26,075	(24,107)
Net income					117,901		
Other comprehensive income						1,432	
Cash dividends, ¥6 per common share					(7,989)		
Purchases of treasury stock	(39,784)						(21,407)
Retirement of treasury stock					(23,881)		23,881
Balance, March 31, 2005	1,300,413	78,156	87,263	19,539	290,187	27,507	(21,633)
Net income					**81,034**		
Other comprehensive income						**59,262**	
Cash dividends, ¥9 per common share					**(11,769)**		
Purchases of treasury stock	**(16,285)**						**(14,863)**
Retirement of treasury stock					**(36,336)**		**36,336**
Conversion of bonds	**15,360**	**5,914**	**5,887**				
Balance, March 31, 2006	**1,299,488**	**¥84,070**	**¥93,150**	**¥19,539**	**¥323,116**	**¥ 86,769**	**¥ (160)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost
Balance, March 31, 2005	$668,000	$745,838	$167,000	$2,480,231	$235,102	$(184,897)
Net income				**692,598**		
Other comprehensive income					**506,513**	
Cash dividends, $0.08 per common share				**(100,590)**		
Purchases of treasury stock						**(127,034)**
Retirement of treasury stock				**(310,564)**		**310,564**
Conversion of bonds	**50,547**	**50,316**				
Balance, March 31, 2006	**$718,547**	**$796,154**	**$167,000**	**$2,761,675**	**$741,615**	**$ (1,367)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kubota Corporation and Subsidiaries Years Ended March 31, 2006, 2005, and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	**2006**
Operating activities:				
Net income	**¥ 81,034**	¥ 117,901	¥ 11,700	**$ 692,598**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**25,821**	25,808	27,755	**220,692**
Provision for doubtful receivables	**55**	79	783	**470**
Provision for (reversal of) accrued retirement and pension costs	**(12,514)**	(7,306)	48,516	**(106,957)**
Subsidy from the government	**—**	(58,571)	—	**—**
Gain on sales of securities	**(4,703)**	(1,604)	(3,161)	**(40,197)**
Gain on nonmonetary exchange of securities	**(15,901)**	—	—	**(135,906)**
Valuation losses on short-term and other investments	**403**	423	1,083	**3,444**
Loss on disposals of fixed assets	**23**	1,341	4,122	**197**
Impairment loss on fixed assets	**1,038**	1,095	1,263	**8,872**
Equity in net income of affiliated companies	**(1,633)**	(2,324)	(780)	**(13,957)**
Deferred income taxes	**21,634**	13,625	(15,554)	**184,906**
Change in assets and liabilities, net of effects from sales and transfer of businesses:				
(Increase) decrease in notes and accounts receivable	**11,099**	(19,540)	48,241	**94,863**
(Increase) decrease in inventories	**(11,736)**	(8,129)	6,954	**(100,308)**
Increase in other current assets	**(10,559)**	(15,159)	(15,812)	**(90,248)**
Increase (decrease) in trade notes and accounts payable	**(4,060)**	22,404	(9,521)	**(34,701)**
Increase (decrease) in income taxes payable	**(167)**	(3,363)	5,195	**(1,427)**
Increase in other current liabilities	**4,408**	3,151	310	**37,675**
Other	**3,615**	(2,923)	(1,519)	**30,899**
Net cash provided by operating activities	**87,857**	66,908	109,575	**750,915**
Investing activities:				
Purchases of fixed assets	**(25,680)**	(20,818)	(26,493)	**(219,487)**
Purchases of investments and change in advances	**442**	(495)	9,257	**3,778**
Proceeds from sales of property, plant, and equipment	**5,568**	2,769	3,129	**47,590**
Proceeds from sales of investments	**8,499**	2,981	8,182	**72,641**
Proceeds from sale of business	**218**	1,117	2,562	**1,863**
Increase in finance receivables	**(142,393)**	(119,878)	(115,117)	**(1,217,034)**
Collection of finance receivables	**80,163**	53,575	31,192	**685,154**
Sales of finance receivables	**11,753**	5,208	50,019	**100,453**
Net (increase) decrease in short-term investments	**—**	3,001	(2,991)	**—**
Cash transferred in sale of a business	**—**	(6,048)	—	**—**
Other	**138**	360	(117)	**1,179**
Net cash used in investing activities	**(61,292)**	(78,228)	(40,377)	**(523,863)**
Financing activities:				
Proceeds from issuance of long-term debt	**88,829**	39,582	37,128	**759,222**
Repayments of long-term debt	**(71,719)**	(39,081)	(74,171)	**(612,983)**
Net increase (decrease) in short-term borrowings	**335**	34,453	(7,489)	**2,863**
Cash dividends	**(11,769)**	(7,989)	(8,061)	**(100,590)**
Purchases of treasury stock	**(14,898)**	(21,451)	(2,223)	**(127,333)**
Other	**(964)**	(1,006)	(281)	**(8,239)**
Net cash provided by (used in) financing activities	**(10,186)**	4,508	(55,097)	**(87,060)**
Effect of exchange rate changes on cash and cash equivalents	**916**	154	(242)	**7,829**
Net increase (decrease) in cash and cash equivalents	**17,295**	(6,658)	13,859	**147,821**
Cash and cash equivalents, beginning of year	**74,563**	81,221	67,362	**637,290**
Cash and cash equivalents, end of year	**¥ 91,858**	¥ 74,563	¥ 81,221	**$ 785,111**

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Kubota Corporation (the "parent company") and subsidiaries (collectively the "Company") are one of Japan's leading manufacturers of a comprehensive range of machinery and other industrial and consumer products, including farm equipment, engines, pipe and fluid systems engineering, industrial castings, environmental control plants, and housing materials and equipment.

The manufacturing operations of the Company are conducted primarily at 20 plants in Japan and at 7 overseas plants located in the United States and certain other countries. Farm equipment, construction machinery, ductile iron pipe, and certain other products are sold both in Japan and overseas markets which consist mainly of North America, Europe, and Asia.

Basis of Financial Statements

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP") with the exception of FASB Emerging Issues Task Force ("EITF") Issue No. 91-5, "Nonmonetary Exchange of Cost-Method Investments" (see **Investments**). The presentation of segment information required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," has also been omitted.

Certain reclassifications have been made to the consolidated financial statements for 2005 and 2004 to conform with classifications used in 2006.

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, 2006 of ¥117=US$1, solely for convenience of readers outside Japan. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into United States dollars.

Consolidation

The consolidated financial statements include the accounts of the parent company and all majority-owned subsidiaries. The accounts of certain consolidated subsidiaries that have December 31 fiscal year-ends have been included in the March 31 consolidated financial statements. The accounts of variable interest entity ("VIE") as defined by the FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN46R") are included in the consolidated financial statements, if applicable.

The Company is involved with the VIE which engage in sales activities within the Internal Combustion Engine and Machinery segment. The VIE has been consolidated by the Company in accordance with FIN46R.

Total assets of the VIE at March 31, 2006 were ¥2,497 million ($21,342 thousand). Whole assets of the VIE are not collateral for the VIE's obligations. Also, the creditors or beneficial interest holders of the consolidated VIE have no recourse to the general credit of the Company.

The Company is not a primary beneficiary of the unconsolidated VIEs and does not hold any significant variable interests in the VIEs.

Intercompany items have been eliminated in consolidation.

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

Revenue Recognition

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

Sales of environmental and other plant and equipment are recorded when the installation of plant and equipment is completed and accepted by the customer for short-term contracts, and recorded under the percentage-of-completion method of accounting for long-term contracts. (See Note 10. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS). Estimated losses on sales contracts are recorded in the period in which they are identified.

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.

Finance receivables are composed of the total arrangement fee less unamortized discounts. Based on imputed interest for the time value of money and reserve for credit losses, income is recorded over the terms of the receivables using the interest method.

Foreign Currency Translation

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

Securitization of Receivables

The Company sells trade and finance receivables to investors through bankruptcy-remote independent securitization trusts. At the time the receivables are sold to the securitization trusts, the balances are removed from the consolidated balance sheet of the Company. The investment in the sold receivables pool is allocated between the portion sold and the portion retained based on their relative fair values on the date of sale. The gain or loss for each qualifying sale of receivables is determined based on book value allocated to the portion sold.

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

Allowance for Doubtful Receivables

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

Inventories

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

Investments

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies all its debt securities and marketable equity securities as available for sale and carries them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as an item of other comprehensive income in shareholders' equity. The fair values of those securities are determined based on quoted market prices.

Gains and losses on sales of available-for-sale securities as well as other nonmarketable equity securities which are carried at cost are computed on the average-cost method. When a decline in the value of the marketable security is deemed to be other than temporary, the Company recognizes an impairment loss to the extent of the decline. In determining if and when such a decline in value is other than temporary, the Company evaluates the extent to which cost exceeds market value, the duration of market declines, and other key measures. Other non-marketable securities are stated at cost and reviewed periodically for impairment.

(Merger of Bank of Tokyo and Mitsubishi Bank)

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 UFJ Financial Group, Inc. ("MUFG")) 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 increased by ¥3,081 million for the year ended March 31, 1997, and decreased by ¥603 million for the year ended March 31, 2002. Net loss would have increased by ¥545 million for the year ended March 31, 2003. There would have been no impact on operating results for the years ended March 31, 2006, 2005, and 2004. Retained earnings would have decreased by ¥380 million ($3,248 thousand) at March 31, 2006, 2005, and 2004, with a corresponding increase in accumulated other comprehensive income. These amounts primarily reflect the unrecognized gain on the initial nonmonetary exchange in 1997 and subsequent losses on sales and impairment of the investment through 2003.

(Merger of UFJ Holdings and Mitsubishi Tokyo Financial Group)

On October 1, 2005, UFJ Holdings, Inc. ("UFJ") and Mitsubishi Tokyo Financial Group, Inc. merged. Upon the merger, each common share of UFJ owned by the Company which had been carried at cost was converted into 0.62 share of the combined entity, MUFG.

For the year ended March 31, 2005, the Company accounted for gain on nonmonetary exchange of securities of ¥15,901 million ($135,906 thousand), based on the fair value of MUFG's common shares of ¥18,284 million ($156,274 thousand) less carrying amounts of UFJ's common shares of ¥2,383 million ($20,368 thousand).

Property, Plant, and Equipment

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

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

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities and tax loss and other carryforwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that management believes will more likely than not be realized.

Consideration Given by a Vendor to a Customer

The Company accounts for consideration given to a customer in accordance with EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." EITF 01-9 defines the income statement classification of consideration given by a vendor to a customer or a reseller of the vendor's products. In accordance with EITF 01-9, certain sales incentives are deducted from revenue.

Research and Development and Advertising

Research and development and advertising costs are expensed as incurred.

Shipping and Handling Costs

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

Expense from Relief Payment for Health Hazard of Asbestos

The Company expenses payments to certain residents who lived near the Company's plant and current and former employees when the Company determines that a payment is warranted based on the medical condition of the individual concerned and in accordance with the Company's policies and procedures.

The Company also accrues an estimated loss from asbestos-related matters by a charge to income if both of the following conditions are met:

a. It is probable that a liability had been incurred at the date of financial statements.

b. The amount of loss can be reasonably estimated.

(See Note 17. COMMITMENTS AND CONTINGENCIES.)

Net Income per Common Share

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

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

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133," and No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

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

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

Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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

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

Discontinued Operations

The Company accounts for discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and presents the results of discontinued operations as a separate line item in the consolidated statements of income under income (loss) from discontinued operations, net of taxes.

The figures of the consolidated statements of income for the prior years related to the discontinued operations have been separately reported from the ongoing operating results to conform with the current year presentation.

Cash Flow Information

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At March 31, 2006, 2005, and 2004, time deposits with original maturities of three months or less amounting to ¥4,195 million ($35,855 thousand), ¥3,333 million, and ¥7,866 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥6,911 million ($59,068 thousand), ¥4,401 million, and ¥4,459 million, and for income taxes amounted to ¥32,724 million ($279,692 thousand), ¥32,092 million, and ¥24,030 million in 2006, 2005, and 2004, respectively.

The Company retired treasury stock of ¥36,336 million ($310,564 thousand), and ¥23,881 million in 2006 and 2005, respectively.

Convertible bonds of ¥11,801 million ($100,863 thousand) were converted into common stock in 2006.

The Company capitalized leased assets under capital leases of ¥3,945 million ($33,718 thousand), ¥3,909 million, and ¥1,917 million in 2006, 2005, and 2004, respectively.

Use of Estimates in the Preparation of the Financial Statements

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

New Accounting Standards

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

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

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring that a voluntary change in accounting principle be applied retrospectively with all prior periods' financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS 154 also requires that a change in depreciation or amortization for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle and corrections of errors in previously issued financial statements should be termed a "restatement." SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's consolidated results of operations and financial position.

In November 2005, the FASB issued FASB Staff Position ("FSP") FAS 115-1 and FSP FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("FSP 115-1"). FSP 115-1 explains when investments in debt securities and equity securities are considered to be impaired, and how such impairment loss is measured. FSP 115-1 is effective for other-than-temporary impairment loss for debt and equity securities incurred during fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's consolidated results of operations and financial position.

2. INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Manufacturing:			
Finished products	**¥103,686**	¥ 93,576	**$ 886,205**
Spare parts	**21,287**	18,516	**181,940**
Work in process	**25,693**	21,658	**219,598**
Raw materials and supplies	**21,205**	17,362	**181,240**
Subtotal	**171,871**	151,112	**1,468,983**
Real estate:			
Completed projects, land to be developed, and projects under development	**3,789**	4,034	**32,385**
	¥175,660	¥155,146	**$1,501,368**

3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Investments in and advances to affiliated companies at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Investments	**¥ 13,109**	¥ 11,558	**$ 112,043**
Advances	**36**	250	**307**
	¥ 13,145	¥ 11,808	**$ 112,350**

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

	Millions of Yen		Thousands of U.S. Dollars
At March 31, 2006 and 2005	**2006**	2005	**2006**
Current assets	**¥ 65,492**	¥ 66,245	**$ 559,761**
Noncurrent assets	**54,112**	54,342	**462,496**
Total assets	**119,604**	120,587	**1,022,257**
Current liabilities	**66,462**	63,076	**568,051**
Noncurrent liabilities	**21,807**	29,102	**186,385**
Net assets	**¥ 31,335**	¥ 28,409	**$ 267,821**

	Millions of Yen			Thousands of U.S. Dollars
Years Ended March 31, 2006, 2005, and 2004	**2006**	2005	2004	**2006**
Net sales	**¥219,920**	¥222,753	¥153,819	**$1,879,658**
Cost of sales	**162,124**	165,050	115,154	**1,385,675**
Net income	**3,126**	4,886	2,236	**26,718**

Trade notes and accounts receivable from affiliated companies at March 31, 2006 and 2005 were ¥19,355 million ($165,427 thousand) and ¥22,729 million, respectively.

Sales to affiliated companies aggregated ¥54,484 million ($465,675 thousand), ¥64,465 million, and ¥74,886 million for the years ended March 31, 2006, 2005, and 2004, respectively.

Cash dividends received from affiliated companies were ¥48 million ($410 thousand), ¥28 million, and ¥486 million for the years ended March 31, 2006, 2005, and 2004, respectively.

Retained earnings include net undistributed earnings of affiliated companies in the amount of ¥7,962 million ($68,051 thousand) and ¥6,694 million at March 31, 2006 and 2005.

4. OTHER INVESTMENTS

The cost, fair value, and gross unrealized holding gains and losses for securities by major security type at March 31, 2006 and 2005 were as follows:

	Millions of Yen							
	2006				2005			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**¥37,208**	**¥153,697**	**¥116,489**	**¥—**	¥22,040	¥ 87,232	¥65,193	¥ 1
Other equity securities	**19,970**	**71,705**	**51,736**	**1**	19,812	47,423	27,717	106
Corporate debt securities	**—**	**—**	**—**	**—**	813	820	12	5
	¥57,178	**¥225,402**	**¥168,225**	**¥ 1**	¥42,665	¥135,475	¥92,922	¥112

	Thousands of U.S. Dollars			
	2006			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**$318,017**	**$1,313,650**	**$ 995,633**	**$—**
Other equity securities	**170,684**	**612,863**	**442,188**	**9**
Corporate debt securities	**—**	**—**	**—**	**—**
	$488,701	**$1,926,513**	**$1,437,821**	**$ 9**

Gross unrealized holding losses and fair values on available-for-sale securities at March 31, 2006 and 2005 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

Millions of Yen								
	2006				2005			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Other investments:								
Available-for-sale:								
Equity securities of financial institutions	**¥—**	**¥—**	**¥—**	**¥—**	¥ 9	¥ 1	¥—	¥—
Other equity securities	**3**	**1**	**—**	**—**	1,865	106	—	—
Corporate debt securities	**—**	**—**	**—**	**—**	0	5	—	—
	¥ 3	**¥ 1**	**¥—**	**¥—**	¥1,874	¥112	¥—	¥—

	Thousands of U.S. Dollars			
	2006			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Other investments:				
Available-for-sale:				
Equity securities of financial institutions	**$—**	**$—**	**$—**	**$—**
Other equity securities	**26**	**9**	**—**	**—**
Corporate debt securities	**—**	**—**	**—**	**—**
	$26	**$ 9**	**$—**	**$—**

Proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales for the years ended March 31, 2006, 2005, and 2004 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Proceeds from sales	**¥8,499**	¥2,981	¥8,182	**$72,641**
Gross realized gains	**4,944**	1,821	3,228	**42,256**
Gross realized losses	**(241)**	(217)	(67)	**(2,060)**

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥11,227 million ($95,957 thousand) and ¥11,504 million at March 31, 2006 and 2005, respectively.

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

For the years ended March 31, 2006, 2005, and 2004, valuation losses on short-term and other investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥403 million ($3,444 thousand), ¥423 million, and ¥1,083 million, respectively.

5. FINANCE RECEIVABLES

Finance receivables arise from sales of farm equipment and construction machinery to customers under retail finance agreements. The term of the receivables varies from one to seven years, with interest at rates ranging from 0.0% to 11.9% per annum.

Annual maturities of finance receivables at March 31, 2006 were as follows:

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 79,116	$ 676,205
2008	62,733	536,180
2009	31,906	272,701
2010	19,256	164,581
2011	7,877	67,325
2012 and thereafter	2,737	23,393
Total	¥203,625	$1,740,385

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The changes in the allowance for doubtful notes and accounts receivable for the years ended March 31, 2006, 2005, and 2004 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Balance at beginning of year	**¥2,257**	¥3,054	¥4,089	**$19,291**
Provision for doubtful accounts	**55**	79	728	**470**
Write-offs	**(179)**	(175)	(1,040)	**(1,530)**
Other	**22**	(701)	(723)	**188**
Balance at end of year	**¥2,155**	¥2,257	¥3,054	**$18,419**

A portion of the allowance for doubtful accounts balance at March 31, 2006 and 2005 totalling ¥3,913 million ($33,444 thousand) and ¥4,474 million, respectively, is attributed to certain non-current receivable balances which are reported as other assets in the consolidated balance sheets.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 consisted of notes payable to banks of ¥132,209 million ($1,129,991 thousand). Short-term borrowings at March 31, 2005 consisted of notes payable to banks of ¥113,802 million and commercial paper of ¥6,000 million. Stated annual interest rates of short-term borrowings ranged primarily from 0.31% to 4.71% and from 0.02% to 2.70% at March 31, 2006 and 2005, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2006 and 2005 were 4.0% and 1.7%, respectively.

Available lines of credit with certain banks totaled ¥20,000 million ($170,940 thousand) and ¥30,000 million at March 31, 2006 and 2005, respectively. The Company had no outstanding borrowings as of March 31, 2006 and 2005 related to lines of credit.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Due in Years Ending March 31	Millions of Yen		Thousands of U.S. Dollars
		2006	2005	**2006**
Unsecured bonds:				
1.80% yen bonds	2006	**¥ —**	¥ 10,000	**$ —**
1.20% yen notes	2011	**10,000**	—	**85,470**
1.54% yen notes	2013	**10,000**	—	**85,470**
Unsecured convertible bonds:				
0.90% yen bonds	2006	**—**	18,627	**—**
Loans, principally from banks and insurance companies, maturing on various dates through 2015:				
Collateralized		**47,083**	16,662	**402,419**
Unsecured		**128,938**	134,235	**1,102,034**
Capital lease obligations		**6,023**	4,841	**51,479**
Total		**202,044**	184,365	**1,726,872**
Less current portion		**(50,020)**	(66,877)	**(427,521)**
		¥152,024	¥117,488	**$1,299,351**

The interest rates on unsecured bonds and unsecured convertible bonds were fixed. The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2006 and 2005 were 2.3% and 1.6%, respectively.

Annual maturities of long-term debt at March 31, 2006 were as follows:

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 50,020	$ 427,521
2008	52,902	452,154
2009	44,511	380,436
2010	25,420	217,265
2011	14,268	121,949
2012 and thereafter	14,923	127,547
Total	¥202,044	$1,726,872

At March 31, 2006 and 2005, assets pledged as collateral for debt were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Trade notes	**¥ 531**	¥ 1,299	**$ 4,539**
Trade accounts	**1,465**	688	**12,521**
Finance receivables	**87,994**	53,868	**752,085**
Other investments	**—**	9	**—**
Property, plant, and equipment	**9,817**	9,919	**83,906**
Total	**¥99,807**	¥65,783	**$853,051**

The above assets were pledged against the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Short-term borrowings	**¥36,473**	¥38,462	**$311,735**
Current portion of long-term debt	**16,394**	10,056	**140,120**
Long-term debt	**30,689**	6,606	**262,299**
Total	**¥83,556**	¥55,124	**$714,154**

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

8. RETIREMENT AND PENSION PLANS

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

Among them, the parent company has an unfunded severance indemnity plan which covers substantially all of its employees. Employees who terminate their employment receive benefits in the form of lump-sum payments, and benefits calculated as an aggregation of the following points under the point-based benefits system (with a point having specific monetary value):

- Points granted in proportion to each employee’s job classification at retirement and length of service period
- Accumulated points granted in proportion to each employee’s job classification at the end of each fiscal year
- Accumulated points granted in proportion to each employee’s job classification and performance evaluation at the end of each fiscal year

The parent company also had a contributory defined benefit pension plan covering all of its employees (the “Contributory Plan”). The Contributory Plan consisted of a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by the Japanese Welfare Pension Insurance Law and a corporate portion based on a defined benefit pension arrangement established at the discretion of management.

Based on a law issued by the Japanese government in June 2001, the Company made applications for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion and received approval from the Japanese Ministry of Health, Labour and Welfare on January 30, 2003. After the approval, the Company made applications for an exemption from the obligation to pay benefits for past employee service related to the substitutional portion and received approval from the Japanese Ministry of Health, Labour and Welfare on September 1, 2004. Based on the approval, the Company transferred the benefit obligation and the related government-specified portion of the plan assets of the Contributory Plan to the government on January 31, 2005.

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

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

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

Net periodic benefit cost for the unfunded severance indemnity plan, the Contributory Plan, and the Non-contributory Plan of the parent company and for the unfunded severance indemnity plans and noncontributory defined benefit pension plans of certain subsidiaries for the years ended March 31, 2006, 2005, and 2004 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Service cost	**¥6,841**	¥ 8,343	¥ 9,458	**$58,470**
Interest cost	**3,858**	7,457	8,502	**32,974**
Expected return on plan assets	**(2,277)**	(3,129)	(4,999)	**(19,461)**
Amortization of transition obligation	**—**	—	1,124	**–**
Amortization of prior service benefit	**(780)**	(522)	(230)	**(6,667)**
Recognized actuarial loss	**—**	2,047	52,141	**—**
Transfer to an affiliated company	**(514)**	—	—	**(4,393)**
Derecognition of previously accrued salary progression	**—**	(11,111)	—	**—**
Settlement loss	**—**	13,366	—	**—**
Net periodic benefit cost	**¥7,128**	¥16,451	¥65,996	**$60,923**

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

	2006	2005
Benefit obligations at March 31:		
Discount rate	**2.5%**	2.5%
Rate of compensation increase	**—%**	6.5%

	2006	2005	2004
Net periodic benefit cost for the years ended March 31:			
Discount rate	**2.5%**	2.5%	2.5%
Expected return on plan assets	**3.0%**	3.5%	3.5%
Rate of compensation increase	**6.5%**	6.5%	6.5%

To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years and the current and expected components of plan assets, and anticipated market trends. Plan assets are managed by asset management companies and trust banks, and are invested primarily in fixed income and equity securities of Japanese and foreign issuers. The Company assumed that the long-term rate of return on plan assets was 3.5% for the years ended March 31, 2004 and 2005, and 3.0% for the year ended March 31, 2006. An actual return on plan assets in the past 10 years was 3.1%, and an asset allocation assumption was 55% on fixed income securities with an expected rate of return of 1.0%, and 45% on equity securities with an expected rate of return of 5.5% for the year ended March 31, 2006 and thereafter.

Rate of compensation increase was not used in the calculation of benefit obligations at March 31, 2006 as a result of completion of introduction of the point-based benefits system. Under the system, the Company calculates benefit obligations by using the estimated average promotion model by each job classification in consideration with employees' age, current job classification, official retirement age of 60, and past experiences.

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

	2006	2005
Equity securities	**48.7%**	43.6%
Debt securities	**49.9%**	54.4%
Other	**1.4%**	2.0%
	100.0%	100.0%

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

Employer contributions to pension plans for the year ending March 31, 2007 are expected to be ¥13,597 million ($116,214 thousand).

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

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥12,637	$108,009
2008	12,620	107,863
2009	13,018	111,265
2010	13,235	113,120
2011	12,782	109,248
2012–2016	58,122	496,769

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥176,250**	¥354,418	**$1,506,410**
Service cost	**6,841**	8,343	**58,470**
Interest cost	**3,858**	7,457	**32,974**
Amendments	**(25)**	(3,420)	**(214)**
Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities	**—**	(155,466)	**—**
Transfer to an affiliated company	**(5,961)**	—	**(50,949)**
Actuarial (gain) loss	**5,904**	(9,821)	**50,462**
Benefits paid (lump-sum payments)	**(8,181)**	(14,792)	**(69,923)**
Benefits paid (annuity payments)	**(3,203)**	(10,611)	**(27,376)**
Foreign currency exchange rate changes	**626**	142	**5,351**
Benefit obligations at end of year	**¥176,109**	¥176,250	**$1,505,205**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥108,060**	¥191,817	**$ 923,590**
Actual return on plan assets	**31,830**	4,344	**272,051**
Employer contributions	**12,759**	14,035	**109,051**
Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities	**—**	(85,784)	**—**
Transfer to an affiliated company	**(2,815)**	—	**(24,060)**
Benefits paid (lump-sum payments)	**(4,432)**	(5,868)	**(37,880)**
Benefits paid (annuity payments)	**(3,203)**	(10,611)	**(27,376)**
Foreign currency exchange rate changes	**556**	127	**4,752**
Fair value of plan assets at end of year	**¥142,755**	¥108,060	**$1,220,128**
Plans' funded status at end of year:			
Funded status	**¥ (33,354)**	¥ (68,190)	**$ (285,077)**
Unrecognized actuarial (gain) loss	**(12,193)**	11,284	**(104,214)**
Unrecognized prior service benefit	**(7,198)**	(8,248)	**(61,521)**
Net amount recognized	**¥ (52,745)**	¥ (65,154)	**$ (450,812)**
Amounts recognized in the consolidated balance sheets:			
Accrued retirement and pension costs	**¥ (53,633)**	¥ (65,836)	**$ (458,402)**
Prepaid expenses for benefit plans, included in other assets	**888**	682	**7,590**
Net amount recognized	**¥ (52,745)**	¥ (65,154)	**$ (450,812)**
Accumulated benefit obligations:			
Accumulated benefit obligations at end of year	**¥168,779**	¥167,954	**$1,442,556**
Retirement and pension plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥173,537**	¥174,549	**$1,483,222**
Accumulated benefit obligations	**166,207**	166,253	**1,420,573**
Fair value of plan assets	**140,170**	106,227	**1,198,034**

The unrecognized prior service costs (benefits) due to amendments of the benefit plans are being amortized over approximately 15 years.

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

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Japanese Commercial Code (the "Code").

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

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

The Code requires that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the total of such reserve and additional paid-in capital equals 25% of stated capital.

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

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

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

Under the Code, the amount available for dividends is based on retained earnings, less treasury stock, as recorded on the books of the parent company. Certain adjustments, not recorded on the parent company's books, are reflected in the consolidated financial statements. At March 31, 2006, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥198,896 million ($1,699,966 thousand).

The Code allows for the repurchase of treasury stock by resolution of the Board of Directors under the authorization of the Company's articles of incorporation or by resolution of the general shareholders' meeting. The Code also allows for the disposal of such treasury stock by resolution of the Board of Directors. The aggregated repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital, or the legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

For the years ended March 31, 2006, 2005, and 2004, the Company repurchased its common stock of approximately 16 million shares amounting to ¥14,863 million ($127,034 thousand), 40 million shares amounting to ¥21,407 million, and 5 million shares amounting to ¥2,170 million, respectively, from the market pursuant to the Code.

The Company retired 39 million shares amounting to ¥20,947 million ($179,034 thousand) of treasury stock and 17.3 million shares amounting to ¥15,389 million ($131,530 thousand) of treasury stock by resolution of the Board of Directors on June 30, 2005 and March 31, 2006, respectively.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

The Corporate Law permits companies to pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock.

10. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS

Long-term contracts accepted by the Company consist mainly of construction works with the Japanese national government and local governments, such as construction of environmental control plants, and facilities for water supply. These contracts are completed within two to three years.

The contracts, which are fully executed before the commencement of construction projects, include the terms of the contract price, expected completion date and critical milestone dates, and acceptance inspections (e.g. performance test, external appearance inspections). The contracts are legally enforceable and the parties are expected to satisfy their obligations under the contracts. The Company is able to develop reasonably dependable estimates of the total contract cost based on the construction order, that includes details on every single component unit, labor hour costs, and all overhead.

Further, the Company believes that it is able to develop reasonably dependable estimates of the extent of progress towards completion of individual contracts and, therefore, the long-term contracts are accounted for using the percentage of completion method.

Concerning the method of measuring the extent of progress towards completion, the Company uses the cost-to-cost method in measuring the extent of progress toward completion. In most cases, the Company's contracts with customers include the delivery and installation of component units.

In case that an option or an addition which has separate contents from an existing contract has occurred, it is treated as a separate contract and, if otherwise, is combined with the original contract.

Additional contract revenue arising from any claims for customer-caused reasons is recognized when the contract modification is completed.

Any revisions in revenue, cost, and profit estimates or in measurements of the extent of progress toward completion are accounted for in the consolidated statement of income for the fiscal year in which the contract modification has been completed. A disclosure is made of the effect of such revisions in the financial statements, if significant.

Notes receivable and accounts receivable related to the long-term contracts accounted for under the percentage of completion method as of March 31, 2006, and 2005 are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			**2006**		
Years ended March 31	Less than 1 year	1-2 years	2-3 years	Less than 1 year	1-2 years	2-3 years	Less than 1 year	1-2 years	2-3 years
Notes receivable	**¥ 492**	**¥ —**	**¥ —**	¥ 980	¥ —	¥—	**$ 4,205**	**$ —**	**$ —**
Accounts receivable	**26,260**	**537**	**135**	41,999	890	—	**224,445**	**4,590**	**1,154**
	¥26,752	**¥537**	**¥135**	¥42,979	¥890	¥—	**$228,650**	**$4,590**	**$1,154**

A large portion of such receivables had been billed to customers, and the total aggregated amounts which had not been billed or were not billable were not material as of March 31, 2006 and 2005. The total aggregated amounts subject to uncertainty were not material.

With respect to the inventories related to the long-term contracts, the aggregated amounts of manufacturing or production costs which exceeds the aggregated estimate costs of all in-process, the total aggregated amounts subject to uncertainty, and advances receipt offset with inventories were not material as of March 31, 2006 and 2005.

11. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2006, 2005, and 2004 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Loss from write-down of securities	**¥ (403)**	¥ (423)	¥(1,083)	**$ (3,444)**
Foreign exchange (loss) gain—net	**(1,952)**	3,597	(1,534)	**(16,684)**
Other—net	**1,424**	1,124	1,726	**12,171**
	¥ (931)	¥4,298	¥ (891)	**$ (7,957)**

12. INCOME TAXES

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies and income taxes for the years ended March 31, 2006, 2005, and 2004 were comprised of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies:				
Domestic	**¥102,742**	¥123,461	¥ (643)	**$ 878,137**
Foreign	**37,664**	32,574	28,535	**321,914**
	¥140,406	¥156,035	¥27,892	**$1,200,051**
Income taxes:				
Current—				
Domestic	**¥ 18,065**	¥ 21,780	¥16,519	**$ 154,402**
Foreign	**16,368**	12,711	12,736	**139,897**
	34,433	34,491	29,255	**294,299**
Deferred—				
Domestic	**24,522**	14,503	(13,607)	**209,590**
Foreign	**(2,888)**	(878)	(1,947)	**(24,684)**
	21,634	13,625	(15,554)	**184,906**
Total	**¥ 56,067**	¥ 48,116	¥13,701	**$ 479,205**

The approximate effects of temporary differences and tax loss and credit carryforwards that gave rise to deferred tax balance at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Allowance for doubtful receivables	**¥ 1,950**	¥ 1,645	**$ 16,667**
Intercompany profits	**11,462**	9,305	**97,966**
Adjustment of investment securities	**11,547**	15,465	**98,692**
Write-downs of inventories and fixed assets	**1,313**	6,145	**11,222**
Accrued bonus	**6,349**	6,250	**54,265**
Retirement and pension costs	**25,759**	29,340	**220,162**
Other temporary differences	**17,045**	12,270	**145,684**
Tax loss and credit carryforwards	**2,251**	9,602	**19,239**
Subtotal	**77,676**	90,022	**663,897**
Less valuation allowance	**(3,439)**	(3,824)	**(29,393)**
	¥74,237	¥86,198	**$634,504**
Deferred tax liabilities:			
Adjustment of investment securities	**¥74,913**	¥37,692	**$640,282**
Unremitted earnings of foreign subsidiaries and affiliates	**6,845**	4,403	**58,504**
Other temporary differences	**4,734**	4,042	**40,462**
	¥86,492	¥46,137	**$739,248**

Net deferred tax balances at March 31, 2006 and 2005 were reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Other current assets	**¥ 28,700**	¥21,322	**$ 245,299**
Other assets	**4,088**	19,728	**34,940**
Other long-term liabilities	**(45,043)**	(989)	**(384,983)**
Net deferred tax assets (liabilities)	**¥(12,255)**	¥40,061	**$(104,744)**

A valuation allowance is recorded against the deferred tax assets for items which may not be realized.

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, 2006.

At March 31, 2006, the tax loss carryforwards in the aggregate amounted to approximately ¥5,000 million ($42,735 thousand), which are available to offset future taxable income, and will expire in the period from 2007 through 2011.

The changes in the valuation allowance for the years ended March 31, 2006, 2005, and 2004 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Balance at beginning of year	**¥3,824**	¥22,913	¥20,759	**$32,684**
Addition	**508**	2,466	2,508	**4,342**
Deduction	**(893)**	(21,555)	(354)	**(7,633)**
Balance at end of year	**¥3,439**	¥ 3,824	¥22,913	**$29,393**

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2006 differed from the normal Japanese statutory tax rates as follows:

	2006	2005	2004
Normal Japanese statutory tax rates applied to income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies	**40.6%**	40.6%	42.0%
Increase (decrease) in taxes resulting from:			
Increase (decrease) in valuation allowance	**(0.3)**	(8.5)	12.2
Permanently nondeductible expenses	**0.4**	0.4	3.6
Nontaxable dividend income	**(0.2)**	(0.1)	(0.4)
Extra tax deduction on expenses for research and development	**(1.2)**	(1.3)	(7.9)
Other—net	**0.6**	(0.3)	(0.4)
Effective income tax rates applied to income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies	**39.9%**	30.8%	49.1%

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

13. NET INCOME (LOSS) PER COMMON SHARE

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per common share computation for the years ended March 31, 2006, 2005, and 2004 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Basic net income (loss):				
Income from continuing operations	**¥81,034**	¥106,801	¥12,495	**$692,598**
Income (loss) from discontinued operations, net of taxes	**—**	11,100	(795)	**—**
Net income	**¥81,034**	¥117,901	¥11,700	**$692,598**
Effect of dilutive convertible bonds	**¥ 55**	¥ 188	¥ 337	**$ 470**
Diluted net income (loss):				
Income from continuing operations	**¥81,089**	¥106,989	¥12,832	**$693,068**
Income (loss) from discontinued operations, net of taxes	**—**	11,100	(795)	**—**
Net income	**¥81,089**	¥118,089	¥12,037	**$693,068**

	Number of Shares (Thousands)		
Weighted average common shares outstanding	**1,304,097**	1,323,068	1,342,386
Effect of dilutive convertible bonds	**10,831**	36,910	68,944
Diluted common shares outstanding	**1,314,928**	1,359,978	1,411,330

14. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income, including reclassification adjustments and tax effects for the years ended March 31, 2006, 2005, and 2004 are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006			2006		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:						
Foreign currency translation adjustments arising during period	**¥14,131**	**¥ (582)**	**¥13,549**	**$120,778**	**$ (4,974)**	**$115,804**
Reclassification adjustment for losses realized in net income	**21**	**—**	**21**	**179**	**—**	**179**
	14,152	**(582)**	**13,570**	**120,957**	**(4,974)**	**115,983**
Unrealized gains on securities:						
Unrealized gains on securities arising during period	**80,095**	**(32,524)**	**47,571**	**684,573**	**(277,983)**	**406,590**
Reclassification adjustment for gains realized in net income	**(4,300)**	**1,746**	**(2,554)**	**(36,752)**	**14,923**	**(21,829)**
	75,795	**(30,778)**	**45,017**	**647,821**	**(263,060)**	**384,761**
Unrealized losses on derivatives:						
Unrealized losses on derivatives arising during period	**(5,593)**	**2,289**	**(3,304)**	**(47,803)**	**19,564**	**(28,239)**
Reclassification adjustments for losses realized in net income	**6,698**	**(2,719)**	**3,979**	**57,247**	**(23,239)**	**34,008**
	1,105	**(430)**	**675**	**9,444**	**(3,675)**	**5,769**
Other comprehensive income	**¥91,052**	**¥(31,790)**	**¥59,262**	**$778,222**	**$(271,709)**	**$506,513**

	Millions of Yen		
	2005		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	¥(1,628)	¥ 103	¥(1,525)
Reclassification adjustment for losses realized in net income	57	—	57
	(1,571)	103	(1,468)
Unrealized gains on securities:			
Unrealized gains on securities arising during period	2,046	(827)	1,219
Reclassification adjustment for gains realized in net income	(1,181)	479	(702)
	865	(348)	517
Minimum pension liability adjustment	5,991	(2,499)	3,492
Unrealized losses on derivatives:			
Unrealized losses on derivatives arising during period	(1,429)	591	(838)
Reclassification adjustments for gains realized in net income	(456)	185	(271)
	(1,885)	776	(1,109)
Other comprehensive income	¥ 3,400	¥(1,968)	¥ 1,432

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

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

	Millions of Yen			
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income
Balance, April 1, 2005	¥(12,913)	¥41,016	¥(596)	¥27,507
Current—period change	13,570	45,017	675	59,262
Balance, March 31, 2006	¥ 657	¥86,033	¥ 79	¥86,769

	Thousands of U.S. Dollars			
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income
Balance, April 1, 2005	$(110,368)	$350,564	$(5,094)	$235,102
Current—period change	115,983	384,761	5,769	506,513
Balance, March 31, 2006	$ 5,615	$735,325	$ 675	$741,615

15. FINANCIAL INSTRUMENTS

In the normal course of business, the Company invests in various financial assets and incurs various financial liabilities. The Company also enters into agreements involving derivative instruments to manage its exposure to fluctuations in foreign exchange and interest rates.

Market Risk Management

Market Risk Exposures

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

Foreign Currency Exchange Risks

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in its international operations. The Company entered into foreign exchange forward contracts and currency swaps designated to mitigate its exposure to foreign currency exchange risks.

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2006, which was translated into Japanese yen at the year-end currency exchange rate.

Foreign Exchange Forward Contracts and Currency Swaps

Maturities, Years Ending March 31		Millions of Yen 2007	Thousands of U.S. Dollars 2007
Sell U.S. Dollar, buy Yen	Receive	¥44,931	$384,026
	Pay	45,045	385,000
Sell Euro, buy Yen	Receive	10,308	88,103
	Pay	10,517	89,889
Sell Canada Dollar, buy Yen	Receive	308	2,632
	Pay	303	2,590
Sell U.S. Dollar, buy Canada Dollar	Receive	282	2,410
	Pay	283	2,419
Sell Baht, buy Yen	Receive	5,924	50,632
	Pay	6,138	52,462
Sell Baht, buy U.S. Dollar	Receive	9	77
	Pay	9	77
Sell Baht, buy Euro	Receive	2	17
	Pay	2	17
Sell Won, buy Yen	Receive	213	1,821
	Pay	217	1,855

Interest Rate Risks

The Company is exposed to interest rate risks mainly inherent in its debt obligations with both fixed and variable rates. Debt obligations that are sensitive to interest rate changes are disclosed in Note 7. In order to hedge these risks, the Company uses interest rate swap contracts to change the characteristics of its fixed and variable rate exposures.

The following table provides information, by maturity date, about the Company's interest rate swap contracts. The table represents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts as of March 31, 2006, which are translated into Japanese yen at the year-end currency exchange rate.

Interest Rate Swap Contracts

	Weighted Average Rate		Notional Amount	
Maturities, Years Ending March 31,	Receive	Pay	Millions of Yen	Thousands of U.S. Dollars
2007	2.36	2.06	¥27,660	$236,410
2008	1.84	2.04	15,900	135,897
2009	1.83	2.15	10,183	87,034
2010	1.32	1.79	3,313	28,316
2011	3.07	4.00	505	4,316

Cash Flow Hedges

Changes in the fair value of foreign exchange contracts and interest rate swap agreements designated and qualifying as cash flow hedges are reported in other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expense) in the same period as the hedged items affect earnings. For most forward exchange contracts, the amounts are reclassified when products related to hedged transactions are sold from overseas subsidiaries to customers. In the case of interest rate swaps, the amounts are reclassified when the related interest expense is recognized. Substantially all of the unrecognized net income on derivatives included in accumulated other comprehensive income of ¥79 million ($675 thousand) at March 31, 2006 will be reclassified into earnings within the next 12 months.

Equity Price Risks

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

Fair Value of Financial Instruments

The Company had the following financial instruments at March 31, 2006 and 2005:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		2005		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:						
Finance receivables—net	**¥203,625**	**¥193,578**	¥ 131,646	¥ 126,164	**$1,740,385**	**$1,654,513**
Financial liabilities:						
Long-term debt	**(196,021)**	**(190,718)**	(179,524)	(178,584)	**(1,675,393)**	**(1,630,068)**
Derivative financial instruments recorded as (liabilities) assets:						
Foreign exchange instruments	**(108)**	**(108)**	(902)	(902)	**(923)**	**(923)**
Interest rate swaps and other instruments	**163**	**163**	(98)	(98)	**1,393**	**1,393**

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

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

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

Concentration of Credit Risks

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

16. SUPPLEMENTAL EXPENSE INFORMATION

Selling, General, and Administrative Expenses

Amounts of certain costs and expenses for the years ended March 31, 2006, 2005, and 2004 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Research and development expenses	**¥22,731**	¥21,963	¥23,261	**$194,282**
Advertising costs	**9,184**	9,586	9,621	**78,496**
Shipping and handling costs	**45,834**	40,412	39,137	**391,744**

Loss from Disposal and Impairment of Businesses and Fixed Assets

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2006 includes a loss of ¥1,038 million ($8,872 thousand) resulting from the impairment of long-lived assets and a loss of ¥3,648 million ($31,179 thousand) resulting mainly from a loss of ¥2,788 million ($23,829 thousand) related to the additional payments due to employment transfer to a subsidiary and an affiliated company.

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2005 includes a net loss of ¥1,095 million resulting from the impairment of long-lived assets and a gain of ¥1,022 million resulting mainly from a gain of ¥1,573 million related to the sale of a company which is involved in a rental computer server service.

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

17. COMMITMENTS AND CONTINGENCIES

Commitments

Commitments for capital expenditures outstanding at March 31, 2006 approximated ¥1,336 million ($11,419 thousand).

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

An analysis of leased assets under capital leases is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Machinery and equipment	**¥10,000**	¥9,098	**$85,470**
Accumulated depreciation	**(3,977)**	(4,257)	**(33,991)**
	¥ 6,023	¥4,841	**$51,479**

Amortization expenses under capital leases for the years ended March 31, 2006, 2005, and 2004 were ¥2,763 million ($23,615 thousand), ¥2,858 million, and ¥2,464 million, respectively.

Future minimum lease payments required under capital and noncancelable operating leases that have initial or remaining lease term in excess of one year as of March 31, 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years Ending March 31,	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2007	¥2,898	¥ 406	$24,769	$ 3,470
2008	1,792	319	15,316	2,727
2009	1,220	222	10,428	1,897
2010	114	128	974	1,094
2011	67	106	573	906
2012 and thereafter	46	369	393	3,154
Total minimum lease payments	6,137	¥1,550	52,453	$13,248
Less: amounts representing interest	(114)		(974)	
Present value of net minimum capital lease payments	¥6,023		$51,479	

Capital lease obligations are included in current portion of long-term debt and long-term debt in the consolidated balance sheets. Rental expenses under operating leases for the years ended March 31, 2006, 2005, and 2004 were ¥6,009 million ($51,359 thousand), ¥7,029 million, and ¥8,553 million, respectively.

Guarantees

The Company is contingently liable as guarantor of the indebtedness of distributors, including affiliated companies, and customers for their borrowings from financial institutions. The Company would have to perform under these guarantees in the events of default on a payment within the guarantee periods of 1 year to 10 years for distributors and customers. Maximum potential amount of undiscounted future payments of these financial guarantees as of March 31, 2006 was ¥1,347 million ($11,513 thousand).

The Company issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. The Company determines its reserve for product warranties based on an analysis of the historical data of costs to perform under product warranties.

The changes in the accrued product warranty cost for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Balance at beginning of year	**¥2,718**	¥2,209	**$23,231**
Addition	**7,878**	3,663	**67,334**
Utilization	**(5,331)**	(3,138)	**(45,565)**
Other	**208**	(16)	**1,778**
Balance at end of year	**¥5,473**	¥2,718	**$46,778**

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

Legal Proceedings

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

In connection with this investigation, on December 24, 1999, the Company received a surcharge order of ¥7,072 million from the FTCJ. The Company has challenged this order and filed a petition for the initiation of hearing procedures that were started in March 2000 and continued through the year ended March 31, 2006. Under Section 49 of the Anti-Monopoly Law, upon the initiation of the procedures, the surcharge order lost effect. In addition, Section 7-2 of the law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2 and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter.

An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. The Company is not able to estimate the likelihood of such an unfavorable outcome or the amount of related losses, if any.

Matters Related to Health Hazard of Asbestos

(Background)

Until 1995, the Company's plant in Amagasaki, Hyogo Prefecture, had produced asbestos-containing products. In April 2005, the Company was advised that some residents who lived near the plant suffered from mesothelioma, a form of lung cancer that is said to be mainly caused by aspiration of asbestos. In June 2005, the Company voluntarily decided to make consolation payments to certain residents with mesothelioma and started the program in August 2005. The consolation payments shall be paid to eligible persons who had lived or worked within a certain distance from the plant during the specific period and had not handled any asbestos at their workplaces. In April 2006, the Company decided to establish the relief payment system in place of the consolation payment and make additional payment to the residents to whom consolation payment was paid or payable. The new supporting system will be applied to the residents who claim for the payment in the future.

With regard to current and former employees who suffered and are suffering from asbestos-related diseases, the Company shall make the following compensation which is not required by law but is made in accordance with the Company's internal policies:

- The compensation upon certification of medical treatment compensation from the Workers' Accident Compensation Insurance (the "Insurance")
- The compensation for bereaved families in case an employee dies during medical treatment and is certified for compensation from the Insurance
- Additional financial aid such as medical expenses during medical treatment which are incurred by the diseased employees or salary payments during the period of their absence from work

The Japanese government recently established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases ("New Asbestos Law") in March 2006. This law was enacted for the purpose of promptly providing relief to the people suffering from asbestos-related diseases who are not eligible for relief by compensation from the Insurance in accordance with the Workers' Accident Compensation Insurance Law. Based on the New Asbestos Law, a Fund for the Relief of Patients Suffering from Asbestos-Related Diseases (the "Fund") was established by the Environmental Restoration and Conservation Agency of Japan for the purpose of providing financial assistance to eligible patients. The Fund is funded by the national government, municipal governments and business entities. The amount of contribution to be made by each business entity is now under consideration by the national government and is to be decided in the year ending March 31, 2007 and the business entities shall commence the payment of the contribution from the year ending March 31, 2008.

(Accounting for Asbestos-Related Expenses)

The Company expenses payments to certain residents who lived close to the Company's plants and current and former employees based on the Company's accounting policies and procedures. (See SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.) The Company recorded expenses aggregating ¥4,196 million ($35,863 thousand), ¥210 million, and ¥433 million during the years ended March 31, 2006, 2005, and 2004, respectively. These amounts are included in the selling, general, and administrative expenses. The Company accrues in case the conditions of loss contingencies provided under SFAS No. 5, "Accounting for Contingencies" are met. The amount accrued and included in recorded expenses was ¥3,726 million ($31,846 thousand) at March 31, 2006. Though the Company believes that this amount appears to be a better estimate than any other amount within a reasonably estimable range of amounts, the additional exposure to loss in excess of this accrued amount of ¥910 million ($7,778 thousand) exists. No accrual was recorded at March 31, 2005.

The Company has no basis or information to project the number of current and former employees and residents that are going to apply for payments. In addition, Kubota's liability under the New Asbestos Law has not yet been determined. Although the Company has not been involved in any lawsuits related to the asbestos-related diseases of its current and former employees and the residents, it recognizes the possibility to face lawsuits related to this issue. Therefore, the Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to this contingency. However, the Company believes asbestos-related issues contain potentially material risks for the Company's consolidated results of operations, financial position and its liquidity.

18. SECURITIZATION OF RECEIVABLES

The Company sells trade and finance receivables to investors through bankruptcy-remote independent securitization trusts. (See SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.)

The Company recognized pretax losses resulting from the sales of trade receivables of ¥931 million ($7,957 thousand), ¥832 million, and ¥546 million for the years ended March 31, 2006, 2005, and 2004, respectively. The Company recognized pretax losses resulting from the sales of finance receivables of ¥172 million ($1,470 thousand) for the year ended March 31, 2006, and recognized pretax gains resulting from the sales of finance receivables of ¥479 million, and ¥440 million for the years ended March 31, 2005 and 2004, respectively.

Retained interests are recorded at fair value based on the net present value of future anticipated cash flows, which is calculated by analyzing the yield, estimated net dilution, contractual servicing rates, and the average life of the transferred receivables.

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

	2006	2005
Trade receivables:		
Weighted average life (months)	**6.5**	6.5
Expected net dilution (monthly rate)	**0.78%**	0.78%
Discount rate and fee (annual rate)	**5.48%**	3.49%
Finance receivables:		
Weighted-average life (months)	**49.6**	50.4
Expected credit losses (annual rate)	**0.08%**	0.07%
Discount rate (annual rate)	**11.00%**	10.13%

The following depicts the sensitivity of the fair value of retained interests in trade receivables and finance receivables at March 31, 2006 to adverse changes in the key economic assumptions of the current fair value of future cash flow:

	Millions of Yen	Thousands of U.S. Dollars
Trade receivables:		
Fair value of retained interest	¥63,580	$543,419
Expected net dilution (monthly rate)	0.78%	
Impact on fair value of 10% adverse change	274	2,342
Impact on fair value of 20% adverse change	547	4,675
Discount rate and fee (annual rate)	5.48%	
Impact on fair value of 10% adverse change	16	137
Impact on fair value of 20% adverse change	32	274
Finance receivables:		
Fair value of retained interest	¥ 6,589	$ 56,316
Expected credit losses (annual rate)	0.08%	
Impact on fair value of 10% adverse change	0	0
Impact on fair value of 20% adverse change	1	9
Discount rate (annual rate)	11.00%	
Impact on fair value of 10% adverse change	43	368
Impact on fair value of 20% adverse change	84	718

Considerable judgment is required in interpreting market data to develop estimates of fair value, so the above estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. In addition, the above-estimated amounts generated from the sensitivity analyses include forward-looking statements of market risk, which assume for analytical purposes that certain adverse market considerations may occur. Actual future market conditions may differ materially, and accordingly, the forward-looking statements should not be considered projections by the Company of future events or losses.

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

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Trade receivables:				
Proceeds from collections reinvested in revolving-period securitizations	**¥163,671**	¥108,109	¥10,908	**$1,398,897**
Servicing fees received	**275**	270	231	**2,350**
Finance receivables:				
Proceeds from new securitization	**—**	—	38,367	**—**
Servicing fees received	**219**	210	279	**1,872**
Cash flows received on retained interests in securitizations	**598**	359	662	**5,111**

19. DISCONTINUED OPERATIONS

Nishinihon Kubota Kaihatsu Co., Ltd., a subsidiary reported in the Other Segment, operated a golf course, which had reported consecutive losses arising from the severe business environment after the collapse of the Japanese bubble economy. In these business conditions, it was very unlikely that Nishinihon Kubota Kaihatsu Co., Ltd. would be able to improve its earnings in the future; therefore, the Company disposed of it by sale during the year ended March 31, 2005.

Operating results of the discontinued operations for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen	
	2005	2004
Net sales	¥ —	¥ 361
Loss from discontinued operations before income taxes	¥ —	¥ 795
Gain from disposal of business	5,526	—
Income taxes	5,574	—
Income (loss) from discontinued operations	¥11,100	¥(795)

20. SUBSEQUENT EVENTS

On May 12, 2006, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2006 of ¥6 per common share (¥30 per 5 common shares) or a total of ¥7,799 million ($66,658 thousand). The cash dividend was approved at the general shareholders' meeting held on June 23, 2006.

On June 23, 2006, the Company's Board of Directors resolved to purchase up to 10,000,000 shares, or up to ¥11,000 million ($94,017 thousand) of the parent company's outstanding common stock, on and after June 26, 2006 through September 19, 2006.

Deloitte.

Deloitte Touche Tohmatsu
Nakanoshima Central Tower
2-2-7, Nakanoshima, Kita-ku
Osaka-shi, Osaka 530-0005
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited the accompanying consolidated balance sheets of Kubota Corporation and subsidiaries (the "Company") as of March 31, 2006 and 2005, 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, 2006, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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, and 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 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

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 U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 23, 2006

Member of
Deloitte Touche Tohmatsu

KUBOTA CORPORATION

Head Office
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111
Facsimile: (81)-6-6648-3862

Tokyo Office
1-3, Nihonbashi-Muromachi 3-chome,
Chuo-ku, Tokyo 103-8310, Japan
Phone: (81)-3-3245-3111
Facsimile: (81)-3-3245-3049

OVERSEAS OFFICE

Beijing Office
Room 1056,
New Century Office Tower,
No. 6 Southern Road,
Capital Gym., Beijing 100044,
People's Republic of China
Phone: (86)-10-6849-2277
Facsimile: (86)-10-6849-2280

Singapore Branch
79 Robinson Road,
#20-06 CPF Building,
Singapore 068897, Singapore
Phone: (65)-6224-1919
Facsimile: (65)-6224-5213

OVERSEAS SUBSIDIARIES AND AFFILIATES

NORTH AMERICA

Kubota Tractor Corporation
3401 Del Amo Blvd.,
Torrance, California 90503, U.S.A.
Phone: (1)-310-370-3370
Facsimile: (1)-310-370-2370
URL: http://www.kubota.com

Kubota Credit Corporation, U.S.A.
3401 Del Amo Blvd.,
Torrance, California 90503, U.S.A.
Phone: (1)-310-370-3370
Facsimile: (1)-310-370-2370
URL: http://www.kubota.com/kccusa.cfm

Kubota Manufacturing of America Corporation
Gainesville Industrial Park North,
2715 Ramsey Road,
Gainesville, Georgia 30501, U.S.A.
Phone: (1)-770-532-0038
Facsimile: (1)-770-532-9057

Kubota Industrial Equipment Corporation
1000 McClure Industrial Drive,
Jefferson, GA 30549, U.S.A.
Phone: (1)-706-387-1000
Facsimile: (1)-706-387-1200

Kubota Engine America Corporation
505 Schelter Road,
Lincolnshire, Illinois 60069, U.S.A.
Phone: (1)-847-955-2500
Facsimile: (1)-847-955-2501
URL: http://www.kubotaengine.com/

Kubota Membrane USA Corporation
2018 156th Avenue NE, Suite 100
Bellevue, WA 98007, U.S.A.
Phone: (1)-425-748-5011
Facsimile: (1)-425-644-2185

Kubota Canada Ltd.
5900 14th Avenue, Markham,
Ontario L3S 4K4, Canada
Phone: (1)-905-294-7477
Facsimile: (1)-905-294-6651
URL: http://www.kubota.ca/

Kubota Metal Corporation (Fahramet Division)
25 Commerce Road, Orillia,
Ontario L3V 6L6, Canada
Phone: (1)-705-325-2781
Facsimile: (1)-705-325-5887
URL: http://www.kubotametal.com/

OCEANIA

Kubota Tractor Australia Pty Ltd
100 Keilor Park Drive, Tullamarine,
Victoria 3043, Australia
Phone: (61)-3-9279-2000
Facsimile: (61)-3-9279-2030
URL: http://www.kubota.com.au/

EUROPE

Kubota Europe S.A.S.
19-25, Rue Jules Vercruysse,
Z.I., BP88 95101 Argenteuil,
Cedex, France
Phone: (33)-1-3426-3434
Facsimile: (33)-1-3426-3499

Kubota (Deutschland) GmbH
Senefelder Straße 3-5,
63110 Rodgau/Nieder-Roden,
Germany
Phone: (49)-6106-873-0
Facsimile: (49)-6106-873-198
URL: http://www.kubota.de/

Kubota Baumaschinen GmbH
Steinhauser Straße 100,
66482 Zweibrücken, Rheinlandpfalz,
Germany
Phone: (49)-6332-4870
Facsimile: (49)-6332-487-101

Kubota España S.A.
Calle de las Flautas II,
28044 Madrid, Spain
Phone: (34)-91-508-6442
Facsimile: (34)-91-508-0522

Kubota (U.K.) Limited
Dormer Road, Thame,
Oxfordshire OX9 3UN, U.K.
Phone: (44)-1844-214500
Facsimile: (44)-1844-261568
URL: http://www.kubota.co.uk/

Kubota Membrane Europe Ltd.
8 Hanover Street, London W1S 1YE, U.K.
Phone: (44)-(0) 20-7290-2731
Facsimile: (44)-(0) 20-7290-2733
URL: http://www.kubota-mbr.com/

ASIA

The Siam Kubota Industry Co., Ltd.
101/19-24 Navanakorn,
Tambol Klongneung, Amphur
Klongluang, Pathumthani 12120,
Thailand
Phone: (66)-2-529-0363
Facsimile: (66)-2-529-0081

Kubota Agricultural Machinery (Suzhou) Co., Ltd.
No. 220, Xing Ming Street,
Suzhou Industrial Park,
Suzhou Municipality, Jiangsu,
People's Republic of China
Phone: (86)-512-6716-3122
Facsimile: (86)-512-6716-3344

Kubota Construction Machinery (Shanghai) Co., Ltd.
G Unit, 16th Floor, Pudong Development
Mansion,
588 Pudong South Road, Pudong New Area,
Shanghai 200120,
People's Republic of China
Phone: (021)-5879-4630/4631
Facsimile: (021)-5879-4632

Jiangsu Biaoxin Kubota Industrial Co., Ltd.
186 Lishi Avenue, Xin Qiao Town,
Jingjiang City, Jiangsu, 214536,
People's Republic of China
Phone: (86)-523-433-3999
Facsimile: (86)-523-433-3999

Shin Taiwan Agricultural Machinery Co., Ltd.
16, Fengping 2nd Road,
Taliao Shiang Kaohsiung,
Hsien 83107, Taiwan, R.O.C.
Phone: (886)-7-702-2333
Facsimile: (886)-7-702-2303

KAMCO Co., Ltd.
3rd Floor, Bently Bldg., 106-2 Yangjae-Dong,
Seocho-ku, Seoul 137-130, Korea
Phone: (82)-2-2058-1028
Facsimile: (82)-2-2058-1029

P.T. Kubota Indonesia
JL. Setyabudi 279,
Semarang, Indonesia
Phone: (62)-24-7472849
Facsimile: (62)-24-7472865

P.T. Metec Semarang
Tanjung Emas Export Processing
Zone, JL. Coaster No. 8 Block B,
12A-16 Semarang, Central Java,
Indonesia
Phone: (62)-24-3520435
Facsimile: (62)-24-3520432

Kubota Agro-Industrial Machinery Philippines, Inc.
155 Panay Avenue,
South Triangle Homes,
1103 Quezon City, Philippines
Phone: (63)-2-9201071
Facsimile: (63)-2-9241848

Sime Kubota Sdn. Bhd.
No. 3 Jalan Sepadu,
25/123 Taman Perindustrian Axis,
Seksyen 25, 40400 Shah Alam,
Selangor Darul Ehsan, Malaysia
Phone: (60)-3-5122-1288
Facsimile: (60)-3-5124-8798

Directors and Corporate Auditors

President and Representative Director
Daisuke Hatakake

Executive Vice President and Representative Director
Moriya Hayashi

Executive Managing Directors
Yoshihiro Fujio
Toshihiro Fukuda
Yasuo Masumoto

Managing Directors
Yoshiharu Nishiguchi
Eisaku Shinohara
Nobuo Izawa
Yoshihiko Tabata
Kazunobu Ueta

Directors
Tokuji Ohgi
Morimitsu Katayama
Nobuyuki Toshikuni
Hirokazu Nara
Masayoshi Kitaoka
Tetsuji Tomita
Masatoshi Kimata
Nobuyo Shioji
Takeshi Torigoe
Satoru Sakamoto
Hideki Iwabu

Corporate Auditors
Susumu Sumikura
Junichi Maeda
Yuzuru Mizuno
Teisuke Sono
Yoshio Suekawa

Investor Information

Stock Listings
Domestic: Tokyo and Osaka
Overseas: New York and Frankfurt

Transfer Agent for Common Stock
The Chuo Mitsui Trust
and Banking Company, Limited
2-21, Kitahama 2-chome, Chuo-ku,
Osaka 541-0041, Japan

Depositary and Transfer Agent for ADRs
JPMorgan Chase Bank, N.A.
4 New York Plaza, New York,
NY 10004, U.S.A.

ADR Holder Contact
JPMorgan Service Center
P.O. Box 3408,
South Hackensack, NJ 07606-3408, U.S.A.
Phone: 1-800-990-1135
Facsimile: 1-201-680-4604

Investor Inquiries

Head Office
Finance & Accounting Dept.
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111
Facsimile: (81)-6-6648-3862

Tokyo Office
Tokyo Administration Dept.
1-3, Nihonbashi-Muromachi 3-chome,
Chuo-ku, Tokyo 103-8310, Japan
Phone: (81)-3-3245-3111
Facsimile: (81)-3-3245-3049

Financial information and environmental reports are available on Kubota's Web site:
http://www.kubota.co.jp/

NYSE Corporate Governance Standards
The Company has made available on its Web site (http://www.kubota.co.jp/ir/english/cgs/index.html) a general summary of the significant differences between its corporate governance practices and those followed by U.S. companies under New York Stock Exchange listing standards.

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KUBOTA Corporation

2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111   Facsimile: (81)-6-6648-3862
http://www.kubota.co.jp/

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