

KUBOTA CORP
Form 20-F
September 26, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 1-07294

KABUSHIKI KAISHA KUBOTA

(Exact name of registrant as specified in its charter)

KUBOTA CORPORATION

(Translation of registrant's name into English)

JAPAN

(Jurisdiction of incorporation or organization)

2-47, SHIKITSUHIGASHI 1-CHOME, NANIWA-KU, OSAKA, JAPAN

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock *	New York Stock Exchange

* Not for trading, but only in connection with the listing of American Depositary Receipts pursuant to the requirement of the New York Stock Exchange.
American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing five shares of the registrant's common stock.

Securities registered or to be registered pursuant to Section 12(g) of the Act

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Title of Class	Outstanding as of	
	March 31, 2006 (Tokyo Time)	March 31, 2006 (New York Time)
Common stock	1,299,487,964 shares	
American Depositary Shares		3,938,242 ADS

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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If this report is an annual report, indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If it is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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All information contained in this Report is as of or for the 12 months ended March 31, 2006 unless otherwise specified.

Unless otherwise specified, Japanese yen amounts in this Report have been translated for convenience into United States dollars at the rate of ¥117= US\$1, the approximate rate of exchange on March 31, 2006, the date of the most recent balance sheet herein.

As used herein, Kubota and the Company refer to Kubota Corporation and its subsidiaries unless the context otherwise indicates.

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on September 6, 2006 was ¥116.73 = US\$1.

<Cautionary Statements with Respect to Forward-Looking Statements>

Certain sections of this annual report on Form 20-F contain forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as expects, anticipates, believes, scheduled, estimates, variations of these words and similar expressions are intended to identify forward-looking statements which include but are not limited to projections of revenues, earnings, segment performance, cash flows and so forth. 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 forward-looking statements due to a variety of factors, including, without limitation: general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures, both in 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.

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information

The information required by this item, except as stated below, appears on page 11 in the Financial Section of the Company's 2006 Annual Report to Shareholders, which is incorporated herein by reference.

A. Selected Financial Data

	Years ended March 31 (millions of yen)				
	2002	2003	2004	2005	2006
Capital stock	78,156	78,156	78,156	78,156	84,070
Capital expenditures	36,342	35,845	21,396	26,097	33,805
Depreciation and amortization	40,535	38,804	27,755	25,808	25,821
R & D expenses	30,186	26,405	23,261	21,963	22,731
Income from continuing operations per share					
Basic	7.00	6.56	9.31	80.72	62.14
Diluted	6.88	6.56	9.09	78.67	61.67
Number of shares outstanding (in thousands)	1,390,419	1,345,450	1,340,197	1,300,413	1,299,488

	Years ended March 31				
	2002	2003	2004	2005	2006
Cash dividends declared per depositary share:					
Interim (in yen)	15	15	15	15	20
(in U.S. dollars)	0.119	0.121	0.138	0.136	0.165
Year-end (in yen)	15	15	15	25	30
(in U.S. dollars)	0.125	0.125	0.138	0.233	0.258
Exchange rates (yen amounts per U.S. dollar):					
Year-end	132.70	118.07	104.18	107.22	117.48
Average	125.64	121.10	112.75	107.28	113.67
High	134.77	133.40	120.55	114.30	120.93
Low	115.89	115.71	104.18	102.26	104.41

2006	Feb.	Mar.	Apr.	May	Jun.	Jul.
High	118.95	119.07	118.66	113.46	116.42	117.44
Low	115.82	115.89	113.79	110.07	111.66	113.97
Period-end	115.82	117.48	113.79	112.26	114.51	114.44

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Notes to Selected Financial Data:

1. Cash dividends in U.S. dollars are computed based on the exchange rates at each respective payment date.
2. Exchange rates are the noon buying rates for cable transfers between the yen and the U.S. dollar in New York City as certified for customs purposes by the Federal Reserve Bank of New York. The rate on September 6, 2006 was ¥116.73 = US\$1.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

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's products 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 a change in agricultural 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.

Some of the Company's businesses involve substantial overseas operations. 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.

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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 incur a significant liability for reparation payments. Such payment and other associated expenses may have a material effect on the Company's consolidated results of operations and financial position. Should such events 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.

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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.

In each business segment mentioned below, Kubota is subject to risks inherent to those businesses and markets.

Internal Combustion Engine and Machinery Segment

The domestic business condition for Farm Equipment and Machinery remains difficult. In the business of farm equipment, for example, national agricultural policies on supporting agricultural management by community, which intends to make efficient use of agricultural resources such as farming land, agricultural machinery and facilities, may lead farmers to refrain from purchasing new equipment.

Under such conditions, in order to compete with other companies, the Company must maintain marketing channels, develop new products that reflect consumers' exact demands, and intensify appropriate after-sales services. To accomplish these objectives, substantial personnel and financing resources are required.

At the same time, the Company is also subject to severe competition in the United States. The pressures of reducing prices or shortening lead times are making business conditions more difficult. Consequently, the Company must take all possible steps to overcome the handicap of exporting products from Japan.

Specifically, it is very important for the Company to promote its retail sales by offering appropriate incentives to its dealers, and to introduce innovative products that address consumers' needs, in advance of its competitors. The Company must continue to promote these operations and to compete with its competitors in the U.S. in order to develop the business. Otherwise, the decrease in sales may have a material effect on the Company's consolidated results of operations and financial position.

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Pipes, Valves, and Industrial Castings Segment

The business of Pipes and Valves is basically dependent on public sector investments. Therefore, sales and profitability of this segment may be adversely affected by reductions in public investments by national or local governments.

In the business of ductile iron pipes and industrial casting, because of the relatively severe working environment, including the need to handle molten pig iron and steel scraps, it might be difficult to hire and retain qualified new employees. If the Company is not able to hire and retain qualified employees, nor to automate these processes, the Company may face difficulties in continuing its business.

In addition, increasing environmental restrictions on such items as noise, air pollution or bad smells caused by factories may require additional investments to cope with such restrictions and may reduce profitability as a result of an increase in production costs.

Certain of the Company's competitors are located in China or India where personnel costs are extremely low compared with Japan. Accordingly, the Company must continue to reduce production costs. As for export of its products, negative factors such as stronger yen, increased competition in international competitive bidding, increasing cost of freight and insurance, may impair profitability of exportation.

Reductions in private capital expenditure or residential construction investment may adversely impact the business, financial condition or results of the Company.

Environmental Engineering Segment

In the business of Environmental Engineering, a large portion of the demand depends on public sector investments. If the Company is unable to manage adverse developments such as a decrease in demand due to a reduction in public investments, intensifying competition owing to an increase in competitors, or the need to maintain high quality R&D personnel to develop new technologies, the Company's financial condition or results may be adversely affected. Furthermore, demands on product specification vary from customer to customer, which raise product cost.

Other Segment

Other segment consists of primarily vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipments services. While the Company encounters market competition for these products, declining general economic conditions, including reduction in private capital expenditures, construction investment and public investment may also adversely affect the business and financial results of this segment.

Cautionary Statements with Respect to Forward-Looking Statements

Certain sections of this annual report on Form 20-F 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 forward-looking statements due to a variety of factors, including, without limitation: general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures, both in 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.

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KUBOTA Corporation (KABUSHIKIKAISHA KUBOTA), the ultimate parent company of the Kubota group, was founded in 1890 by Gonshiro Kubota and incorporated in 1930 under the Commercial Code of Japan. In 1949, stocks of the Company were listed on Tokyo Stock Exchange and Osaka Securities Exchange. In 1976, stocks of the Company were also listed on New York Stock Exchange. Today, Kubota is a manufacturer of farm equipment, and producer of pipes, principally ductile iron pipes, and related equipment for water supply and other utilities. In addition, the Company manufactures and sells other items; engines, construction machinery, industrial castings, industrial machinery, environmental control plants.

The Company's registered office is located at 2-47, Shikitsu Higashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan, telephone +81-6-6648-2111.

The Company's production network primarily comprises 20 plants in Japan and 7 plants in overseas countries. Kubota also has 12 sales subsidiaries in overseas countries.

Principal Capital Expenditures and Divestitures

Capital expenditures in fiscal 2006, 2005, and 2004 amounted to ¥33,805 million, ¥26,097 million, and ¥21,396 million, respectively. The funding requirements for these capital expenditures were mainly provided by internal operations, and partially provided by external debt financing.

The principal capital expenditures in progress as of March 31, 2006, 2005, and 2004 were as follows:

As of March 2006

Location	Industry segment included	Content	Estimated amount of expenditures Total amount of expenditures (¥ billion)	Schedule Commenced
Suzhou (Jiangsu, People's Republic of China)	Internal Combustion	Building of new production facility for agricultural equipment in China	¥1.7	Oct. 2005
	Engine and Machinery			
Sakai (Osaka)	Internal Combustion	Production facilities for vertical diesel engines to increase production and developing new models	¥8.0	Jan. 2006
Okajima (Osaka)	Engine and Machinery			
Tsukuba (Ibaraki)				
Tsukuba (Ibaraki)	Internal Combustion	Addition to a building of a factory	¥3.4	Jan. 2006
	Engine and Machinery			
Jackson (Georgia, U.S.A.)	Internal Combustion	Restructuring of production system	¥1.6	Oct. 2005
	Engine and Machinery			

As of March 2005

Estimated amount of expenditures
Schedule

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			Total amount of expenditures	
			(¥ billion)	Commenced
Jackson (Georgia, U.S.A.)	Internal Combustion Engine and Machinery	Production facilities for implements attached to tractors	¥5.0	Nov. 2004
Tsukuba (Ibaraki)	Internal Combustion	Production equipment for vertical diesel engines	¥0.9	Oct. 2004
Sakai (Osaka) <u>As of March 2004</u>	Engine and Machinery			

No principal expenditures were in progress.

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The Company classifies its products for revenue reporting purposes into the following 4 product segments: Internal Combustion Engine and Machinery (which includes farm equipment, engines and construction machinery); Pipes, Valves, and Industrial Castings (which includes pipes, valves, and industrial castings); Environmental Engineering (which includes environmental engineering and pumps); and Other.

Net Sales by Product Group

For the year ended March 31, 2006

	Millions of yen		Thousands of
	2006		U.S. dollars
	¥	%	2006
			\$
Internal Combustion Engine and Machinery	658,776	62.7	5,630,564
Pipes, Valves, and Industrial Castings	189,708	18.0	1,621,436
Environmental Engineering	110,479	10.5	944,265
Other	92,077	8.8	786,983
Total	1,051,040	100.0	8,983,248

For the years ended March 31, 2005 and 2004

	Millions of yen			
	2005		2004	
	¥	%	¥	%
Internal Combustion Engine and Machinery	582,664	59.3	501,551	53.9
Pipes, Valves, and Industrial Castings	170,629	17.3	175,178	18.8
Environmental Engineering	117,633	12.0	115,721	12.5
Other	112,300	11.4	137,426	14.8
Total	983,226	100.0	929,876	100.0

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Operation of Each Segment

Internal Combustion Engine and Machinery

Internal Combustion Engine and Machinery includes farm equipment, engines and construction machinery. Kubota is Japan's largest manufacturer of farm equipment and small engines for agricultural use based on market share. Sales in this market in Japan are dominated by 4 major manufacturers, and the Company possesses a substantially larger share than the second ranked company. Main products include tractors ranging from 10.5 to 125 horsepower, combine harvesters, rice transplanters, power tillers and reaper binders. The Company also manufactures and sells a line of construction machinery including mini-excavators and wheel loaders as well as engines for various industrial uses. Overseas sales of this segment accounted for 59.4% of the total sales of this segment in fiscal 2006.

Domestic sales of farm equipment, engines and construction machinery are made through wholesale-retail dealers, wholesalers and the National Federation of Agricultural Cooperative Associations. Overseas sales are made through trading companies, local distributors and the Company's overseas subsidiaries and affiliates.

The products in this segment are manufactured at 6 domestic plants, and the Company has manufacturing subsidiaries in the United States, Germany, People's Republic of China and Thailand, and minority equity interests in an overseas manufacturing company.

Pipes, Valves, and Industrial Castings

Pipes, Valves, and Industrial Castings is comprised of various kinds of pipes, valves, and industrial castings. Pipes and Valves consists of ductile iron pipes, spiral welded steel pipes, plastic pipes and fittings, filament winding (FW) pipes, and various valves. Most of these products are to municipalities and public utilities for use principally in water supply and sewage systems along with industrial water supply. These products are also used for gas supply, telecommunication and irrigation systems.

Industrial castings include various iron and steel castings. Iron castings encompass rolls for the steel industry, machinery parts, tunnel segments, and soil pipes and fittings. Steel castings include alloyed tubing and fittings for the petrochemical industry, rolls for the paper industry, centrifugal cast pipes used in oil tankers, and centrifugal cast steel columns and piles used in civil engineering and construction.

The products in this segment are manufactured at 11 plants in Japan, and the Company has a manufacturing subsidiary in Canada, and minority equity interest in an overseas manufacturing company.

Environmental Engineering

This segment develops and markets environmental control plants, pumps and related engineering. As for water treatment, the Company supplies water and sewage treatment plants, night soil treatment plants, landfill leachate treatment plants, submerged membrane systems and biogas production systems. Regarding solid waste treatment, the Company supplies refuse incineration plants, industrial waste treatment plants, pulverizing facilities. The Company is also engaged in related engineering, such as contaminated soil remediation and industrial waste treatment business.

This segment manufactures and supplies various pumps for waterworks, sewage facilities, irrigation system, rainwater drainage and power supplies.

At present, almost all the sales in this segment are to municipalities focusing on domestic environmental engineering market, which is competitive with many engineering companies. There are 2 manufacturing plants in Japan and no overseas plants.

Other

This segment encompasses all the other businesses that don't belong to the aforementioned 3 segments. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipment and services.

The products in this segment are manufactured mainly at 4 plants in Japan, and the Company has a manufacturing subsidiary in Indonesia.

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Overseas Activities

The Company's overseas sales (which represent sales to unaffiliated customers outside Japan) in fiscal 2006, 2005, and 2004 amounted to ¥420,229 million (\$3,591,701 thousand), ¥345,324 million and ¥286,891 million, respectively. The ratios of such overseas sales to consolidated net sales in 2006, 2005, and 2004 were 40.0%, 35.1% and 30.9%, respectively. The sales of the Company's subsidiaries outside Japan in fiscal 2006, 2005, and 2004 amounted to ¥391,978 million (\$3,350,239 thousand), ¥323,943 million and ¥254,795 million, respectively. Its ratio to consolidated net sales in fiscal 2006, 2005, and 2004 were 37.3%, 32.9% and 27.4%, respectively.

The Company has manufacturing subsidiaries in the U.S.A., Canada, Germany, China, Indonesia and Thailand, and manufacturing affiliates in Indonesia and China. International sales subsidiaries are located in the U.S.A., Canada, France, the U.K., Germany, Spain, Australia, China and South Korea. In addition, a representative office is maintained in Beijing, and liaison offices are located in Torrance (California: U.S.A.), Flowery Branch (Georgia : U.S.A.), Argenteuil (France), Dubai (U.A.E.), Suzhou (China), Bangkok (Thailand), Selangor (Malaysia) and Cairo (Egypt).

Seasonality of the Company's Businesses

In such businesses as ductile iron pipes, valves, environmental engineering, and pumps, which rely upon national government or municipalities for most of their sales, there is a tendency that sales in the second half of the fiscal year are much larger than those in the first half. Because the fiscal years of the national government or municipalities generally end in March, execution of public budgets in the second half is liable to be much larger than in the first half of the fiscal year.

Raw Materials and Source of Supply

The Company purchases raw materials or parts from numerous sources. The major materials purchased are steel scrap, polyvinyl chloride resin, rolled steel coils, non-ferrous metals and alloys and pig iron. Some of the purchase prices of the major materials such as steel scrap fluctuate significantly by supply and demand conditions of the market. The Company has historically had no difficulty in obtaining adequate supplies of all of its raw materials requirements.

Marketing Channels

Domestic sales of farm equipment, engines and construction machinery are made through wholesale-retail dealers, wholesalers and the National Federation of Agricultural Cooperative Associations. Overseas sales of those products are made through trading companies, local distributors and the Company's overseas subsidiaries and affiliates.

A large portion of pipes, valves, environmental control plants, and a portion of industrial castings are sold to public-sector markets in Japan directly by the Company, as well as through dealers.

On the other hand, domestic sales of industrial machinery and part of industrial castings are made to private-sector markets through dealers and trading companies, directly to the end-users or, in the case of vending machines, to manufacturers of beverages or other products sold in vending machines. Overseas sales of those products are made directly by the Company or through trading companies, local distributors and the Company's overseas subsidiaries and an affiliate.

Dependent Contract, License, Patent and Manufacturing Process

The Company has many contracts. Some of them, for example, are for technical cooperation with other manufacturers, or for financing from banks. These are relatively important to the Company, but the Company relies on no specific contracts.

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2006, the Company held 5,344 Japanese patent and utility model registrations, and 815 foreign patent and utility model registrations. A utility model registration is a right granted under Japanese law and in certain other countries to inventions of lesser originality than those which qualify for patents. Although patent rights are important to Kubota, the Company does not consider that the expiration of any single patent or group of related patents would materially affect the conduct of Kubota's business. Kubota grants others licenses to use its technology including its patents, and obtains licenses under patents from third parties for technological assistance on a royalty basis. In fiscal 2006, royalty income and expenses were ¥643 million (\$5,496 thousand) and ¥118 million (\$1,009 thousand), respectively, under such licensing arrangements.

Table of Contents**Competition**

The Company is the largest manufacturer of farm equipment in Japan based on market share. There are 3 other major Japanese manufacturers of farm equipment and engines for agricultural use, all of which offer a complete line of machinery and engines in competition with the Company. The Company believes that foreign manufacturers do not at present produce the kind of machinery or, in the case of farm tractors, the size of tractors suited to Japanese agriculture and that the Company has the advantages that accrue from an established production and distribution system. In overseas markets, the Company experiences strong competition from Japanese and foreign companies in the sale of farm equipment and engines.

In Japan, there are 2 other major manufacturers of ductile iron pipes, 3 other major manufacturers of spiral welded steel pipes and 2 other major manufacturers of plastic pipes according to internal research. In export markets for ductile iron pipes, the Company faces strong competition with foreign manufacturers. The Company also encounters strong competition with Japanese and foreign companies in all of its product lines.

Governmental Regulations

Businesses of the Company tend to be affected by the regulations or restrictions in the countries where the Company or its subsidiaries operate. Those are, for example, regulations concerning investments, tariffs, anti-monopoly, intellectual property, foreign exchange, and environment.

Domestic sales of farm equipment, which are the mainstay of the Company's business, are prone to be influenced by Japanese agricultural policies. For example, policies that decrease rice prices or reduce rice paddy acreage will adversely influence the sales of farm equipment.

In overseas markets, restrictions on exhausted gas may affect the engines business of the Company.

C. Organization Structure

As of March 31, 2006, the group of Kubota Corporation consists of Kubota Corporation, 122 subsidiaries and 25 affiliates. Kubota Corporation plays a leading role in the group. The main subsidiaries are as follows:

		Percentage ownership (%)
Japan	Kubota-C.I. Co., Ltd.	70.0
	Kubota Construction Co., Ltd.	100.0
	Kubota Credit Co., Ltd.	72.8
	Kubota Environmental Service Co., Ltd.	100.0
	Kubota Maison Co., Ltd.	100.0
U.S.A.	Kubota Tractor Corporation	90.0
	Kubota Credit Corporation, U.S.A.	100.0
	Kubota Manufacturing of America Corporation	100.0
	Kubota Engine America Corporation	90.0
Canada	Kubota Metal Corporation	100.0
Germany	Kubota Baumaschinen GmbH	100.0
France	Kubota Europe S.A.S.	73.8

Table of Contents**D. Property, Plant and Equipment**

The following table sets forth information with respect to Kubota's principal manufacturing facilities:

Location	Land (Square meters)		Floor space		Principal products
	Owned	Leased	Owned	Leased	
<u>Japan</u>					
Amagasaki (Hyogo)	462,785	37,260	166,488	663	Ductile iron pipes, Filament winding pipes, Rolls for steel mills
Funabashi (Chiba)	561,265	14,711	143,153	6,496	Ductile iron pipes, Spiral welded steel pipes
Osaka (Osaka)	88,393	825	56,888		Cast iron products
Sakai (Osaka)	421,386	11,616	145,260	39,116	Farm equipment, Diesel engines
Utsunomiya (Tochigi)	154,281		77,031	1,367	Farm equipment
Tsukuba (Ibaraki)	334,496	19,577	117,139	12,886	Farm equipment, Diesel engines
Sakai (Osaka)	159,956		48,862	2,869	Diesel engines
Hirakata (Osaka)	306,102		142,966	2,065	Construction machinery, Cast steel products, Pumps, Valves
Konan (Shiga)	221,818		80,632	257	Septic tanks
Yao (Osaka)	38,102		27,756		Electronic machinery, Pulverizing equipment
Ryugasaki (Ibaraki)	84,795		30,820		Vending machines
<u>U.S.A.</u>					
Jackson (Georgia)	611,000		57,876		Lawn and garden tractors, Implements for tractors
<u>Germany</u>					
Zweibrücken (Rheinlandpfalz)	70,898	3,243	11,108	13,905	Mini-excavators

The Company considers its principal manufacturing facilities to be well maintained and suitable for the purpose for which they are employed and believes that its plant capacity is adequate for its current and near-term needs.

In addition, the Company owns 2,301,940 square meters of land (294,514 square meters of floor space) in Japan, used for the head office, branches, business offices and research facilities, and leases 3,625 square meters of land (68,206 square meters of floor space) used for sales offices, warehousing, employee housing and other purposes.

The Company plans its capital expenditures considering future business demand and cash flows. As of March 2006, the Company has planned to invest approximately ¥50.0 billion in the fiscal year ending March 31, 2007. The Company intends to fund the investment basically from cash and cash equivalents, and to also utilize available borrowings from financial institutions. Property, plant and equipment of the Company are not subject to material encumbrances thereon.

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Principal plans for new construction, expansion, reforming, and disposition as of March 31, 2006 are as follows:

New Construction

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(¥billion)	Amount	Commenced	To be completed
			Total amount of expenditures	already paid		
Suzhou (Jiangsu, People's Republic of China)	Internal Combustion Engine and Machinery	Building of new production facility for agricultural equipment in China	¥1.7		Oct. 2005	Nov. 2006

Expansion

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(¥billion)	Amount	Commenced	To be completed
			Total amount of expenditures	already paid		
Sakai (Osaka)	Internal Combustion	Production facilities for vertical diesel engines to increase production and developing new models	¥8.0		Jan. 2006	Oct. 2007
Okajima (Osaka)	Engine and Machinery					
Tsukuba (Ibaraki)	Internal Combustion	Addition to a building of a factory	¥3.4	¥0	Jan. 2006	Oct. 2006
Hirakata (Osaka)	Internal Combustion Engine and Machinery	Restructuring of production system for construction machinery	¥1.7		May 2006	May 2007
Jackson (Georgia, U.S.A.)	Internal Combustion Engine and Machinery	Restructuring of production system	¥1.6		Oct. 2005	Nov. 2006

Reforming

No material reforming is planned.

Disposition

No material disposition is planned.

Item 4A. Unresolved Staff Comments

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The Company is a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. There are no written comments which have been provided by the staff of the Securities and Exchange Commission regarding the Company's periodic reports under that Act not less than 180 days before the end of the fiscal year ended March 31, 2006 and which remain unresolved as of the date of the filing of this Form 20-F with the Commission.

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Item 5. Operating and Financial Review and Prospects

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) with the exceptions described in Note 1 of the consolidated financial statements SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES . 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:

1) 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 writedowns may be required.

2) 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.

3) 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.

4) 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.

5) 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.

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6) 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.

7) 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.

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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.

A. Operating Results

(The fiscal year ended March 31, 2006 compared with the fiscal year ended March 31, 2005)

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.

Please refer to next sales by industry segment for details.

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Sales by industry segment

1) Internal Combustion Engine and Machinery

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. Domestic sales increased 4.0%, to ¥267.3 billion (\$2,285 million), and overseas sales also increased 20.2%, to ¥391.5 billion (\$3,346 million). 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.

2) Pipes, Valves, and Industrial Castings

Sales in Pipes, Valves, and Industrial Castings were ¥189.7 billion (\$1,621 million), 11.2% higher than in the prior year, comprising 18.0% of consolidated net sales. Domestic sales increased 7.5%, to ¥167.2 billion (\$1,429 million), and overseas sales increased 48.7%, to ¥22.5 billion (\$192 million). 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 against a background of raising price of oil, and sales of industrial castings also increased from the prior year for the same reason as the domestic market.

3) Environmental Engineering

Sales in Environmental Engineering were ¥110.5 billion (\$944 million), 6.1% lower than the prior year, comprising 10.5% of consolidated net sales. Domestic sales decreased 7.4%, to ¥105.5 billion (\$901 million), and overseas sales increased 32.4%, to ¥5.0 billion (\$43 million). This segment consists of environmental control plants and pumps.

With regard to the domestic market, the Company operated this business in a difficult 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.

4) Other

Sales in Other were ¥92.1 billion (\$787 million), 18.0% lower than the prior year, comprising 8.8% of consolidated net sales. Domestic sales decreased 18.6%, to ¥90.8 billion (\$776 million), and overseas sales increased 65.5%, to ¥1.2 billion (\$11 million). This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

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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 particular, the Company coped with selecting and focusing the domain of its construction business and discontinued some part of construction business. 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.

Table of Contents**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.

Cost of Sales

The cost of sales increased 4.8% from the prior year, to ¥747.4 billion (\$6,388 million). As for material costs, while scrap metal for ductile iron pipes was cheaper than the Company's expectations, steel products for Internal Combustion Engine and Machinery and resin for plastic pipe rose substantially. 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 Matters Related to the health hazard of Asbestos in Item 5.D 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 (Expenses)

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.

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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 increase of net income tax from the prior year was mainly due to the low level of income taxes for the prior year. 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.

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.

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 against a background of raising price of Japanese shares.

(The fiscal year ended March 31, 2005 compared with the fiscal year ended March 31, 2004)

General Economic Conditions

During the year ended March 31, 2005, although the Japanese economy initially maintained an upward trend, the tempo of economic growth slackened after the summer, reflecting slower growth of exports and higher prices of oil and raw materials. Overseas, while the U.S. economy expanded smoothly supported by active housing investment and private capital expenditures, the EU economy decelerated gradually, affected by

the stronger Euro.

While the domestic market for Internal Combustion Engine and Machinery was sluggish, overseas markets, especially the small-sized tractors market in the U.S.A., were brisk due to active private consumption and the high level of housing starts. As for the public works related markets, the total amount of orders remained stagnant as ever due to the continuously declining public works spending. The domestic demand for ductile iron pipe, which is one of the mainstays in the public works related products, continued to decline although the pace of decrease declined. Environmental Engineering also faced a difficult operating environment in terms of receiving orders from public agencies.

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Sales

Under such conditions, net sales of the Company during the year under review were ¥983.2 billion, a 5.7% increase from the prior year, and domestic sales were ¥637.9 billion, a 0.8% decrease from the prior year. Although the negative impact from the sale of building materials operations in December 2003 (a decrease of ¥28.5 billion) was largely offset by a favorable increase in sales in other segments, domestic sales slightly declined from the prior year.

Overseas sales were ¥345.3 billion, a 20.4% increase from the prior year. This increase was mainly due to the continuing growth in sales of tractors in North America where a very promising new product was introduced, and brisk sales of construction machinery and engines principally in the U.S.A. and European markets. As a result, overseas sales accounted for 35.1% of net sales, 4.2 percentage points higher than in the prior year.

Sales by Industry Segment

1) Internal Combustion Engine and Machinery

Sales in Internal Combustion Engine and Machinery were ¥582.7 billion, 16.2% higher than in the prior year, comprising 59.3% of consolidated net sales. Domestic sales increased 5.8%, to ¥257.0 billion, and overseas sales increased 25.9%, to ¥325.7 billion. This segment consists of farm equipment and engines as well as construction machinery.

In the domestic market, due to the declining number of farmers and the negative impact of typhoons and earthquakes, market conditions were rather harsh. Accordingly, the Company executed aggressive sales promotion campaigns in connection with the introduction of new models of competitively priced farm equipment offering improved performance. By stimulating the market through these activities, the Company further diversified its customer base and increased its market share, which led to higher sales. Sales of construction machinery also increased due to the expansion of sales to rental companies and the introduction of new models supported by a recovery in demand. In overseas markets, sales of tractors in North America remained strong as a result of the introduction of new models and sales promotions, including promotions offering a 0% promotional interest rate. In particular, sales of a newly introduced product, the utility vehicle (multipurpose four-wheel vehicles), greatly exceeded expectations, fueling overall sales growth. In European markets, sales of tractors remained steady. In Asian and Oceanian markets, the Company recorded favorable sales, especially in Australia, South Korea, and Thailand. Sales of engines increased due principally to growth in demand from European and North American manufacturers of industrial machinery. Sales of construction machinery, underpinned by growing worldwide demand, also expanded sharply in Europe, our main market, and in the U.S.A., where the market for mini-excavators is growing rapidly.

2) Pipes, Valves, and Industrial Castings

Sales in Pipes, Valves, and Industrial Castings were ¥170.6 billion, 2.6% lower than in the prior year, comprising 17.3% of consolidated net sales. Domestic sales increased 2.0%, to ¥155.4 billion, but overseas sales declined 33.2%, to ¥15.2 billion. This segment consists of pipes and valves as well as industrial castings. As for domestic sales of ductile iron pipes and PVC pipes, prices of these products improved substantially. However, sales of ductile iron pipes decreased due to the lower demand from municipalities, while sales of PVC pipes increased, reflecting higher prices. Sales of industrial castings increased principally due to brisk demand from the steel, energy, and automobile industries.

On the other hand, overseas sales deteriorated significantly because shipments of large orders to Middle East countries were over in the prior fiscal year, although sales of industrial castings rose.

3) Environmental Engineering

Sales in Environmental Engineering were ¥117.6 billion, 1.7% higher than in the prior year, comprising 12.0% of consolidated net sales. Domestic sales increased 1.3%, to ¥113.9 billion, and overseas sales also increased, up 12.5%, to ¥3.7 billion. This segment consists of environmental control plants and pumps.

In the domestic market, Sales in the Water & Sewage Engineering Division decreased as a consequence of the lower level of bids accepted by local government in the prior year due to increased competition. Sales of pumps declined owing to reduced demand of large-sized pumps. On the other hand, sales in the Waste Engineering Division increased due to the progress in construction of large orders. Overall, total sales in Environmental Engineering increased in the domestic market. Overseas sales increased due to favorable sales in a subsidiary, which sells submerged membrane system.

4) Other

Sales in Other were ¥112.3 billion, 18.3% lower than in the prior year, comprising 11.4% of consolidated net sales. Domestic sales decreased 17.4%, to ¥111.6 billion, and overseas sales declined 67.5%, to ¥0.7 billion. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipment and services.

Sales of this segment decreased sharply, affected by the impact of the business transfer of building materials operations. However, sales of vending machines increased owing to brisk demand from the cigarette and bottling industries. Sales of air-conditioning equipment and condominiums also increased significantly. Additionally, sales of electronic-equipped machinery and septic tanks grew. On the other hand, revenues from construction services declined from the prior year.

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Operating Income

Operating income increased 283.8% from the prior year, to ¥86.8 billion. In spite of the appreciation of the yen and higher prices of raw materials, a significant decrease in pension costs (a decrease of ¥44.9 billion), increased sales centering on the Internal Combustion Engine and Machinery segment, and the reduction of costs and spending control in public works related business contributed to an increase in operating income. In the prior year, the Company recognized a large amount of unrecognized actuarial loss that resulted from unfavorable stock market conditions in Japan in the past few years before the prior year and a reduction of the discount rate used in pension plans in the year before the prior year.

The Company also had expenses related to reorganization of the building materials business in the prior year (¥4.8 billion). In contrast, the Company had non-recurring operating income in connection with the business transfer of a subsidiary in the year under review. As a result of these factors, operating income for the year under review expanded significantly. 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 ¥79.2 billion, a 46.5% increase; Pipes, Valves, and Industrial Castings, operating income of ¥11.5 billion, as compared to an operating loss of ¥5.7 billion in the prior year; Environmental Engineering, operating income of ¥5.7 billion, a 4,262.6% increase; and Other, operating income of ¥3.9 billion, as compared to an operating loss of ¥7.1 billion in the prior year.

Profitability in Internal Combustion Engine and Machinery benefited from the brisk sales of lawn mowers as well as compact and utility tractors in the U.S. market, due to steady private consumption and strong housing construction, which was similar with that of the prior year. In addition to the above factors, the decrease in pension costs contributed to an increase in operating income in this segment. Profitability in Pipes, Valves, and Industrial Castings benefited from rigorous cost controls and the increased efficiency of the manufacturing process as well as the decrease in pension costs. In Environmental Engineering, profitability improved due to the decrease in pension costs.

Cost of Sales

The cost of sales increased 1.7% from the prior year, to ¥713.3 billion. The cost of sales as a percentage of net sales decreased 2.9 percentage points, to 72.6%. The decrease in the ratio was attributable to the substantial decrease in pension costs.

SG&A Expenses

Selling, general, and administrative (SG&A) expenses decreased 8.8% from the prior year, to ¥181.7 billion. The ratio of SG&A expenses to net sales decreased 2.9 percentage points, to 18.5%. The decrease in pension costs as well as the Company's efforts for spending control in all aspects of business operations contributed to the decrease in the ratio.

Loss from Disposal and Impairment of Businesses and Fixed Assets

Loss from disposal and impairment of business and fixed assets decreased 77.8 % from the prior year, to ¥1.4 billion. This improvement was mainly due to the absence of impairment loss of the roofing and siding materials business in the prior year.

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Other Income (Expenses)

Other income (expenses), net, was income of ¥69.3 billion, an increase of ¥64.0 billion from the prior year. The increase is largely due to ¥58.6 billion from a government subsidy, which is the difference in the substitutional portion of accumulated benefit obligation settled and related plan assets transferred to the Japanese government. In addition, the foreign exchange gain improved ¥5.1 billion and interest and dividend income increased by ¥2.2 billion.

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 increased 459.4%, to ¥156.0 billion.

Income Taxes

Income taxes increased 251.2% from the prior year, to ¥48.1 billion. The effective tax rate decreased 18.3 percentage points, to 30.8%. The primary reason for the decrease in the effective tax rate was due to the deductibility of the historical impairment losses and net operating losses related to the sale and dissolution of the subsidiaries. Related deferred tax assets were fully reserved prior to the sale and dissolution of the subsidiaries. Income tax current was ¥34.5 billion, an increase of ¥5.2 billion, and income tax deferred (expense) was ¥13.6 billion as compared to income tax deferred (benefit) of ¥15.6 billion in the prior year.

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

Minority interests in earnings of subsidiaries increased ¥1.0 billion, to ¥3.4 billion. Equity in net income of affiliated companies increased ¥1.5 billion from the prior year, to ¥2.3 billion. Increased profit of the joint venture Kubota Matsushitadenko Exterior Works, Ltd., contributed to increased equity in net income of affiliated companies.

Income (Loss) from Discontinued Operations, Net of Taxes

Income from discontinued operations, net of taxes was ¥11.1 billion, as compared to a loss of ¥0.8 billion in the prior year. This income resulted from a gain in connection with the sale of a subsidiary that operated a golf course.

Net Income

Due to the factors described previously, net income was ¥117.9 billion, compared with ¥11.7 billion in the prior year. Return on shareholders equity improved 23.7 percentage points, to 27.0%, from the prior year.

Income per ADS

Basic net income per ADS (5 common shares) was ¥446, as compared to ¥44 in the prior year. The number of shares of treasury stock held by the Company was 40.4 million as of March 31, 2005, and these shares were excluded from the calculation of net income per ADS.

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 ¥25 was approved at the general meeting of shareholders, held on June 24, 2005. The Company also paid a ¥15 per ADS interim dividend to each shareholder.

Comprehensive Income

Comprehensive income was ¥119.3 billion, a ¥33.5 billion improvement from the prior year. The increase resulted from the expansion of net income, to ¥117.9 billion. However, the increase was partially offset by a decrease in unrecognized gains on securities and adjustment to reduce the minimum pension liability.

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B. Liquidity and Capital Resources

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%. With regard to maturity profile of these borrowings, please refer to Item 5.F Tabular Disclosure of Contractual Obligations .

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.

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. The Company recognizes issuing bonds as an important resource for raising long-term fund. During the year under review, the Company issued straight bond amounted ¥20.0 billion in Japan and the fund was used mainly for repayment of borrowings. 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.

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Assets, Liabilities, and Shareholders' Equity

1) 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.

2) 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.

3) 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.

4) 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

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.

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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.

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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.

C. Research and Development, Patents and Licenses, etcResearch and Development

The Company conducts its research and development activities with approximately 1,200 researchers and engineers. The following table shows the Company's research and development expenses for the last 3 fiscal years.

	Millions of yen			Thousands of
	2004	2005	2006	U.S. dollars
R&D Expenses	¥ 23,261	¥ 21,963	¥ 22,731	\$ 194,282
As a percentage of consolidated net sales	2.5%	2.2%	2.2%	

The R&D activities are conducted principally in R&D departments in each business division and subsidiary. In our business divisions and subsidiaries, there are 36 R&D departments. Each department promotes the R&D activities fortifying each business.

Examples of R&D activities in the Company's 4 industrial segments are as follows:

In Internal Combustion Engine and Machinery, the Company developed new mid-sized tractors with completely novel design, named M40 series for North America. A smooth and agile performance and ease of operations are achieved by its electronic panel, wet clutch, hydrostatic shuttle transmission and control lever concentrated to the right side. Total R&D expenses of this segment were ¥17.3 billion.

In Pipes, Valves, and Industrial Castings, the Company developed SGE method for piling steel pipe. This method realizes 40% reduction of construction cost by shortening work periods and reducing number of pile. Total R&D expenses of this segment were ¥1.9 billion.

In Environmental Engineering, the Company developed Methane Fermentation Unit Employing Submerged Membrane. This unit is substantially downsized comparing with predecessors and can be operated continuously. Total R&D expenses of this segment were ¥1.1 billion.

In Other segment, the Company developed new septic tank for a disposer of single-family house. This septic tank achieved a low price by simplification of structure and reduction of production costs. Total R&D expenses of this segment were ¥2.4 billion.

Patent and License

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2006, the Company held 5,344 Japanese patent and utility model registrations, and 815 foreign patent and utility model registrations. A utility model registration is a right granted under Japanese law and in certain other countries to inventions of lesser originality than those, which qualify for patents. Although patent rights are important to Kubota, the Company does not consider that the expiration of any single patent or group of related patents would materially affect the conduct of Kubota's business. Kubota grants licenses to others to use its technology including its patents, and obtains licenses under patents from third parties for technological assistance on a royalty basis. In fiscal 2006, royalty income and expenses were ¥643 million (\$5,496 thousand) and ¥118 million (\$1,009 thousand), respectively, under such licensing arrangements.

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D. Trend Information

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.

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 3 principal business policies: Accelerating Business Expansion in Overseas Operations, Restructuring Public Works Related Businesses, and Corporate Social Responsibility for Attainment of Sustainable Development.

Contingencies

Legal proceedings

In May 1998, the Company was investigated by the Fair Trade Commission of Japan (the FTCJ) for an alleged violation of the Law Concerning Prohibition of Private Monopoly and Preservation of Fair Trade (the Anti-Monopoly Law) relating to participation in fixing the shares of ductile iron straight pipe orders in Japan. The Company received a cease and desist recommendation from the FTCJ in March 1999, which was accepted by the Company in April 1999.

The FTCJ also brought a criminal accusation alleging violation of the Anti-Monopoly Law against the Company and 3 of its employees, who were indicted in the Tokyo High Court in March 1999. On February 24, 2000, the Company was fined ¥130 million, and the 3 employees were given 6-10 months prison sentences, suspended for 2 years.

In the meanwhile, 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. Under Section 49 of the then Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the then Anti-Monopoly 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 unfavorable outcome. As of this filing date, the Company is still in the process of the hearing procedures.

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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. After the Company established its internal policies and procedures of consolation payments, the Company has received claims for consolation payments from 101 residents and paid or accrued consolation payments to 88 of those residents after carefully reviewing those claims as of March 31, 2006.

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 were eligible to be paid or payable. The new supporting system will be applied to the residents who will claim for payment in the future. Based on this system, the Company accrued relief payments to above-mentioned 88 of residents who were eligible to be paid or accrued consolation payments as of March 31, 2006.

With regard to the procedures for making claims to the Company for consolation payments or relief payments, the Company has asked the residents or the bereaved family of the residents who lived close to our former plant to communicate with the Company through Amagasaki Occupational Safety and Health Center with the documents requested by the Company.

With regard to current and former employees who suffered and are suffering from asbestos-related disease, in accordance with the Company's internal policies, the Company shall pay compensation which is not required by law. Upon certification of medical treatment compensation from the Workers' Accident Compensation Insurance for asbestos-related diseases, the compensation for asbestos-related disease shall be paid. In case an employee dies during medical treatment and are certified for compensation from the Workers' Accident Compensation Insurance for bereaved families, the compensation for asbestos-related disease for the bereaved family shall also be paid. In addition, the Company shall provide other financial aids, 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 cumulative number of current and former employees who are eligible for compensation in accordance with the Company's internal policies that are not required by law is 83 as of the end of March 2004, 94 as of the end of March 2005, and 132 as of the end of March 2006.

As a further action, the Company proceeded to consider and attempt to implement forms of medical support, such as establishment of fund for medical treatment and research, support for early diagnosis method and medical treatment in cooperation with medical institutions and creating donation chairs. And the Company reached an agreement on medical support with two medical institutions. According to an agreement, the company will provide a total of ¥1.2 billion donation to Hyogo College of Medicine in 10 years and a total of ¥0.5 billion donation to Osaka Medical Center for Cancer and Cardiovascular Diseases in 5 years from the current year.

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.

Details of the terms of provision of funds by the Fund are as follows: When any such people are (i) identified as sufferers of asbestos-related diseases (the Designated Diseases), which fall within the categories designated by the Cabinet Order, including mesothelioma, malignant neoplasm of bronchi or lungs, or other diseases which are specified in Cabinet Orders, and (ii) are not covered by the Workers' Accident Compensation Insurance Law, then the Fund shall provide funds to these people in an amount equivalent to medical expenses (to the extent of the amount actually incurred by the diseased people), recuperation benefits, funeral fees and adjustment of relief payments (the amount varies depending on the substance of the disease). To the bereaved family of the patients who died due to the Designated Diseases before the

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enforcement of the New Asbestos Law, who would have been eligible to receive the funds under the New Asbestos Law, special condolence money and special funeral fees shall be paid from the Fund. To the bereaved families of workers who died due to the Designated Diseases and whose right of claims under the Workers' Accident Compensation Insurance Law ceased to exist because of prescription, a special survivors or special survivor's compensation shall be paid by the Fund.

The Fund, from which the relief aid is paid, is funded by the national government, municipal governments, and business entities. With regard to the sharing of financial burden by each entity, the national government has already contributed ¥38.8 billion to the Fund, which also covered the initial operating costs at the time of the establishment of the Fund in the year ended March 31, 2006, and it will make additional contributions to cover half of the operating costs the year ending March 31, 2007 and thereafter. Municipal governments shall contribute a quarter of the government's contribution amount excluding operating costs. As for business entities, all business entities that employ workers shall be imposed with a contribution burden in accordance with their total wage amount, and at the same time, business entities involved in asbestos-related business that meet certain conditions shall be imposed with an additional contribution burden.

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.

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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 (\$36 million). Of the ¥4.2 billion (\$36 million), ¥3.2 billion (\$27 million) were expenses related to the payment for the relief payment system established in April, 2006. 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.

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 ¥7.8 billion (\$67 million). 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 approved the purchase of up to 10,000,000 shares, or up to ¥11 billion (\$94 million) of the parent company's outstanding common stock on and after June 26, 2006 through September 19, 2006. Pursuant to such approval, 4,700,000 shares of the parent company were purchased for ¥4.4 billion (\$37 million).

In addition, on September 20, 2006, the Company's Board of Directors approved the purchase of up to 5,000,000 shares, or up to ¥5.0 billion (\$43 million), of the parent company's outstanding common stock on and after September 21, 2006 through December 14, 2006.

E. Off-balance Sheet Arrangements

The Company accounts for guarantees in accordance with FASB Interpretation No.45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Notes 17 and 18 of the financial statements, which are incorporated herein by reference, elaborate on commitments and contingencies.

The Company utilizes accounts receivable securitization programs, which are important for the Company to broaden its funding sources and raise cost-effective funds. In the programs, certain subsidiaries of Kubota sell the receivables to wholly-owned special purpose entities (SPEs), which in turn transfer the receivables to bankruptcy-remote independent securitization trusts (the Trusts). At the time the receivables are sold to the Trusts, the receivables are removed from the consolidated balance sheet of the Company. The Company retains servicing responsibilities and subordinated interests. The purchaser has no recourse to the Company's other assets for failure of debtors to pay when due. The Company's interest in sold receivables is subordinate to purchaser's interest and serve as credit enhancements for the securities issued by the Trusts. The value of the Company's interest in sold receivable is subject to credit, repayment, dilution, and interest rate risks on sold receivables.

The Company is obligated to repurchase any receivable if the interest of the administrative agent is materially adversely affected by a breach of representation or warranty made by the SPEs.

Table of Contents**F. Tabular Disclosure of Contractual Obligations**

The following summarizes contractual obligations at March 31, 2006.

	Millions of Yen Payments Due by Period				
	Total	Less than year	1-3 years	3-5 years	More than 5 years
Year Ended March 31, 2006					
Contractual obligations:					
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				
	Total	Less than year	1-3 years	3-5 years	More than 5 years
Year Ended March 31, 2006					
Contractual obligations:					
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).

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G. Safe Harbor

Projected results of operations and other future forecasts contained in this annual report are the estimates of the Company based on information available to the Company as of this published date. Therefore, those projections include certain potential risks and uncertainties. Accordingly, the users of this information are requested to note that the actual results could differ materially from those future projections. Major factors that could influence the ultimate outcome include the economic condition surrounding the Company, foreign exchange rates, agricultural policy in Japan, the trend of public investment and private capital expenditure in Japan, the price-competitive pressure in the market, the ability for the Company to manufacture or innovate products which will be accepted in the market. Finally the users of this information should note that the factors that could influence the ultimate outcome of the Company's activities are not limited to the above.

Table of Contents**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management**

The information with respect to the directors and corporate auditors is as follows:

Name (Birthday)	Number of Company Shares Owned of the Company	Current Positions and Brief Occupational History (including responsibilities in other companies)
Daisuke Hatakake (Jun. 29, 1941)	45,000 Shares of the Company	<p>President and Representative Director of the Company</p> <p>Apr. 2003 President and Representative Director of the Company (to present)</p> <p>Jun. 2002 General Manager of Corporate Compliance Headquarters</p> <p>Jun. 2001 Managing Director of the Company, in charge of Corporate Planning & Control Dept., Finance & Accounting Dept., Corporate Information Systems Planning Dept. (assistant)</p> <p>Aug. 2000 In charge of PV Business Planning & Promotion Dept.</p> <p>Jun. 2000 In charge of Compliance Auditing Dept., Business Alliance Dept. (assistant), Corporate Information Systems Planning Dept. (assistant), General Manager of Corporate Planning & Control Dept.</p> <p>Jun. 1999 Director of the Company</p> <p>Dec. 1998 General Manager of Corporate Planning & Control Dept.</p> <p>Apr. 1964 Joined the Company</p>
Moriya Hayashi (May 7, 1944)	29,000 Shares of the Company	<p>Executive Vice President and Representative Director of the Company General Manager of Farm & Industrial Machinery Consolidated Division, General Manager of International Operations Headquarters in Farm & Industrial Machinery Consolidated Division</p> <p>Apr. 2006 Executive Vice President and Representative Director of the Company (to present)</p> <p>Apr. 2004 General Manager of Farm & Industrial Machinery Consolidated Division (to present)</p> <p>Apr. 2004 Executive Managing Director of the Company</p> <p>Apr. 2003 Managing Director of the Company, General Manager of Tractor Division</p> <p>Jan. 2002 General Manager of International Operations Headquarters in Farm & Industrial Machinery Consolidated Division (to present)</p> <p>Oct. 2001 Deputy General Manager of Tractor Division</p> <p>Jun. 2001 Director of the Company</p> <p>Jun. 1999 President of Kubota Tractor Corporation</p> <p>Apr. 1969 Joined the Company</p>

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Yoshihiro Fujio	22,000 Shares	Executive Managing Director of the Company
(Sep. 6, 1944)	of the Company	In charge of Tokyo Head Office, General Manager of Industrial & Material Systems Consolidated Division, General Manager of Tokyo Head Office Apr. 2006 In charge of Tokyo Head Office, General Manager of Tokyo Head Office (to present) Jun. 2004 General Manager of Coordination Dept. in Industrial & Material Systems Consolidated Division Apr. 2004 Executive Managing Director of the Company, General Manager of Industrial & Material Systems Consolidated Division (to present) Dec. 2003 In charge of Housing & Building Materials Business Coordination Dept. Apr. 2003 Managing Director of the Company, in charge of Secretary & Public Relations Dept., Health & Safety Planning & Promotion Dept. Oct. 2002 In charge of Environmental Protection and Health & Safety Promotion Dept. (assistant) Jun. 2002 In charge of Personnel Dept., General Manager of Head Office Jun. 2001 Director of the Company, in charge of Human Resources & Labor Relations Dept. (assistant) Jun. 2000 General Manager of Electronic Equipped Machinery Division and General Manager of Kyuhoji Plant Apr. 1967 Joined the Company
Toshihiro Fukuda	39,000 Shares of the Company	Executive Managing Director of the Company
(Oct. 12, 1945)		In charge of Environmental Protection Dept., CSR Planning & Coordination Dept., Secretary & Public Relations Dept., General Manager of Compliance Headquarters Apr. 2006 In charge of Secretary & Public Relations Dept., (to present) Apr. 2005 Executive Managing Director of the Company, in charge of CSR Planning & Coordination Dept., General Manager of Compliance Headquarters (to present) Apr. 2004 In charge of Environmental Protection Dept., (to present) Apr. 2004 Managing Director of the Company, in charge of General Affairs Dept., Corporate Compliance Headquarters Apr. 2003 General Manager of Farm Machinery Division Mar. 2003 In charge of Related Products Division Jun. 2002 Director of the Company Oct. 2001 Deputy General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division and General Manager of Sales Coordination Dept. in Farm & Industrial Machinery Consolidated Division Dec. 1998 General Manager of Coordination Dept. in Farm & Industrial Machinery Consolidated Division Apr. 1969 Joined the Company
Yasuo Masumoto	20,000 Shares	Executive Managing Director of the Company
(Apr. 21, 1947)	of the Company	In charge of Quality Assurance & Manufacturing Promotion Dept., Deputy General Manager of Industrial & Material Systems Consolidated Division, General Manager of Production Control Headquarters in Industrial & Material Systems Consolidated Division Apr. 2006 Executive Managing Director of the Company, (to present) Apr. 2005 Deputy General Manager of Industrial & Material Systems Consolidated Division (to present) Jan. 2005 In charge of Quality Assurance & Manufacturing Promotion Dept. (to present) Jun. 2004 General Manager of Purchasing Dept. in Industrial & Material Systems Consolidated Division Apr. 2004 Managing Director of the Company, in charge of Manufacturing Planning & Promotion Dept. Apr. 2003 General Manager of Production Control Headquarters in Industrial & Material Systems Consolidated Division (to present) Jun. 2002 Director of the Company Oct. 2001 General Manager of Farm Machinery Division Apr. 1999 General Manager of Utsunomiya Plant Apr. 1971 Joined the Company

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Yoshiharu Nishiguchi (Jan. 29, 1947)	21,000 Shares of the Company	<p>Managing Director of the Company</p> <p>In charge of General Affairs Dept., Personnel Dept., Health & Safety Planning & Promotion Dept., Tokyo Administration Dept., General Manager of Head Office</p> <p>Apr. 2006 In charge of General Affairs Dept., Tokyo Administration Dept., (to present)</p> <p>Apr. 2005 Managing Director of the Company, in charge of Personnel Dept., Health & Safety Planning & Promotion Dept., General Manager of Head Office (to present)</p> <p>Apr. 2004 In charge of Septic Tanks Division, Housing & Building Materials Business Coordination Dept., PV Business Planning & Promotion Dept., Secretary & Public Relations Dept.</p> <p>Jun. 2003 Director of the Company, in charge of Air Condition Equipment Division, Corporate Planning & Control Dept., Finance & Accounting Dept.</p> <p>Dec. 2002 General Manager of Compliance Auditing Dept.</p> <p>Jun. 2000 General Manager of Finance & Accounting Dept.</p> <p>Apr. 1970 Joined the Company</p>
Eisaku Shinohara (Aug. 25, 1947)	18,000 Shares of the Company	<p>Managing Director of the Company</p> <p>In charge of Research & Development Planning & Promotion Dept., General Manager of R & D Headquarters in Farm & Industrial Machinery Consolidated Division</p> <p>Apr. 2005 Managing Director of the Company, in charge of Research & Development Planning & Promotion Dept. (to present)</p> <p>Apr. 2004 General Manager of R & D Headquarters in Farm & Industrial Machinery Consolidated Division (to present)</p> <p>Jun. 2003 Director of the Company</p> <p>Oct. 2001 Deputy General Manager of R&D Headquarters in Farm & Industrial Machinery Consolidated Division and General Manager of Vehicle Technology Generalization Dept.</p> <p>Jun. 2000 General Manager of Construction Machinery Division and General Manager of Planning Dept. in Construction Machinery Division</p> <p>Apr. 1974 Joined the Company</p>
Nobuo Izawa (Feb. 28, 1948)	12,000 Shares of the Company	<p>Managing Director of the Company</p> <p>General Manager of Environmental Engineering Consolidated Division</p> <p>Apr. 2006 General Manager of Environmental Engineering Consolidated Division (to present)</p> <p>Apr. 2005 Deputy General Manager of Environmental Engineering Consolidated Division</p> <p>Apr. 2005 Managing Director of the Company (to present)</p> <p>Jun. 2003 Director of the Company</p> <p>Apr. 2002 General Manager of Pumps Division and General Manager of Planning Dept. in Pumps Division</p> <p>Jun. 2001 General Manager of Pumps Division</p> <p>Apr. 1998 General Manager of Sales Dept. I in Pumps Division</p> <p>Apr. 1971 Joined the Company</p>

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Yoshihiko Tabata (Mar. 23, 1946)	19,000 Shares of the Company	<p>Managing Director of the Company General Manager of Engine Division</p> <p>Apr. 2006 Managing Director of the Company (to present) Jun. 2004 Director of the Company Oct. 2003 General Manager of Engine Division (to present) May 1998 President of Kubota Engine America Corporation Dec. 1976 Joined the Company</p>
Kazunobu Ueta (Jan. 1, 1947)	18,000 Shares of the Company	<p>Managing Director of the Company General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division</p> <p>Apr. 2006 Managing Director of the Company (to present) Apr. 2005 In charge of Farm Facilities Division Apr. 2005 General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division (to present) Jun. 2004 Director of the Company, in charge of Related Products Division Apr. 2004 In charge of Related Products Division (assistant) and General Manager of Sales Control Dept. in Farm & Industrial Machinery Consolidated Division Apr. 2000 Deputy General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division Apr. 1969 Joined the Company</p>
Tokuji Ohgi (Jul. 25, 1947)	12,000 Shares of the Company	<p>Director of the Company General Manager of Ductile Iron Pipe Division</p> <p>Apr. 2005 General Manager of Ductile Iron Pipe Division (to present) Jun. 2004 In charge of Personnel Dept., Health & Safety Planning & Promotion Dept., General Manager of Head Office Jun. 2004 Director of the Company (to present) Apr. 2004 In charge of Personnel Dept. (assistant), Health & Safety Planning & Promotion Dept. (assistant) Apr. 2003 General Manager of Secretary & Public Relations Dept. Jun. 2001 General Manager of Human Resources & Labor Relations Dept. Apr. 1972 Joined the Company</p>

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Morimitsu Katayama	23,000 Shares	Director of the Company
(Jan. 17, 1948)	of the Company	In charge of Quality Assurance & Manufacturing Promotion Dept. (assistant), General Manager of Manufacturing Headquarters in Farm & Industrial Machinery Consolidated Division, General Manager of Sakai Plant Jan. 2005 In charge of Quality Assurance & Manufacturing Promotion Dept. (assistant) (to present) Jun. 2004 In charge of Manufacturing Planning & Promotion Dept. (assistant) Jun. 2004 Director of the Company (to present) Apr. 2004 General Manager of Manufacturing Headquarters in Farm & Industrial Machinery Consolidated Division (to present) Apr. 2003 General Manager of Sakai Plant (to present) Oct. 2001 General Manager of Construction Machinery Manufacturing Dept. in Hirakata Plant and General Manager of Construction Machinery Division Apr. 1999 General Manager of Construction Machinery Manufacturing Dept. in Hirakata Plant Apr. 1963 Joined the Company
Nobuyuki Toshikuni	11,000 Shares	Director of the Company
(Jan. 30, 1951)	of the Company	General Manager of Tractor Division Jun. 2004 Director of the Company (to present) Apr. 2004 General Manager of Tractor Division (to present) Oct. 2001 President of Kubota Tractor Corporation Apr. 1999 General Manager of Tractor Engineering Dept. Apr. 1973 Joined the Company
Hirokazu Nara	14,000 Shares	Director of the Company
(Oct. 2, 1948)	of the Company	In charge of Septic Tanks Division, Corporate Planning & Control Dept., Finance & Accounting Dept. Oct. 2005 In charge of Corporate Planning & Control Dept. (to present) Jun. 2005 In charge of Housing & Building Materials Business Coordination Dept., PV Business Planning & Promotion Dept., Air Condition Equipment Division Jun. 2005 Director of the Company, in charge of Septic Tanks Division, Finance & Accounting Dept. (to present) Apr. 2005 In charge of Air Condition Equipment Division (assistant), Septic Tanks Division (assistant), Housing & Building Materials Business Coordination Dept. (assistant), PV Business Planning & Promotion Dept. (assistant), Finance & Accounting Dept. (assistant) Apr. 2003 General Manager of Corporate Planning & Control Dept. Jun. 1996 General Manager of Planning Dept. in Vending Machinery Division Apr. 1971 Joined the Company

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Masayoshi Kitaoka (Dec. 11, 1949)	6,000 Shares of the Company	Director of the Company General Manager of Farm Machinery Division Jun. 2005 Director of the Company (to present) Apr. 2004 General Manager of Farm Machinery Division (to present) Dec. 2002 General Manager of Electronic Equipped Machinery Division and General Manager of FA Sales Dept. Jun. 2001 General Manager of CAD Dept. and General Manager of Kyuhoji Plant and General Manager of Electronic Equipped Machinery Division Aug. 2000 General Manager of CAD Dept. and General Manager of Kyuhoji Plant Apr. 1998 General Manager of CAD Dept. Apr. 1973 Joined the Company
Tetsuji Tomita (Mar. 6, 1950)	7,000 Shares of the Company	Director of the Company President of Kubota Tractor Corporation Jun. 2005 Director of the Company (to present) Apr. 2004 President of Kubota Tractor Corporation (to present) Jan. 2003 President of Kubota Europe S.A.S. Oct. 1999 General Manager of Export Dept. in Tractor Division Apr. 1973 Joined the Company
Masatoshi Kimata (Jun. 22, 1951)	15,000 Shares of the Company	Director of the Company General Manager of Tsukuba Plant Jun. 2005 Director of the Company (to present) Oct. 2001 General Manager of Tsukuba Plant (to present) Apr. 1977 Joined the Company
Nobuyo Shioji (Apr. 11, 1949)	2,000 Shares of the Company	Director of the Company General Manager of Construction Machinery Division Jun. 2006 Director of the Company (to present) Apr. 2005 General Manager of Construction Machinery Division (to present) Apr. 2004 General Manager of Construction Machinery Division and General Manager of Construction Machinery Business Planning & Promotion Dept. Apr. 2003 General Manager of Construction Machinery Business Planning & Promotion Dept. and Vice General Manager of Construction Machinery Division Jun. 2001 General Manager of Construction Machinery Business Planning & Promotion Dept. Apr. 1973 Joined the Company
Takeshi Torigoe (Apr. 8, 1950)	11,000 Shares of the Company	Director of the Company General Manager of Steel Castings Division Jun. 2006 Director of the Company (to present) Apr. 2005 General Manager of Steel Castings Division (to present) Jan. 2004 General Manager of Steel Castings Manufacturing Dept. in Hirakata Plant Jan. 2001 President of Kubota Metal Corporation Apr. 1976 Joined the Company

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Satoru Sakamoto	4,000 Shares	Director of the Company
(Jul. 18, 1952)	of the Company	General Manager of Air Condition Equipment Division, President of Kubota Air Conditioner, Ltd.
		Jun. 2006 Director of the Company (to present)
		Apr. 2006 President of Kubota Air Conditioner, Ltd. (to present)
		Apr. 2006 General Manager of Air Condition Equipment Division (to present)
		Oct. 2005 Vice General Manager in Air Condition Equipment Division
		Apr. 2003 General Manager of Planning Dept. in Ductile Iron Pipe Division
		Jun. 2001 General Manager of Corporate Planning & Control Dept.
		Apr. 1976 Joined the Company
Hideki Iwabu	9,000 Shares	Director of the Company
(Oct. 21, 1952)	of the Company	General Manager of Water & Sewage Engineering Division
		Jun. 2006 Director of the Company (to present)
		Apr. 2006 General Manager of Water & Sewage Engineering Division (to present)
		Apr. 2004 General Manager of Sewage Engineering Dept. II
		Jun. 2001 General Manager of Water & Sewage Engineering Dept.
		Apr. 2001 General Manager of Sewage Engineering Dept.
		Apr. 1975 Joined the Company
Susumu Sumikura	29,000 Shares	Corporate Auditor of the Company
(Jul. 1, 1943)	of the Company	Jun. 2003 Corporate Auditor of the Company (to present)
		Apr. 2002 Corporate Planning & Control Dept.
		Jun. 1999 General Manager of Business Alliance Dept.
		Dec. 1998 General Manager of Planning Dept of Electronic Equipped Machinery Division
		Apr. 1967 Joined the Company
Junichi Maeda	17,000 Shares	Corporate Auditor of the Company
(May 23, 1945)	of the Company	Jun. 2005 Corporate Auditor of the Company (to present)
		Jun. 2003 Director of the Company
		Apr. 2003 General Manager of Ductile Iron Pipe Division
		Jun. 2001 General Manager of Planning Dept. in Ductile Iron Pipe Division
		Apr. 2001 Ditto and General Manager of Production Management Dept. in Ductile Iron Pipe Division
		Jun. 2000 General Manager of Planning Dept. in Ductile Iron Pipe Division
		Sep. 1972 Joined the Company

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Yuzuru Mizuno (Jan. 21, 1948)	0 Shares of the Company	Corporate Auditor of the Company
		Jul. 2005 Executive Senior Councilor of Corporate Accounting & Finance of Matsushita Electric Industrial Co., Ltd.
		Jun. 2005 Corporate Auditor of the Company (to present)
		Jul. 2004 Executive Director of Matsushita Electric Industrial Co., Ltd., in charge of Corporate Finance & Investor Relations
		Feb. 2004 Director (non full-time) of Nippon Otis Elevator Company
		Oct. 2000 President (non full-time) of Panasonic Finance (Japan) Co., Ltd.
		Oct. 2000 General Manager of Corporate Finance Dept. of Matsushita Electric Industrial Co., Ltd.
		Jun. 1998 Managing Director of Matsushita Industrial Corporation Sdn. Bhd.
		Dec. 1995 General Manager of Accounting Dept. in Compressor Division of Matsushita Electric Industrial Co., Ltd.
		Apr. 1970 Joined Matsushita Electric Industrial Co., Ltd.
Teisuke Sono (May 10, 1934)	6,000 Shares of the Company	Corporate Auditor of the Company
		Apr. 2004 Appointed as a visiting professor of Hokuriku University (to present)
		Jun. 2003 Corporate Auditor of the Company (to present)
		Apr. 2001 The professor of International Buddhist University
		Aug. 1996 Judge of Osaka High Court
		Oct. 1994 Chief Justice of Kobe Family Court
		Apr. 1973 Judge
Apr. 1963 Deputy of Judge		
Yoshio Suekawa (Sep. 1, 1937)	4,000 Shares of the Company	Corporate Auditor of the Company
		Jun. 2004 Corporate Auditor of the Company (to present)
		Apr. 2004 Appointed as a special visiting professor, the Faculty of Commerce, Doshisha University (to present)
		Jun. 2003 Assumed statutory auditor of SUS-TECH Corporation
		Jul. 2002 Established Suekawa CPA Office (to present)
		Jun. 2002 Retired from Representative Partner of Deloitte Touche Tohmatsu, Osaka
		May 1989 Assumed Representative Partner of Deloitte Touche, Tohmatsu, Osaka
		Jul. 1984 Joined Sanwa Tokyo Marunouchi (currently, Deloitte Touche Tohmatsu)
		Oct. 1963 Registered as a CPA with the Japanese Institute of Certified Public Accountants
Oct. 1959 Joined Lowe Bingham and Luckie (subsequently, PricewaterhouseCoopers, Osaka)		

Between Directors or Corporate Auditors of the Company there is no family relationship. No Directors and Corporate Auditors, except Teisuke Sono and Yoshio Suekawa, Corporate Auditors, of the Company have business activities performed outside the Company. No Directors have directorship of another company.

There is not any arrangement or understanding with major shareholders, customers, suppliers or other pursuant to which any person named above was selected as a Director or a Corporate Auditor.

The Company is not dependent on specific Directors, researchers, or any other entity for its management.

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B. Compensation

The aggregate remuneration, including bonuses, paid by the Company in fiscal 2006 to all Directors (some of whom are also the executive officers) and Corporate Auditors of the Company as a group (31 persons) was ¥766 million. No options to purchase securities from the registrant or any of its subsidiaries were outstanding on March 31, 2006.

At the meeting of the Board of Directors of the Company held on May 13, 2005, the Company resolved that the retirement benefit systems for Directors and Corporate Auditors should be terminated as of the date of the ordinary general meeting of shareholders held on June 24, 2005 and retirement benefits should be paid to the then Directors and Corporate Auditors for the services rendered before the termination of the system. The Board of Directors also resolved that the timing of payment would be at the time of the retirement of each Director and/or Corporate Auditor from his/her office. The amount of the retirement benefits for the services rendered before the termination of the system was allocated to other long-term liabilities in the Company's consolidated balance sheets.

C. Board Practices

The Company's Articles of Incorporation as revised as of June 23, 2006 provide that the number of Directors of the Company shall be not more than 30 and that of the Corporate Auditors shall be not more than 6.

Directors and Corporate Auditors shall be elected by the general meeting of shareholders. The Board of Directors has ultimate responsibility for administration of the Company's affairs. Directors may, by resolution of the Board of Directors, appoint a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a President-Director, and one or more Executive Vice President-Directors, Executive Managing Directors and Managing Directors. The Chairman of the Board of Directors and President-Director are Representative Directors and severally represent the Company. In addition, the Board of Directors may by its resolution, appoint one or more additional Representative Directors. The term of office of Directors shall, under the Articles of Incorporation of the Company, expire at the conclusion of the ordinary general meeting of shareholders with respect to the last closing of accounts within one year from their assumption of office, and in the case of Corporate Auditors, within 4 years from their assumption of office. However, they may serve any number of consecutive terms.

Under the Corporate Law, which came in effect on May 1, 2006, the Corporate Auditors of the Company are not required to be and are not certified public accountants. However, at least half of the Corporate Auditors shall be a person who has not been a Director, accounting counselor, corporate executive officer, manager or any other employee of the Company or any of its subsidiaries at any time prior to his or her election as a Corporate Auditor.

The Corporate Auditors may not at the same time be Directors, accounting counselor, corporate executive officers, managers or any other employees of the Company or any of its subsidiaries. Each Corporate Auditor has the statutory duty to examine the Company's consolidated and non-consolidated financial statements and business report to be submitted by a Representative Director at the general meeting of shareholders and, based on such examination and a report of an Accounting Auditor referred to below, to respectively prepare his or her audit report. Each Corporate Auditor also has the statutory duty to supervise the administration by the Directors of the Company's affairs. They are required to attend in meetings of the Board of Directors and express opinions, if necessary, at such meetings, but they are not entitled to vote.

In addition to Corporate Auditors, an independent certified public accountant or an audit corporation must be appointed at general meetings of shareholders as Accounting Auditor of the Company. Such Accounting Auditor has the duties to examine the consolidated and non-consolidated financial statements proposed to be submitted by a Representative Director at general meetings of shareholders and to report their opinion thereon to certain Corporate Auditors designated by the Board of Corporate Auditors to receive such report (if such Corporate Auditors are not designated, all Corporate Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements).

The Corporate Auditors constitute the Board of Corporate Auditors. The Board of Corporate Auditors has a statutory duty to, based upon the reports prepared by respective Corporate Auditors, prepare and submit its audit report to the accounting auditor and certain directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements and the business report). A Corporate Auditor may note his or her opinion in the audit report if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report. The Board of Corporate Auditors shall elect one or more full-time Corporate Auditors from among its members. The Board of Corporate Auditors is empowered to establish audit principles, method of examination by Corporate Auditors of the Company's affairs and financial position and other matters concerning the performance of the Corporate Auditors' duties.

There are no Director's service contracts with Kubota Corporation providing for benefits upon termination of service.

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The rights of ADR holders, including their rights relating to corporate governance practices, are governed by the Amended and Restated Deposit Agreement (incorporated by reference to the Registration Statement on Form F-6 (File No. 333-91654) filed on June 26, 2002).

Table of Contents**D. Employees**

Head Count at the End of the Period	2004	2005	2006
	22,198	22,916	23,049
Head Count in Each Segment	2004	2005	2006
Internal Combustion Engine and Machinery	10,803	12,026	12,383
Pipes, Valves, and Industrial Castings	4,240	4,116	4,028
Environmental Engineering	2,478	2,489	2,563
Other	4,246	3,872	3,618
Corporate	431	413	457
Total	22,198	22,916	23,049

The number of full-time employees of Kubota as of March 31, 2006 was 23,049. Most employees of the Company in Japan, other than managerial personnel, are union members. The unions belong to the Federation of all Kubota Labor Union, which is affiliated with the Japanese Trade Union Confederation. The Company has not experienced any strikes or work stoppages for 57 years and believes its relations with its employees or union to be excellent.

Basic wage rates are reviewed annually in Spring. In addition, in accordance with Japanese custom, Kubota grants its full-time employees semiannual bonuses.

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. As is customary in Japan, the Company provides a wide range of fringe benefits to its employees.

E. Share Ownership

The total number of shares of the Company's common stock beneficially owned by the Directors and Corporate Auditors as a group as of June 23, 2006 was as follows:

Title of Class	Identity of persons or group	Number of shares owned	Percentage of class
Common stock	Directors and Corporate Auditors	413,000	0.03%
About individual shareholdings, see Item 6.A Directors and Senior Management.			

Employee Stock Ownership Association (Kubota Fund) owned 21,069 thousand shares as of March 31, 2006, which amounted to 1.6% of total shares issued.

The association consists of employees of the Company and some of its subsidiaries, and the members contribute a portion of their salaries to the association. The association purchases shares of Kubota's common stock on behalf of members.

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

As of March 31, 2006, 5 shareholders held more than 5 percent of the shares issued. The 10 largest shareholders are as follows:

Name	(As of March 31, 2006)	
	Number of shares (thousand)	(%)
Japan Trustee Services Bank, Ltd.	137,454	10.57
The Master Trust Bank of Japan, Ltd.	117,769	9.06
Trust & Custody Services Bank, Ltd.	97,705	7.51
Nippon Life Insurance Company	85,188	6.55
Meiji Yasuda Life Insurance Company	72,304	5.56
The Dai-ichi Mutual Life Insurance Company	49,360	3.79
Sumitomo Mitsui Banking Corporation	34,620	2.66
Sumitomo Life Insurance Company	23,315	1.79
Kubota Fund (Employee Stock Ownership Plan)	21,069	1.62
Moxley & Co.	20,443	1.57

(Note) Although the Company possesses 23,271 of its treasury stocks, it is not included in the table above.

As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of the Company. The major shareholders have the same voting rights as other common shareholders of the Company.

As of March 31, 2006, there were 1,299,869,180 shares of Common Stock issued, of which 20,443,263 shares were in the form of ADR and 145,726,294 shares were held by the residents in the U.S. The number of registered ADR holders was 43 and the number of registered holders of common stock in the U.S. was 113.

To the best knowledge of the Company, the Company is not, directly or indirectly, owned or controlled by other corporations or by the Japanese or any foreign government.

B. Related Party Transactions

In the ordinary course of business, the Company has transactions with numerous companies. During the fiscal year ended March 31, 2006, the Company had sales transactions with affiliates accounted under the equity method, aggregating ¥54,484 million (\$465,675 thousand). As of March 31, 2006, the Company had trade notes and accounts receivable from affiliated companies of ¥19,355 million (\$165,427 thousand). The Company does not consider the amounts involved in such transactions to be material to its business.

Refer to Note 3 of the Consolidated Financial Statements for additional information regarding the Company's investments in and advances to affiliated companies.

C. Interests of Experts and Counsel

Not applicable

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Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

The information required by this item, except as stated below, appears in the consolidated financial statements of this Form 20-F.

Legal Proceedings

Anti-Trust

In May 1998, the Company was investigated by the Fair Trade Commission of Japan (the FTCJ) for an alleged violation of the Law Concerning Prohibition of Private Monopoly and Preservation of Fair Trade (the Anti-Monopoly Law) relating to participation in fixing the shares of ductile iron straight pipe orders in Japan. The Company received a cease and desist recommendation from the FTCJ in March 1999, which was accepted by the Company in April 1999.

The FTCJ also brought a criminal accusation alleging violation of the Anti-Monopoly Law against the Company and 3 of its employees, who were indicted in the Tokyo High Court in March 1999. On February 24, 2000, the Company was fined ¥130 million, and the 3 employees were given 6 to 10 months prison sentences, suspended for 2 years.

In the meanwhile, the Company received a surcharge order of ¥7,072 million (\$66,093 thousand) 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. Under Section 49 of the then Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the then Anti-Monopoly 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 unfavorable outcome. As of March 31, 2006 the Company is still in the process of the hearing procedures.

Patent Infringement

In July 2003, Etesia, which manufactures mowers in France, filed a patent infringement lawsuit and a noise regulation infringement lawsuit against the Company to the French district court. The district court rendered a verdict in favor of the Company in January 2005.

Policy on Dividends Distributions

The Company's basic policy for the allocation of profit is to maintain or raise dividends. The Company's policy is to determine the most appropriate use of retained earnings, by considering current business operations as well as the future business environment.

B. Significant Changes

Except as disclosed in this annual report, there have been no significant changes since the date of latest annual financial statements of the Company.

Table of Contents**Item 9. The Offer and Listing****A. Offer and Listing Details**

The primary market for Kubota's common stock is the Tokyo Stock Exchange (the "TSE") in the form of original common stock. Kubota's common stock has been listed on the TSE since 1949, and has also been listed on the Osaka Securities Exchange since 1949.

Overseas, Kubota's common stock is listed on the New York Stock Exchange (the "NYSE") in the form of American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs"). Prior to July 15, 2002, each ADS represented 20 shares of common stock. On July 15, 2002, the Company changed the unit of ADS from 20 common shares to 5 in order to help increase the number of ADS holders and improve the liquidity of its ADSs.

Kubota's ADSs, which have been listed on the NYSE since 1976, are issued by JPMorgan Chase Bank, as Depositary. Kubota's common stock is also listed on Frankfurt Stock Exchange.

The following table sets forth, for the periods indicated, the reported high and low sales prices of Kubota's common stock on the TSE and of Kubota's ADSs on the NYSE.

	TSE price per share		NYSE price per ADS			
	of common stock High	Low	(5 common shares) High		Low	
Annual Highs and Lows						
2002	¥530	¥308	\$20	78	\$12	25
2003	444	280	17	25	11	90
2004	517	260	24	15	11	06
Quarterly Highs and Lows						
2005						
1 st quarter	¥596	¥446	\$27	90	\$19	05
2 nd quarter	582	485	26	65	22	00
3 rd quarter	539	466	25	24	22	10
4 th quarter	595	510	28	46	24	41
2006						
1 st quarter	651	517	29	85	24	20
2 nd quarter	821	603	36	49	27	67
3 rd quarter	1,073	733	45	90	32	10
4 th quarter	1,295	930	55	21	40	58
2007						
1 st quarter	1,379	918	60	06	40	16
Monthly Highs and Lows						
February, 2006	¥1,156	¥1,013	\$49	08	\$44	60
March	1,295	1,057	55	21	45	20
April	1,379	1,272	58	75	55	15
May	1,370	1,002	60	06	45	60
June	1,095	918	47	86	40	16
July	1,123	952	48	95	40	88
August	1,084	906	46	68	38	81

The Company has never experienced trade suspension, and keeps enough liquidity for trading.

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B. Plan of Distribution

Not applicable

C. Markets

The stocks of the Company are listed on 2 stock exchanges in Japan (Tokyo and Osaka), and 2 overseas stock exchanges (New York and Frankfurt). In May 1949, the stocks were listed on Tokyo Stock Exchange (the TSE) and Osaka Securities Exchange. The stocks were also listed on Frankfurt Stock Exchange in March 1974, and in November 1976 listed on New York Stock Exchange (the NYSE).

D. Selling Shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the Issue

Not applicable

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Item 10. Additional Information

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

Organization

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Corporate Law of Japan. The Company is registered in the Commercial Register (*shogyo tokibo*) maintained by the Osaka Legal Affairs Bureau.

Objects and Purposes

Article 2 of the Articles of Incorporation of the Company provides that its purpose is to engage in the following lines of business:

1. Manufacture, sale and laying work of cast iron pipe, various kinds of pipe and fittings thereof;
2. Manufacture and sale of castings, powder-metallurgy products and ceramic and other moldings;
3. Manufacture and sale of internal combustion engines, automobiles, agricultural machinery and ancillary farming products;
4. Manufacture, sale and installation of construction machinery, machine tools, pumps, valves, various kinds of industrial machinery and other machinery;
5. Manufacture, sale and installation of weighing, measuring and control equipment, electrical, electronic and communication machinery and equipment, automatic vending machines and automatizing machinery and equipment;
6. Manufacture and sale of various kinds of materials for civil engineering and construction as well as various kinds of machinery and equipment for houses;
7. Construction and civil engineering, and planning, manufacture, supervision, performance and sale of, and contracting for, houses, building structures, steel-frame structures and storage facilities and equipment;
8. Sale, purchase, lease and management of real estate and development of residential land;
9. Planning, manufacture, engineering and construction of, and contracting for, various environmental control devices and equipment and various plants;
10. Treatment, recovery and recycling business of various kinds of wastewater, exhaust gas and contaminated soil;

11. Treatment, recovery and recycling business of municipal and industrial wastes;
12. Manufacture and sale of chemicals for household use and for environmental control devices and equipment as well as bioproducts;
13. Manufacture, processing and sale of synthetic resins and other chemical synthetic products;
14. Development and sale of information processing and communication systems, and computer software;

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15. Operation of facilities for sports, lodging, training, health and medical care, recuperation and recreation;
16. Road cargo transportation business, water transportation business and warehousing business;
17. General leasing business;
18. Personnel dispatching agency business;
19. Business of soliciting life insurance, casualty insurance agency business and insurance agency business pursuant to the Automobile Injury Compensation Law;
20. Fee-charging employment agency;
21. Accounting and payroll administration services;
22. Copying, printing and bookbinding businesses;
23. Any consulting business relating to each of the foregoing items; and
24. Any other business ancillary to or relating to any of the foregoing items.

Directors

Each Director has executive powers and duties to manage the affairs of the Company and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent the Company in all respects. Under the Corporate Law, which came in effect on May 1, 2006, the Directors must refrain from engaging in any business competing with the Company unless approved by the Board of Directors and any Director who has a special interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The maximum aggregate amounts of remunerations, bonuses, and other financial benefits given in consideration of the performance of duties (the remunerations, etc.) for the Company's Directors and that of the Company's Corporate Auditors must be, approved, respectively, at a general meeting of shareholders. The Company must also obtain the approval at a general meeting of shareholders if the Company desires to change such maximum amount of remunerations, etc. The amount of remuneration for each class of Director is determined by the remuneration committee, which is not a statutory organization but is delegated to make such determination by the Board of Directors, and such amount of remuneration so determined by the remuneration committee is approved by the President. The same applies *mutatis mutandis* to the amount of bonus for each Director. The amount of remuneration for each Corporate Auditor is determined upon consultation among the Corporate Auditors.

Except as stated below, neither the Corporate Law nor the Company's Articles of Incorporation make special provisions as to the Directors' or Corporate Auditors' power to vote in connection with their own compensation, the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power), their retirement age or requirements to hold any shares of Common Stock of the Company. The Corporate Law specifically requires the resolution of the Board of Directors for a company to acquire or dispose of material assets; to borrow a substantial amount of money; to appoint or dismiss important employees, such as executive officers; to establish, change or abolish material corporate organizations such as a branch office; to determine material conditions concerning offering of corporate bonds set forth in the ordinances of the Ministry of Justice; and to establish and maintain the internal control system set forth in the ordinances of the Ministry of Justice, such as the system to ensure the legitimacy of the performance of duties by Directors. The Regulations of the Board of Directors and the relevant internal regulation of the Company require a resolution of the Board of Directors for the Company's borrowing in an amount more than 5 billion yen or guaranteeing in an amount more than one billion yen or its equivalent.

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Common Stock

General

Except as otherwise stated, set forth below is information relating to the Company's Common Stock, including brief summaries of the relevant provisions of the Company's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Corporate Law of Japan and related legislation.

Under the Corporate Law, generally, shares may be transferred only by delivering share certificates. In order to assert shareholders' rights against the Company, a shareholder must have its name and address registered on the Company's register of shareholders, in accordance with the Company's Share Handling Regulations. The registered beneficial holder of deposited shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against the Company.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within 5 years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of common stock of the Company, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void and the companies are not required to withdraw those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Authorized capital

Article 6 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is 1,874,700,000 shares.

As of March 31, 2006, 1,299,869,180 shares of Common Stock were issued. All shares of Common Stock of the Company have no par value.

Distribution of Surplus

Distribution of Surplus - General

Under the Corporate Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as distributions of Surplus (Surplus is defined in "Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to the shareholders any number of times per business year, subject to certain limitations described in "Restriction on Distributions of Surplus". Distributions of Surplus are required in principle to be authorized by a resolution of a general meeting of shareholders, but the Company may also authorize distributions of Surplus by a resolution of the Board of Directors as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or the board of directors authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) the Board of Directors, grant a right to the shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders (see "Voting Rights" with respect to a "special resolution").

Under the Company's Articles of Incorporation, year-end dividends and interim dividends may be distributed to shareholders of record as of March 31 and September 30 each year, respectively, in proportion to the number of shares of common stock held by each shareholder following approval by the general meeting of shareholders or the Board of Directors. The Company is not obliged to pay any dividends in cash unclaimed for a period of three years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of common stock generally goes ex-dividend on the third business day prior to the record date.

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Distribution of Surplus Restriction on distribution of Surplus

In making a distribution of Surplus, the Company must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year

B = (if the Company has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by the Company less the book value thereof

C = (if the Company has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)

D = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)

E = (if the Company has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock

F = (if the Company has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed

G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of treasury stock disposed of by the Company after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (renketsu haito kisei tekiyo kaisha), the Company shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the board of directors or (if so required by the Corporate Law) by a general meeting of shareholders, then the Distributable Amount must be adjusted

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to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by the Company, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by the Company must be audited by the Corporate Auditors and the accounting auditor, as required by ordinances of the Ministry of Justice.

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Stock splits

The Company may at any time split shares in issue into a greater number of shares by resolution of the Board of Directors, and may in principle amend its Articles of Incorporation to increase the number of the authorized shares to be issued in proportion to the relevant stock split pursuant to a resolution of the Board of Directors rather than a special shareholders resolution (as defined in Voting Rights) which is otherwise required for amending the Articles of Incorporation.

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date thereof, at least 2 weeks prior to such record date.

Consolidation of Shares

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in Voting Rights). When a consolidation of shares is to be made, the Company must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to the Company for exchange. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

General meeting of shareholders

The ordinary general meeting of shareholders of the Company for each fiscal year is normally held in June in each year in Osaka, Japan. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving notice of convocation thereof at least 2 weeks prior to the date set for the meeting.

Notice of convocation of a shareholders meeting setting forth the place, time and purpose thereof, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least 2 weeks prior to the date set for the meeting. Under the Corporate Law, such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least 3 percent of the total number of voting rights for a period of 6 months or more may require the convocation of a general meeting of shareholders for a particular purpose by submitting a written request to a Representative Director. Unless such shareholders meeting is convened promptly or a convocation notice of a meeting which is to be held not later than 8 weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or one percent of the total number of voting rights for a period of 6 months or more may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a Representative Director at least 8 weeks prior to the date set for such meeting.

If the Company's Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

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Voting rights

So long as the Company maintains the unit share system (see Section B of this Item 10 Memorandum and Articles of Association Common Stock *Unit share system* below; currently 1,000 shares constitute one unit) a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following 2 sentences. Any corporate or certain entity one-quarter or more of whose total voting rights are directly or indirectly owned by the Company may not exercise its voting rights with respect to shares of Common Stock of the Company that it owns. In addition, the Company may not exercise its voting rights with respect to its shares that it owns. If the Company eliminates from its Articles of Incorporation the provisions relating to the unit of shares, holders of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting. The Corporate Law and the Company's Articles of Incorporation provide, however, that the quorum for the election of Directors and Corporate Auditors shall not be less than one-third of the total number of voting rights of all the shareholders entitled to exercise their voting rights. The Company's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. The Company's shareholders also may cast their votes in writing. Shareholders may also exercise their voting rights by electronic means pursuant to the method determined by the Board of Directors.

The Corporate Law and the Company's Articles of Incorporation provide that in order to amend the Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from a specific party other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to subscribe for or acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a corporate auditor;
- (5) the exemption of liability of a director, corporate auditor or accounting auditor to the amounts set forth in the Corporate Law;
- (6) a reduction of stated capital;
- (7) a distribution of in-kind dividends which meets certain requirements;
- (8) dissolution, merger, consolidation or corporate split with certain exceptions in which a shareholders' resolution is not required;
- (9) the transfer of the whole or a material part of the business;
- (10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required; or

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(11) share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships with certain exceptions in which a shareholders resolution is not required, the quorum shall be one-third of the total voting rights of all the shareholders entitled to exercise their voting rights and the approval by at least two-thirds of the voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting is required (the special shareholders resolutions).

Pursuant to the terms of the Amended and Restated Deposit Agreement relating to American Depositary Receipts (ADRs) evidencing American Depositary Shares (ADSs), each ADS representing 5 shares of Common Stock of the Company, as soon as practicable after receipt of notice of any meeting or solicitation of consents or proxies of shareholders of the Company, the Depositary (currently JPMorgan Chase Bank) will mail to the record holders of ADRs a notice which will contain the information in the original notice. The record holders of ADRs on a date specified by the Depositary will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the shares of Common Stock of the Company represented by their ADSs, including instructions to give a discretionary proxy to a person designated by the Company. The Depositary will endeavor, in so far as practicable, to vote the number of shares of Common Stock of the Company represented by such ADSs in accordance with such instructions. The Depositary will not itself exercise any voting discretion in respect of any Deposited Shares.

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Issue of additional shares and pre-emptive rights

Holders of the Company's shares of Common Stock have no pre-emptive rights under its Articles of Incorporation. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under *Voting rights* above. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date at least 2 weeks prior to which public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least 2 weeks prior to the date on which such rights expire.

Rights to subscribe for new shares may be made generally transferable by a resolution of the Board of Directors. Whether the Company will make subscription rights generally transferable in future rights offerings will depend upon the circumstances at the time of such offerings.

Subject to certain conditions, the Company may issue stock acquisition rights or bonds with stock acquisition rights by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.

Liquidation rights

In the event of a liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses and taxes will be distributed among shareholders in proportion to the respective numbers of shares of Common Stock held.

Record date

As mentioned above, March 31 is the record date for the Company's year-end dividends. So long as the Company maintains the unit share system, the shareholders and beneficial shareholders who are registered as the holders of one or more units of shares in the Company's registers of shareholders and/or that of beneficial shareholders at the end of each March 31 are entitled to exercise shareholders' rights at the ordinary general meeting of shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, the Company may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights and for other purposes by giving at least 2 weeks' prior public notice.

The price of shares generally goes ex-dividends or ex-rights on Japanese stock exchanges on the third business day prior to a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

Acquisition by the Company of its Common Stock

Under the Corporate Law and the Company's Articles of Incorporation, the Company may acquire shares of common stock (i) by soliciting all the shareholders to offer to sell shares held by them (in this case, the certain terms of such acquisition, such as the total number of shares to be purchased and the total amount of consideration, shall be set by (as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice) a resolution of the Board of Directors or an ordinary resolution of a general meeting of shareholders in advance, and acquisition shall be effected pursuant to a resolution of the Board of Directors), (ii) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (iii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iv) by way of purchase on any Japanese stock exchange on which the Company's shares of common stock is listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

Shares acquired by the Company may be held by it for any period or may be cancelled by a resolution of the Board of Directors. The Company may also transfer to any person the shares held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in *Issue of additional shares and pre-emptive rights* above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the

acquired company.

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Unit share system

The Articles of Incorporation of the Company provide that 1,000 shares constitute one unit of shares of Common Stock. Although the number of shares constituting one unit is included in the Articles of Incorporation, any amendment to the Articles of Incorporation reducing (but not increasing) the number of shares constituting one unit or eliminating the provisions for the unit of shares may be made by a resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation. The number of shares constituting one unit, however, cannot exceed 1,000.

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights. Moreover, holders of shares constituting less than one unit will have no other shareholder rights, except that such holders may not be deprived of certain rights specified in the Corporate Law or ordinances of the Ministry of Justice, or in the Company's Articles of Incorporation, including the right to receive distribution of Surplus.

Unless the Company's Board of Directors adopts a resolution to eliminate the provision for the unit shares from the Articles of Incorporation or the shareholders amend the Articles of Incorporation by a special shareholders resolution to eliminate the provision not to issue share certificates for less than a unit of shares, a share certificate for any number of shares less than one full unit will in general not be issued. As the transfer of shares normally requires the delivery of the share certificates thereof, any fraction of a unit for which no share certificates are issued is not transferable.

A holder of shares constituting less than one unit may require the Company to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of the Company.

In addition, the Articles of Incorporation of the Company provide that a holder of shares constituting less than one full unit may request the Company to sell to such holder such amount of shares which will, when added together with the shares constituting less than one full unit held by such holder, constitute one full unit of Common Stock, in accordance with the provisions of the Share Handling Regulations of the Company.

A holder who owns ADRs evidencing less than 200 ADSs will indirectly own less than one full unit of shares of Common Stock. Although, as discussed above, under the unit share system holders of less than one full unit have the right to require the Company to purchase their shares or sell shares held by the Company to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of full units are unable to withdraw the underlying shares of Common Stock representing less than one full unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares or sell shares held by the Company to such holders unless the Company's Articles of Incorporation are amended to eliminate the provision not to issue share certificates for the numbers of shares less than a unit. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of Common Stock in lots less than one full unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

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Sale by the Company of shares held by shareholders whose location is unknown

The Company is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company continuously for 5 years or more.

In addition, the Company may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for 5 years or more at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive dividends on the shares continuously for 5 years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company, the Company may sell or otherwise dispose of the shareholder's shares by a resolution of the Board of Directors and after giving at least 3 months' prior public and individual notice, and holding or depositing the proceeds of such sale or disposal of shares at the then market price of the shares for the shareholder, the location of which is unknown.

Reporting of substantial shareholdings

The Securities and Exchange Law of Japan and regulations thereunder requires any person, regardless of his/her residence, who has become, beneficially and solely or jointly, a holder of more than 5 percent of the total issued shares of Common Stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director-General of a competent Local Finance Bureau of Ministry of Finance within 5 business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

Except for the general limitations under Japanese anti-trust and anti-monopoly regulations against holding of shares of Common Stock of a Japanese corporation which leads or may lead to a restraint of trade or a monopoly, and except for general limitations under the Corporate Law or the Company's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to the Company or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of the Company or exercise voting rights thereon.

There is no provision in the Company's Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving the Company.

Daily Price Fluctuation Limits under Japanese Stock Exchange Rules

Stock prices on Japanese stock exchanges are determined on a real-time basis by the balance between bids and offers. These stock exchanges are order-driven markets without specialists or market makers to guide price formation. In order to prevent excessive volatility, these stock exchanges set daily upward and downward price range limitations for each listed stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit on these stock exchanges may not be able to effect a sale at such price on a particular trading day, or at all.

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C. Material Contracts

Business division and integration of plastic pipes

The Company resolved at the Board of Directors Meeting held on May 27, 2004 that the Company would divide and transfer its plastic pipes business into a company which was jointly established with C.I. Kasei Company Limited (hereinafter "C.I. Kasei") on April 1, 2005 in order to integrate the business operation with C.I. Kasei.

Method of integration: The Company and C.I. Kasei divided their plastic pipes businesses, and the businesses were integrated into a newly established company, named Kubota-C.I. Co., Ltd. .

Scheduled date : Business division and establishment of Kubota-C.I. Co., Ltd. : April 1, 2005

Share allotment ratio : 42,000 common shares (70%) to the Company

18,000 common shares (30%) to C.I. Kasei

Capital stock : ¥3.0 billion

D. Exchange Controls

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the "Foreign Exchange Regulations") govern the acquisition and holding of shares of Common Stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

- (i) individuals who do not reside in Japan; and
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- (i) individuals who are exchange non-residents;
- (ii) corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and
- (iii) corporations (1) of which 50% or more of their shares are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding ¥100 million

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to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of the Company) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of Common Stock of the Company held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

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E. Taxation

Japanese Taxation

The following is a summary of the major Japanese national tax consequences of the ownership, acquisition and disposition of shares of Common Stock of the Company and of ADRs evidencing ADSs representing shares of Common Stock of the Company by a non-resident Holder (as defined below). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor depending on its individual circumstances. Accordingly, holders of shares of Common Stock of the Company including holders of ADRs evidencing ADSs are encouraged to consult their tax advisors regarding the application of the considerations discussed below to their particular circumstances.

This summary is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed under its terms.

In general, taking into account the earlier assumption, for purposes of the income tax convention between Japan and the U.S.A. (the Treaty), and Japanese income tax purposes, U.S. holders of ADRs will be treated as owning the Common Stock underlying the ADSs evidenced by the ADRs. For the purposes of the following discussion, a U.S. holder is a holder that:

- (i) is a resident of the U.S. for purposes of the Treaty;
- (ii) does not maintain a permanent establishment in Japan (a) with which ADRs or shares of Common Stock are effectively connected or (b) of which ADRs or shares of Common Stock form part of the business property; and
- (iii) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the ADRs or shares of Common Stock.

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of Common Stock of the Company and of ADRs evidencing ADSs representing shares of Common Stock of the Company who are either individuals who are not residents of Japan or non-Japanese corporations, without a permanent establishment in Japan (non-resident Holders).

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Dividends and gains on sales

Generally, an individual who is a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. The Company withholds taxes from dividends it pays as required by Japanese law. Stock splits in themselves are not, in general, subject to Japanese income tax.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to individuals who are non-residents of Japan or non-Japanese corporations is 20 percent. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock of the Company) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals, such as non-resident Holders), except for any individual shareholder who holds 5 percent or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2008, and (ii) 15 percent for dividends due and payable on or after April 1, 2008. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the U.K.

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to a U.S. holder that is a portfolio investor is generally limited to 10 percent of the gross amount actually distributed, and dividends paid by a Japanese corporation to a U.S. holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on the Company's shares of Common Stock by the Company is required to submit, through the Company, an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends in advance to the relevant tax authority before payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depository or its agent submits 2 Application Forms (one before payment of dividends, the other within 8 months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any non-resident Holder holding ADRs evidencing ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depository. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority. The Company does not assume any responsibility to ensure withholding at the reduced treaty rate or not withholding for shareholders who would be eligible under an applicable tax treaty but do not follow the required procedures as stated above.

Gains derived from the sale of shares of Common Stock of the Company or ADRs outside Japan by a non-resident Holder holding such shares or ADSs as a portfolio investor are, in general, not subject to Japanese income or corporation tax. U.S. holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Inheritance and gift

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of Common Stock or ADSs as a legatee, heir or donee from an individual even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock of the Company or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

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United States Federal Income Taxation

This section describes the material United States federal income tax consequences of owning Common Stock or ADSs. It applies to you only if you are a U.S. holder, as defined below, and you own your Common Stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities,

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,

a tax-exempt organization,

a life insurance company,

a person liable for alternative minimum tax,

a person that actually or constructively owns 10% or more of the voting stock of the Company,

a person that holds Common Stock or ADSs as part of a straddle or a hedging or conversion transaction, or

a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings and court decisions, and as well as on the Treaty and the income tax convention between Japan and the United States of 1972 (the Prior Treaty). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of Common Stock or ADSs and you are:

a citizen or resident of the U.S.A.,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

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You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of Common Stock and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the Common Stock represented by those ADSs. Exchanges of Common Stock for ADRs, and ADRs for Common Stock, generally will not be subject to United States federal income tax.

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Taxation of Dividends

Under the United States federal income tax laws, the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum rate of 15% provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid by the Company with respect to common stock or ADSs will be qualified dividend income.

You must include any Japanese tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of Common Stock, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Common Stock or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with both the Treaty and the Prior Treaty, and paid over to Japan will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under Japanese law or under the Treaty or the Prior Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. The rules governing foreign tax credits are complex and we urge you to consult your tax advisor regarding the foreign tax credit in your situation.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive income or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive income or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

If you are a U.S. holder and you sell or otherwise dispose of your Common Stock or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your Common Stock or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

F. Dividends and Paying Agents

Not applicable

G. Statement by Experts

Not applicable

H. Documents on Display

According to the Securities Exchange Act of 1934, as amended, the Company is subject to the requirements of informational disclosure. The Company files various reports and other information, including this annual report on Form 20-F, to the U.S. Securities and Exchange Commission. These reports may be inspected at the following sites.

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U.S. Securities and Exchange Commission : 100 F Street, N.E., Washington D.C. 20549

Form 20-F is also available at the website of the Company. URL : <http://www.kubota.co.jp>

I. Subsidiary Information

Not applicable

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In order to manage potential adverse effects caused by market fluctuations in the financial assets and liabilities, the Company may hedge the market risk of the financial assets and liabilities by using derivative instruments which include foreign exchange forward contracts, foreign currency option contracts, interest swap agreements and currency swap agreements. The Company uses these derivative financial instruments solely for risk hedging purposes and no derivative transactions are held or used for speculative purposes. The financial institutions with which the Company enters derivative agreements are selected based on the defined criteria on credit ratings of those financial institutions. Among the market risks described below, no specific hedging activities are undertaken with regard to the price fluctuations of equity securities held by the Company as marketable securities.

And in the information stated below, there are no material changes between fiscal 2006 and 2005.

Foreign Currency Exchange Risks

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in, and transactions with, its international operations. The Company utilizes foreign exchange forward contracts and foreign currency option contracts primarily to fix the value of cash flow resulting from accounts receivable and payable and future transactions denominated in foreign currencies (mainly U.S. Dollars, Euros, and Bahts).

The following tables provide information regarding the Company's derivative financial instruments related to foreign exchange forward contracts and currency swaps as of March 31, 2006, which was translated into Japanese yen at the year-end spot rate.

Foreign Exchange Forward Contracts and Currency Swaps**Sell U.S. Dollar, Buy Yen (as of March 31, 2006)**

	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 35,160	¥ 35,217	\$ 300,513	\$ 301,000
4-6 months	9,771	9,828	83,513	84,000
Total	¥ 44,931	¥ 45,045	\$ 384,026	\$ 385,000

Sell U.S. Dollar, Buy Canada Dollar (as of March 31, 2006)

	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 282	¥ 283	\$ 2,410	\$ 2,419
Total	¥ 282	¥ 283	\$ 2,410	\$ 2,419

Sell Euro, Buy Yen (as of March 31, 2006)

Millions of Yen

Thousands of Dollars

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	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 7,726	¥ 7,897	\$ 66,034	\$ 67,496
4-6 months	2,522	2,560	21,556	21,880
7-9 months	60	60	513	513
Total	¥ 10,308	¥ 10,517	\$ 88,103	\$ 89,889

Sell Baht, Buy Yen (as of March 31, 2006)

	Millions of Yen		Thousands of Dollars	
Remaining Contract Term	Receive	Pay	Receive	Pay
1-3 months	¥ 2,363	¥ 2,468	\$ 20,197	\$ 21,094
4-6 months	2,779	2,865	23,751	24,488
7-9 months	782	805	6,684	6,880
Total	¥ 5,924	¥ 6,138	\$ 50,632	\$ 52,462

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	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 9	¥ 9	\$ 77	\$ 77
Total	¥ 9	¥ 9	\$ 77	\$ 77

Sell Baht, Buy Euro (as of March 31, 2006)

	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 2	¥ 2	\$ 17	\$ 17
Total	¥ 2	¥ 2	\$ 17	\$ 17

Sell Canada Dollar, Buy Yen (as of March 31, 2006)

	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 308	¥ 303	\$ 2,632	\$ 2,590
Total	¥ 308	¥ 303	\$ 2,632	\$ 2,590

Sell Won, Buy Yen (as of March 31, 2006)

	Millions of Yen		Thousands of Dollars	
	Receive	Pay	Receive	Pay
Remaining Contract Term				
1-3 months	¥ 213	¥ 217	\$ 1,821	\$ 1,855
Total	¥ 213	¥ 217	\$ 1,821	\$ 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 changes in interest rates are disclosed in Note 7, Short-Term Borrowings and Long-Term Debt of the consolidated financial statements. The Company uses interest rate swap agreements to enable the Company to choose between fixed and variable interest rates depending on how the funds are used as well as diversifying funding methods and lowering funding costs.

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The Company's policies in contracting borrowings are as follows:

- 1) to secure diversified financing resources
- 2) to procure long-term borrowings in fixed rates for long-term funds, and short-term borrowings for short-term funds
- 3) to maintain a balance between bonds and bank loans
- 4) to reduce financing costs

Under these policies, the Company uses interest rate swap agreements.

The following table provides information, at March 31, 2006, 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 yen at the year-end spot rate.

Interest Rate Swap Contracts

Maturities, years ending March 31.	Weighted average rate		Notional amount	
	Receive	Pay	Millions of Yen	Thousands of U.S. Dollars
(As of March 31, 2006)				
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

Table of Contents**Cash Flow Hedges**

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

Equity Price Risk

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 are disclosed in Note 4, "Other Investments" of the consolidated financial statements.

Fair Value of Financial Instruments

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

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

The following tables provide information of fair value of finance instruments at the end of fiscal 2006.

	Millions of Yen		Thousands of U.S. Dollars	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets;				
Financial receivables-net	¥ 203,625	¥ 193,578	\$ 1,740,385	\$ 1,654,513
Financial liabilities;				
Long-term debt	(196,021)	(190,718)	(1,675,393)	(1,630,068)
Derivative financial instruments recorded as (liabilities) assets;				
Foreign exchange instruments	(108)	(108)	(923)	(923)
Interest rate swaps and other instruments	163	163	1,393	1,393

Item 12. Description of Securities Other Than Equity Securities

Not applicable

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. Controls and Procedures

The Company's management, with the participation of its chief executive and chief financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2006. Based on that evaluation, the Company's chief executive and chief financial officers concluded that the disclosure controls and procedures were not effective as of that date because of the material weaknesses in internal control over financial reporting (as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934) described below.

In connection with the original filing of the Form 20-F for the year ended March 31, 2005, the Company's management, with the participation of its chief executive and chief financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's chief executive and chief financial officers concluded that the Company's disclosure controls and procedures were effective as of that date.

In connection with the filing of Form 20-F/A for the fiscal year ended March 31, 2005, which was filed on June 27, 2006, the Company's management, with the participation of its chief executive and chief financial officers, reevaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005. This reevaluation included examination of the process and procedures for gathering and summarizing the information relating to the sale by the Company of a subsidiary, which operated a golf course, during the fiscal year ended March 31, 2005, for which restatements have been made to the Company's consolidated financial statements in response to a comment from the staff of the U.S. Securities and Exchange Commission. In the consolidated financial statements included in the Form 20-F, the results of operations of the subsidiary were not accounted for as a discontinued operation as required by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). The Company's management determined that the failure to ensure the correct application of that Statement with respect to the reporting of results of operation of the subsidiary was attributable to a material weakness in the Company's internal control over financial reporting. Based on the reevaluation mentioned above, the Company's chief executive and chief financial officers concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2005 solely due to such material weakness in its internal control over financial reporting.

To remediate the above-mentioned material weakness in the Company's internal control over financial reporting, the Company has taken, or is taking, the following measures:

The Company has been formulating an accounting staff's checklist to ensure the correct application of SFAS 144 with respect to discontinued operations. With this checklist, the Company's management will check whether there are any operations to be accounted for as a discontinued operation, and if there is any such discontinued operation, whether it is appropriately accounted for in accordance with SFAS 144.

The Company has been preparing to implement management's additional oversight controls to review and approve accounting treatment and related documentation to ensure SFAS 144 is appropriately applied with respect to discontinued operations.

The disclosure committee of the Company now monitors and confirms whether the discontinued operations are accounted for correctly in accordance with SFAS 144 when the committee reviews the Company's financial statements and its disclosures. As of filing date of this Form 20-F, the Company has not yet completed the implementation of the remediation measures described above. The Company currently expects to complete the implementation by the end of the year ending March 31, 2007. Accordingly, as of March 31, 2006,

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the material weaknesses described above had not been remediated.

The Company has taken steps to confirm that, notwithstanding the material weakness described above, the financial statements included in this Annual Report on Form 20-F fairly present, in all material respects, its financial position, results of operations and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America.

No change in the Company's internal control over financial reporting occurred during the year ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Item 16A . Audit Committee Financial Expert

The Company's Board of Corporate Auditors has determined that Yoshio Suekawa qualifies as an audit committee financial expert as defined by the rules of the SEC. He is a certified public accountant in Japan. He started his career at Lowe Bingham and Luckie (subsequently, PricewaterhouseCoopers, Osaka) in 1959. Since then he has worked in several major accounting firms including Deloitte Touche Tohmatsu as a public accountant for more than 40 years. From 1974 to 1976 he worked at the office of Price Waterhouse in Los Angeles. Currently he maintains Suekawa CPA Office and is a special visiting professor of the faculty of commerce at Doshisha University. He was elected as one of the Company's Corporate Auditors at the ordinary general meeting of shareholders held on June 25, 2004. See Item 6.A. for information regarding his business experience. And he meets the independence requirements imposed on corporate auditors under the Corporate Law of Japan.

Item 16B . Code of Ethics

The Board of Directors of the Company adopted a Code of Ethics, which is applicable to its Chief Executive Officer, Chief Financial Officer, General Manager of Finance & Accounting Department. This Code requires the relevant Officers to act honestly and candidly, including the ethical handling of conflict of interest, and to comply with all applicable laws, accounting standards, rules and regulations of self-regulatory organization, and policies and internal regulation of the Company. The Code also requires the relevant Officers to conduct full, fair, accurate, timely and understandable disclosure in reports and documents which are filed with or submitted to the SEC, and in other communications with the public and prompt internal reporting of violations of this Code. The Code of Ethics has been incorporated by reference as exhibits to this Annual Report.

Item 16C. Principal Accountant Fees and Services

Policies for Pre-Approval of Audit and Non-Audit Services rendered by Independent Auditors

The Board of Corporate Auditors of the Company consists of 5 auditors, including 3 outside corporate auditors. The Board has adopted Pre-Approval Policies and Procedures for Audit and Non-Audit Services (the Policies) for the purpose of supervising its independent auditors work. The Policies govern external auditors to render audit or non-audit services to the Company. The Policies classify audit and non-audit services into 3 categories depending on the nature of services and regulate them differently.

The first category includes the following services and they are pre-approved comprehensively.

All services necessary to perform audit or review of the Company and any subsidiaries to comply with the rules of the SEC, Corporate Law of Japan, Securities and Exchange Law of Japan, rules and regulation of Stock Exchanges in Japan and any other rules and regulation, and related consultation of accounting procedures and voluntary audit and examination of subsidiaries.

Audit-related services, such as due diligence related to merger & acquisition activity, audit of employee benefit plans including audit of pension fund and audit or review of information systems related to accounting.

Services and consultation related to the preparation of tax returns.

Other services, such as consultation related to information systems other than accounting, consultation related to welfare of employees and training of employees regarding accounting practices.

The second category includes non-audit services which are restricted by the Sarbanes-Oxley act and the rules of SEC to be rendered by the same public accountants which renders audit services to the Company. The Policies prohibits such services to be rendered.

The third category includes additional services other than the above which may be pre-approved by the Board on an individual basis.

No services were provided for which pre-approval was waived pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Table of Contents**Fees and Services of Deloitte Touche Tohmatsu**

The following table discloses the aggregate fees accrued or paid to Deloitte Touche Tohmatsu for each of the last 2 fiscal years:

	(Millions of yen)	
	Year ended March 31, 2006	Year ended March 31, 2005
Audit fees	¥ 263	¥ 195
Audit-related fees	15	17
Tax fees	149	129
All other fees	92	203
Total	¥ 519	¥ 544

Audit fees include fees charged for professional services rendered for audits of the Company's semi-annual and annual consolidated financial statements, statutory audits of the Company and its subsidiaries.

Audit-related fees include fees charged for assurance and related services such as due diligence, accounting consultations and audits in connection with mergers and acquisitions, employee benefit plan audits, internal control reviews, and consultations concerning financial accounting and reporting standards.

Tax fees include fees charged for services related to tax compliance, including the preparation of tax returns and claims for refund, tax planning and tax advice, including assistance with tax audits and appeals, advice related to mergers and acquisitions, tax services for employee benefit plans and assistance with respect to requests for rulings from tax authorities.

All other fees include fees charged for services rendered with respect to consultation, design and implementation relating to the Company's reorganization.

Item 16D. Exemptions from the Listing Standards for Audit Committees

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to the Company through Section 303A.06 of the New York Stock Exchange's Listed Company Manual, the Company relies on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with boards of corporate auditors meeting certain requirements. For a New York Stock Exchange-listed Japanese company with a board of corporate auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

1. The board of corporate auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with corporate auditors.
2. Japanese law must and does require the board of corporate auditors to be separate from the board of directors.
3. None of the members of the board of corporate auditors is elected by management, and none of the listed company's executive officers is a member of the board of corporate auditors.
4. Japanese law must and does set forth standards for the independence of the members of the board of corporate auditors from the listed company or its management.

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5. The board of corporate auditors, in accordance with Japanese law or the listed company's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its principal accountant which audits its consolidated financial statements included in its annual reports on Form 20-F.

6. To the extent permitted by Japanese law:

the board of corporate auditors must establish procedures for (i) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

the board of corporate auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

the listed company must provide for appropriate funding, as determined by its board of corporate auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, (ii) compensation to any advisers employed by the board of corporate auditors, and (iii) ordinary administrative expenses of the board of corporate auditors that are necessary or appropriate in carrying out its duties.

In the Company's assessment, the Company's Board of Corporate Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by that Rule) at acting independently of management and performing the functions of an audit committee as contemplated therein.

Table of Contents**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth the Company's purchases of its common stock during fiscal 2006:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (Yen)	(c) Total Number of	(d) Maximum Number
			Shares Purchased as Part of Publicly Announced Plans or Programs	of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2005 - April 30, 2005	8,218	556.39	0	0
May 1, 2005 - May 31, 2005	6,147	567.24	0	0
June 1, 2005 - June 30, 2005	11,002	612.77	0	10,000,000
July 1, 2005 - July 31, 2005	23,901	622.74	0	10,000,000
August 1, 2005 - August 31, 2005	19,594	670.84	0	10,000,000
September 1, 2005 - September 30, 2005	21,078	722.42	0	10,000,000
October 1, 2005 - October 31, 2005	3,039,431	756.71	3,027,000	6,973,000
November 1, 2005 - November 30, 2005	14,024	902.12	0	6,973,000
December 1, 2005 - December 31, 2005	5,078,375	954.09	5,060,000	10,000,000
January 1, 2006 - January 31, 2006	8,109,235	943.04	8,100,000	1,900,000
February 1, 2006 - February 28, 2006	18,245	1,062.21	0	1,900,000
March 1, 2006 - March 31, 2006	13,290	1,143.17	0	0
Total	16,362,540		16,187,000	

Note: 1) In accordance with the Commercial Code and its related legislations, all purchases other than purchases publicly announced were made as a result of holders of shares less than one unit, which is 1,000 shares of common stock, requesting the Company to purchase shares that are a fraction of a unit.

2) In fiscal 2006, the Company established 3 programs of purchasing its shares on market. The Company executed the programs pursuant to Article 211-3, Paragraph 1, item 2 of the Commercial Code. None of these programs was terminated prior to expiration. Details of each program are as follows:

(1) The program resolved at the Board of Directors Meeting held on June 24, 2005

- i) Day of announcement: June 24, 2005
- ii) Type of shares to be purchased: Shares of common stock of the Company
- iii) Number of shares to be purchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be purchased: Not exceeding ¥6.5 billion
- v) Term of validity: From June 27, 2005 to September 15, 2005

(2) The program resolved at the Board of Directors Meeting held on September 16, 2005

- i) Day of announcement: September 16, 2005
- ii) Type of shares to be purchased: Shares of common stock of the Company
- iii) Number of shares to be purchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be purchased: Not exceeding ¥7.5 billion

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- v) Term of validity: From September 20, 2005 to December 15, 2005
- (3) The program resolved at the Board of Directors Meeting held on December 16, 2005

- i) Day of announcement: December 16, 2005
- ii) Type of shares to be purchased: Shares of common stock of the Company
- iii) Number of shares to be purchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be purchased: Not exceeding ¥10.5 billion
- v) Term of validity: From December 19, 2005 to March 22, 2006

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PART III

Item 17. Financial Statements

See Consolidated Financial Statements attached hereto.

Item 18. Financial Statements

Not applicable

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Item 19. Exhibits

Documents filed as exhibits to this annual report are as follows:

The financial section of the Company's 2006 Annual Report to Shareholders

	Pages in the Financial Section of 2006 Annual Report to Shareholders
<u>Five-Year Financial Summary of Operations</u>	
<u>[Information with respect to Item 3 is included]</u>	11
<u>Segment Information</u>	24 to 25
<u>Consolidated Financial Statements as indicated in accompanying Index to Consolidated Financial Statements</u>	26 to 53
<u>Independent Auditors' Report</u>	54

1.1 Articles of Incorporation of the Registrant (English translation)

1.2 Share Handling Regulations of the Registrant (English translation)

2.1 Form of Amended and Restated Deposit Agreement among the Registrant, JPMorgan Chase Bank as Depositary and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to the Registration Statement on Form F-6 (File No. 333-91654) filed on June 26, 2002)

8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C. of this Form 20-F)

11.1 Code of Ethics for Senior Financial Officers of the Registrant (English translation)

12.1 Certification of the principal executive officer of the Company required by Rule 13a-14(a)

12.2 Certification of the principal financial officer of the Company required by Rule 13a-14(a)

13.1 Certification required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code

(Note) The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KUBOTA CORPORATION

Date; September 21, 2006

By /s/ Hirokazu Nara
Hirokazu Nara
Director
(Principal Financial and Accounting Officer)

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Kubota Corporation and Subsidiaries

Consolidated Financial Statements

Comprising Item 17 of Annual Report on Form 20-F

to Securities and Exchange Commission

for the Years Ended March 31, 2006, 2005, and 2004,

and Independent Auditors Report

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Kubota Corporation and Subsidiaries

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Consolidated Financial Statements and Independent Auditors' Report Included in the Financial Section of the Company's 2006 Annual Report to Shareholders Attached Hereto and Incorporated by Reference:

	Page in Financial Section of Annual Report to Shareholders
<u>Five-Year Financial Summary</u>	11
<u>Segment Information (Years Ended March 31, 2006 and 2005)</u>	24 and 25
<u>Consolidated Balance Sheets (as of March 31, 2006 and 2005)</u>	26 and 27
<u>Consolidated Statements of Income (Years Ended March 31, 2006, 2005, and 2004)</u>	28
<u>Consolidated Statements of Comprehensive Income (Loss) (Years Ended March 31, 2006, 2005, and 2004)</u>	29
<u>Consolidated Statements of Shareholders' Equity (Years Ended March 31, 2006, 2005, and 2004)</u>	29
<u>Consolidated Statements of Cash Flows (Years Ended March 31, 2006, 2005, and 2004)</u>	30
<u>Notes to Consolidated Financial Statements</u>	31 to 53
<u>Independent Auditors' Report</u>	54

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Five-Year Financial Summary

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

	Millions of Yen					Thousands of U.S. Dollars (Except Per Share Information)
	(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.

Table of Contents**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

Year Ended March 31, 2006	Millions of Yen						Corporate	Consolidated
	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Eliminations	&	
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

Year Ended March 31, 2005	Millions of Yen						Corporate	Consolidated
	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Eliminations	&	
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

Year Ended March 31, 2006	Thousands of U.S. Dollars						Corporate	Consolidated
	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Eliminations	&	
Net sales:								
Unaffiliated customers	\$ 5,630,564	\$ 1,621,436	\$ 944,265	\$ 786,983	\$ 8,983,248	\$		\$ 8,983,248

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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

Table of Contents**Geographic Segments**

Year Ended March 31, 2006	Millions of Yen				Corporate	
	Japan	North America	Other Areas	Total	& 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)	
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				Corporate	
	Japan	North America	Other Areas	Total	& 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				Corporate	
	Japan	North America	Other Areas	Total	& 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)	
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

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Years Ended March 31, 2006 and 2005	Millions of Yen				Thousands of
	2006		2005		U.S. Dollars
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.

Table of Contents**CONSOLIDATED BALANCE SHEETS**

Kubota Corporation and Subsidiaries March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
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.

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	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS EQUITY			
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

Table of Contents**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. Dollar (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)	

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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.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

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

	Millions of Yen			Thousands of
	2006	2005	2004	U.S. Dollars (Note 1)
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		Millions of Yen				Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost
	Common Stock		Capital Surplus	Legal Reserve	Retained Earnings			
	Outstanding (Thousands)	Common Stock						
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			

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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.

Table of Contents**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 business:				
(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)

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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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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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. The percentages of net sales for the years ended March 31, 2006, 2005, and 2004 that pertain to long-term contracts are 4.1%, 6.3%, and 6.5%, respectively.

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. The percentages of net sales for the years ended March 31, 2006, 2005, and 2004 that pertain to housing real estate sales are 0.5%, 1.0%, and 1.0%, respectively.

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 judgment 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.

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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

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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.

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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.

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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.

Table of Contents**2. INVENTORIES**

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

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars 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
	2006	2005	U.S. Dollars 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:

At March 31, 2006 and 2005	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars 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

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Years Ended March 31, 2006, 2005, and 2004				Thousands of
	2006	2005	2004	U.S. Dollars
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.

Table of Contents**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	¥	¥

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	Thousands of U.S. Dollars			
	2006			
	Less than 12 months		12 months or longer	
	Gross		Gross	
	Unrealized		Unrealized	
	Holding		Holding	
	Fair Value	Losses	Fair Value	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
	2006	2005	2004	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
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Table of Contents**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

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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

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

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
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
	2006	2005	U.S. Dollars
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

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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.

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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.

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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,	Thousands of	
	Millions of Yen	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

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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:

	Thousands of		
	Millions of Yen		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

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Fair value of plan assets	140,170	106,227	1,198,034
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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).

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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.

Table of Contents**(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:

Years ended March 31	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	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.

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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
	2006	2005	2004	U.S. Dollars 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)

Table of Contents**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
	2006	2005	2004	
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
	2006	2005	
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)

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	¥ 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		Thousands of
	2006	2005	U.S. Dollars 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)

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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%
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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)	

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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

Table of Contents**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 2006			Thousands of U.S. Dollars 2006		
	Before-Tax	Tax Benefit	Net-of-Tax	Before-Tax	Tax Benefit	Net-of-Tax
	Amount	(Expense)	Amount	Amount	(Expense)	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	Tax Benefit	Net-of-Tax
	Amount	(Expense)	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)

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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

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	Millions of Yen 2004		
	Before-Tax	Tax Benefit	Net-of-Tax
	Amount	(Expense)	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	Accumulated
		Gains	(Losses) on	Other
		on Securities	Derivatives	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	Accumulated
		Gains	(Losses) on	Other
		on Securities	Derivatives	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
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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.

Table of Contents**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		Thousands of
		Yen 2007	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

Maturities, Years Ending March 31,	Weighted Average Rate		Notional Amount	
	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
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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.

Table of Contents**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
	2006	2005	2004	U.S. Dollars
				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.

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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.

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

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars 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:

Years Ending March 31,	Millions of Yen		Thousands of	
	Capital	Operating	Capital	Operating
	Leases	Leases	Leases	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.

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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.

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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 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 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)

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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.

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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.

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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

Nishinohon 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 Nishinohon 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 approved the purchase of 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. Pursuant to such approval, 4,700,000 shares of the parent company were purchased for ¥4,371 million (\$37,359 thousand).

In addition, on September 20, 2006, the Company's Board of Directors approved the purchase of up to 5,000,000 shares, or up to ¥5,000 million (\$42,735 thousand), of the parent company's outstanding common stock on and after September 21, 2006 through December 14, 2006.

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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.

/s/ Deloitte Touche Tohmatsu

Osaka, Japan

June 23, 2006, except for Note 20, as to which the date is September 20, 2006.