

KUBOTA CORP  
Form 20-F  
September 26, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 20-F**

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

OR

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

For the fiscal year ended March 31, 2007

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

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# KABUSHIKI KAISHA KUBOTA

(Exact name of registrant as specified in its charter)

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## 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)

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

Title of each class	Name of each exchange
Common Stock*	on which registered 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)

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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.

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Title of Class	Outstanding as of	
	March 31, 2007	March 31, 2007
Common stock	(Tokyo Time)	(New York Time)
American Depositary Shares	1,291,919,180 shares	3,711,419 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

If this report is an annual or transition 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, 2007 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 ¥118= US\$1, the approximate rate of exchange on March 31, 2007, 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 4, 2007 was ¥116.21 = US\$1.

The segment information that is disclosed in this Report, with respect to the Company's consolidated financial statements included herein, 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.

<Cautionary Statement 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, in addition to those provided below, appears on page 11 of the Financial Section of the Company's 2007 Annual Report to Shareholders included as an Attachment to this Form 20-F.

**A. Selected Financial Data**

	Years ended March 31 (millions of yen)				
	2003	2004	2005	2006	2007
Capital stock	78,156	78,156	78,156	84,070	84,070
Capital expenditures	35,845	21,396	26,097	33,805	44,715
Depreciation and amortization	38,804	27,755	25,808	25,821	27,097
R & D expenses	26,405	23,261	21,963	22,731	22,925
Number of shares outstanding (in thousands)	1,345,450	1,340,197	1,300,413	1,299,488	1,291,513

	Years ended March 31				
	2003	2004	2005	2006	2007
Cash dividends declared per depositary share:					
Interim (in yen)	15	15	15	20	25
(in U.S. dollars)	0.121	0.138	0.136	0.165	0.217
Year-end (in yen)	15	15	25	30	35
(in U.S. dollars)	0.125	0.138	0.233	0.258	0.282
Exchange rates (yen amounts per U.S. dollar):					
Year-end	118.07	104.18	107.22	117.48	117.56
Average	121.10	112.75	107.28	113.67	116.55
High	133.40	120.55	114.30	120.93	121.81
Low	115.71	104.18	102.26	104.41	110.07

2007	Mar.	Apr.	May.	Jun.	Jul.	Aug.
High	118.15	119.84	121.79	124.09	123.34	119.76
Low	116.01	117.69	119.77	121.08	118.41	113.81
Period-end	117.56	119.44	121.76	123.39	119.13	115.83

Notes to Selected Financial Data:

- Cash dividends in U.S. dollars are computed based on the exchange rates at each respective payment date.
- 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 4, 2007 was ¥116.21 = US\$1.

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### **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, revenues of the Company may be sensitive to declines in general economic conditions, including private-sector capital expenditure, construction investment, and domestic public investment. In addition, governmental agricultural policies 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 revenues and adversely affect the results of operations of the Company.**

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

**The Company is subject to the risks of international operations.**

In some businesses of the Company, substantial overseas operations are conducted. Accordingly, the Company is subject to a number of risks inherent in doing business in those markets. Such risks may affect revenues 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; and

political instability in those countries.

The major markets with the previously mentioned 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, 2007, the Company owns securities with a fair value of approximately ¥203.7 billion (\$1,726 million). 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 revenues 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, revenues and/or net income may decrease in the future.

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

If the Company's products and services are alleged to have serious defects, the Company may have liability for significant damages. Such damages and other associated expenses may have a material effect on the Company's consolidated results of operations and financial position. If such claims are asserted, the Company may lose the confidence of the public and suffer a reduction in its brand value, which may result in decreased revenues or 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 expenses in connection with environmental damage its activities may allegedly cause.

Claims may arise that the Company's activities have caused environmental contamination, including the release of hazardous materials or air pollution, water pollution, and/or soil contamination. In such an event, the Company may elect or be required to implement costly corrective actions to resolve any issues associated with the release or presence of such hazardous materials or contamination and may face associated litigation. 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 payments to the individuals 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 has declared its intention to conduct its corporate activities in compliance with legal regulations and ethical principles, and to exert efforts to cause all management and staff of the Group companies not to act in violation of various legal regulations, ethical standards, or internal regulations. However, in the event that compliance issues arise notwithstanding such efforts, there is a possibility that the Company may be subject to disciplinary action by government ministries supervising its activities or to lawsuits, or 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 revenues 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

In the business of farm equipment, national agricultural policies which provide subsidies with emphasis on large-scale farmers to make efficient use of agricultural resources such as farming land, agricultural machinery and facilities, may lead farmers to refrain from purchasing new equipment.

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. In addition, substantial personnel and financing resources are required.

At the same time, the Company is also subject to severe competition in overseas markets including 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 overseas markets in order to develop the business. Otherwise, the decrease in revenues 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 fails to hire and retain qualified employees, to transfer the manufacturing skills to next- generation, 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. Exports of ductile iron pipes, steel castings, and valves are concentrated to the Middle East. If conflicts erupt in this area, the rescission of contracts and bad debts may occur.

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

The Company may face difficulties in procuring adequate major raw materials. Especially, the difficulties may arise in obtaining such raw materials as coke, Mg, Mo and Mn, of which China is the largest producer and exporter, due to export restrictions that may be imposed by Chinese government when the Chinese domestic demand for these materials increases substantially. Other raw materials such as steel scraps may also become difficult to obtain sufficiently due to significant increase in the demand from abroad.

### 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.

**Table of Contents****Item 4. Information on the Company****A. History and Development of the Company**

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 8 plants in overseas countries. Kubota also has 12 sales subsidiaries in overseas countries.

**Principal Capital Expenditures and Divestitures**

Capital expenditures in fiscal 2007, 2006 and 2005 amounted to ¥44,715 million, ¥33,805 million, and ¥26,097 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, 2007, 2006, and 2005 were as follows:

**As of March 2007**

<b>Location</b>	<b>Industry segment included</b>	<b>Content</b>	<b>Estimated amount of</b>	
			<b>expenditures</b>	<b>Schedule</b>
			<b>Total amount of expenditures</b>	<b>Commenced</b>
			<b>(¥ billion)</b>	
Suzhou (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	¥7.7	Jan. 2006
Okajima (Osaka)	Engine and Machinery			
Tsukuba (Ibaraki)				
Hirakata (Osaka)	Internal Combustion	Restructuring of production system for construction machinery	¥1.7	Jun. 2006
	Engine and Machinery			

**As of March 2006****Estimated amount of****expenditures**      **Schedule**

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Location	Industry segment included	Content	Total amount of expenditures	
			(¥ billion)	Commenced
Suzhou (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	Internal Combustion	Restructuring of production system	¥1.6	Oct. 2005
(Georgia, U.S.A.) <u>As of March 2005</u>	Engine and Machinery			

Location	Industry segment included	Content	Estimated amount of expenditures	
			(¥ billion)	Schedule
Jackson	Internal Combustion	Production facilities for implements attached to tractors	¥5.0	Nov. 2004
(Georgia, U.S.A.)	Engine and Machinery			
Tsukuba (Ibaraki)	Internal Combustion	Production equipment for vertical diesel engines	¥0.9	Oct. 2004
Sakai (Osaka)	Engine and Machinery			

**Table of Contents****B. Business Overview**

The Company classifies its products for revenue reporting purposes into the following 4 industry 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.

**Revenues by Industry Segment**

For the year ended March 31, 2007

	Millions of yen		Thousands of U.S. dollars	
	2007		2007	
	¥	%	\$	
Internal Combustion Engine and Machinery	746,808	66.3	6,328,881	
Pipes, Valves, and Industrial Castings	194,224	17.2	1,645,966	
Environmental Engineering	90,613	8.0	767,907	
Other	95,811	8.5	811,958	
<b>Total</b>	<b>1,127,456</b>	<b>100.0</b>	<b>9,554,712</b>	

For the years ended March 31, 2006 and 2005

	Millions of yen			
	2006		2005	
	¥	%	¥	%
Internal Combustion Engine and Machinery	674,087	63.3	594,269	59.7
Pipes, Valves, and Industrial Castings	189,708	17.8	170,629	17.2
Environmental Engineering	109,864	10.3	117,285	11.8
Other	92,077	8.6	112,300	11.3
<b>Total</b>	<b>1,065,736</b>	<b>100.0</b>	<b>994,483</b>	<b>100.0</b>

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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. Revenues 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 revenues of this segment accounted for 65.4% of the total revenues of this segment in fiscal 2007.

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 revenues 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, China, Thailand, and Indonesia.

#### 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, submerged membrane systems and biogas production systems. Regarding solid waste treatment, the Company supplies pulverizing facilities. This segment manufactures and supplies various pumps for waterworks, sewage facilities, irrigation system, rainwater drainage and power supplies.

At present, almost all the revenues 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.



**Table of Contents****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.

**Revenues by Region**

	Millions of yen			Thousands of
	2005	2006	2007	U.S. dollars 2007
Japan	¥ 639,402	¥ 632,128	¥ 603,502	\$ 5,114,424
Overseas:				
North America	242,370	284,586	323,092	2,738,068
Other Areas	112,711	149,022	200,862	1,702,220
<b>Subtotal</b>	<b>355,081</b>	<b>433,608</b>	<b>523,954</b>	<b>4,440,288</b>
<b>Total</b>	<b>¥ 994,483</b>	<b>¥ 1,065,736</b>	<b>¥ 1,127,456</b>	<b>\$ 9,554,712</b>

Revenues in Japan in fiscal 2007, 2006, and 2005 amounted to ¥603,502 million (\$5,114,424 thousand), ¥632,128 million and ¥639,402 million, respectively. Revenues in North America in fiscal 2007, 2006, and 2005 amounted to ¥323,092 million (\$2,738,068 thousand), ¥284,586 million and ¥242,370 million, respectively. Revenues in Other areas in fiscal 2007, 2006, and 2005 amounted to ¥200,862 million (\$1,702,220 thousand), ¥149,022 million and ¥112,711 million, respectively.

**Overseas Activities**

The Company's overseas revenues (which represent revenues to unaffiliated customers outside Japan) in fiscal 2007, 2006, and 2005 amounted to ¥523,954 million (\$4,440,288 thousand), ¥433,608 million and ¥355,081 million, respectively. The ratios of such overseas revenues to consolidated revenues in 2007, 2006, and 2005 were 46.5%, 40.7% and 35.7%, respectively. The revenues of the Company's subsidiaries outside Japan in fiscal 2007, 2006, and 2005 amounted to ¥489,575 million (\$4,148,941 thousand), ¥405,357 million and ¥333,700 million, respectively. Its ratio to consolidated revenues in fiscal 2007, 2006, and 2005 were 43.4%, 38.0% and 33.6%, respectively.

The Company has manufacturing subsidiaries in the U.S.A., Canada, Germany, China, Indonesia and Thailand, and manufacturing affiliates in 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), Cairo (Egypt), and India (Delhi).

**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.

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### 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, 2007, the Company held 5,081 Japanese patent and utility model registrations, and 886 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 2007, royalty income and expenses were ¥723 million (\$6,127 thousand) and ¥136 million (\$1,153 thousand), respectively, under such licensing arrangements.

### 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.

**Table of Contents****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.

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

**C. Organization Structure**

As of March 31, 2007, the group of Kubota Corporation consists of Kubota Corporation, 118 subsidiaries and 24 affiliates. Kubota Corporation plays a leading role in the group. The Company's significant subsidiaries are as follows:

<b>Country of Incorporation or Residence</b>	<b>Name</b>	<b>Percentage ownership (%)</b>
Japan	Kubota Construction Co., Ltd.	100.0
	Kubota Credit Co., Ltd.	72.8
	Kubota Maison Co., Ltd.	100.0
	Kubota Environmental Service Co., Ltd.	100.0
	Kubota-C.I. Co., Ltd.	70.0
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 area (Square meters)		Floor space (Square meters)		Principal products
	Owned	Leased	Owned	Leased	
<b><u>Japan</u></b>					
Amagasaki	462,785	37,798	166,488	122	Ductile iron pipes, Filament winding pipes, Rolls for steel mills
(Hyogo)					
Funabashi	561,265	18,057	142,920	6,686	Ductile iron pipes, Spiral welded steel pipes
(Chiba)					
Okajima	88,393	825	56,888		Cast iron products
(Osaka)					
Sakai	421,386	11,616	145,260	24,608	Farm equipment, Diesel engines
(Osaka)					
Utsunomiya	145,598		69,998	1,367	Farm equipment
(Tochigi)					
Tsukuba	334,496	25,907	152,080	15,531	Farm equipment, Diesel engines
(Ibaraki)					
Sakai	159,956		48,862	1,206	Diesel engines
(Osaka)					
Hirakata	306,102		143,724	8,112	Construction machinery, Cast steel products, Pumps, Valves
(Osaka)					
Konan	192,560		51,606		Septic tanks
(Shiga)					
Yao	38,102		27,469		Electronic machinery, Pulverizing equipment
(Osaka)					
Ryugasaki	84,795		30,820		Vending machines
(Ibaraki)					
<b><u>U.S.A.</u></b>					
Jackson	611,000		57,282		Lawn and garden tractors
(Georgia)					
Jefferson	356,000		37,400		Implements for tractors
(Georgia)					

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.

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In addition, the Company owns 2,433,430 square meters of land (309,472 square meters of floor space) in Japan, used for the head office, branches, business offices and research facilities, and leases 3,569 square meters of land (56,413 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 2007, the Company has planned to invest approximately ¥43.0 billion (\$364 million) in the fiscal year ending March 31, 2008. The Company intends to fund the investment basically through cash obtained by operating activities, and to also utilize available borrowings from financial institutions. The Company's commitments for capital expenditures are not material.

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Principal plans for new construction, expansion, reforming, and disposition as of March 31, 2007 are as follows:

**New Construction**

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(Billions of Yen) Total	Amount	Commenced	completed
			amount of	already		To be
Suzhou (Jiangsu, People's Republic of China)	Internal Combustion Engine and Machinery	Building of new production facility for agricultural equipment in China	¥1.7	¥1.5	Oct. 2005	Dec. 2007

**Expansion**

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(Billions of Yen) Total	Amount	Commenced	completed
			amount of	already		To be
Sakai (Osaka)	Internal Combustion	Production facilities for vertical diesel engines to increase production and developing new models	¥7.7	¥3.7	Jan. 2006	Mar. 2008
Okajima (Osaka)	Engine and Machinery					
Tsukuba (Ibaraki)						
Hirakata (Osaka)	Internal Combustion Engine and Machinery	Restructuring of production system for construction machinery	¥1.7	¥1.2	Jun. 2006	Mar. 2008

**Reforming**

No material reforming is planned.

**Disposition**

No material disposition is planned.

**Item 4A. Unresolved Staff Comments**

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 provided by the staff of the Securities and Exchange Commission regarding the Company's periodic reports under that Act 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, 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.

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, 2007, 2006, and 2005. A further decrease of 50 basis points in the discount rate would increase the benefit obligations as of March 31, 2007 by approximately ¥8.1 billion (\$69 million).

To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years, the current and expected components of plan assets, and anticipated market trends. An actual return on plan assets in the past 10 years at March 31, 2007 was 3.4%, 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. The Company assumed that the long-term rate of return on plan assets was 3.0% for the years ended March 31, 2007 and 2006, and 3.5% for the year ended March 31, 2005. 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, 2008 of approximately ¥0.5 billion (\$4 million).

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. Accordingly, significant unrecognized actuarial gains or losses may have a material effect on periodic benefit cost in the next fiscal year.

From the fiscal year ended March 31, 2007, the Company adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R). The Company recognized its underfunded status of the defined benefit postretirement plan as an liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The adoption of the statement has no effect on the consolidated statements of income.

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 the case of the Company, most contracts with customers include the delivery and installation of component units. Accordingly, 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 to 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.

**New Accounting Standards**

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109. This interpretation introduces a new approach that significantly changes how companies recognize and measure tax benefits associated with tax positions and disclose uncertainties related to income tax positions. This interpretation is effective in fiscal years beginning after December 15, 2006. 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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### A. Operating Results

*(The fiscal year ended March 31, 2007 compared with the fiscal year ended March 31, 2006)*

#### Revenues

For the year ended March 31, 2007, revenues of the Company increased ¥61.7 billion (5.8%), to ¥1,127.5 billion (\$9,555 million) from the prior year.

In the domestic market, revenues decreased ¥28.6 billion (4.5%), to ¥603.5 billion (\$5,114 million). Revenues in Internal Combustion Engine and Machinery decreased due to lower sales of core farm equipment even though sales of construction machinery and engines increased steadily. Revenues in Pipes, Valves, and Industrial Castings also declined slightly owing to a decrease in sales of industrial castings, while sales of ductile iron pipes and plastic pipes stayed at the same level as in the prior year. Revenues in Environmental Engineering decreased substantially due mainly to severe market conditions. On the contrary, revenues in Other increased chiefly due to sales expansion of vending machines.

On the other hand, revenues in overseas markets increased ¥90.3 billion (20.8%), to ¥524.0 billion (\$4,440 million) from the prior year. In North America, sales of newly introduced mid-size tractors expanded substantially and sales of construction machinery and engines also increased. In Europe, sales of tractors, construction machinery, and engines all increased. In Asia outside Japan, a large increase in sales of farm equipment for rice farming continued. As a consequence, the ratio of overseas revenues to consolidated revenues rose 5.8 percentage points, to 46.5%.

#### Revenues by industry segment

##### 1) Internal Combustion Engine and Machinery

Revenues in Internal Combustion Engine and Machinery were ¥746.8 billion (\$6,329 million), 10.8% higher than the prior year, comprising 66.3% of consolidated revenues. Domestic revenues decreased 4.1%, to ¥258.3 billion (\$2,189 million), and overseas revenues increased 20.7%, to ¥488.5 billion (\$4,140 million). This segment comprises farm equipment, engines, and construction machinery.

In the domestic market, sales of farm equipment declined because of lackluster market conditions. In the domestic market for farm equipment, new government agricultural policies have been introduced, and the implementation of these measures is resulting in structural changes within the agricultural sector, leading to a postponement of equipment purchases, principally among medium-sized farms. Within this market environment, to revitalize the operations, the Company implemented sales expansion policies carefully tailored to various customer groups and was able to increase its market share; however, these efforts did not compensate for the market slump. On the other hand, sales of construction machinery rose significantly due to steady demand for construction machinery, the introduction of new models, and the expansion of sales to major machinery rental companies. In addition, sales of engines, mainly to manufacturers of construction and industrial machinery, showed steady expansion.

In overseas markets, sales of tractors, the Company's core product, expanded steadily. In the United States, sales of mid-size tractors showed marked expansion accompanying the introduction of new models, while sales of small-sized tractors weakened along with the slowdown in housing starts. In Europe, sales of tractors showed strong expansion as the Company introduced new products and implemented an active marketing program. Moreover, in Asia outside Japan, sales of tractors sustained a high rate of growth in Thailand, where demand for tractors is expanding rapidly.

Sales of construction machinery reported steady expansion in Europe, the principal overseas market of construction machinery, due to rising demand coupled with the introduction of new products. Sales of construction machinery in North America also increased. In addition, sales of engines in Europe and the United States grew steadily, and sales of combine harvesters in China increased rapidly.

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### 2) Pipes, Valves, and Industrial Castings

Revenues in Pipes, Valves, and Industrial Castings were ¥194.2 billion (\$1,646 million), 2.4% higher than the prior year, comprising 17.2% of consolidated revenues. Domestic revenues decreased 2.2%, to ¥163.4 billion (\$1,385 million), and overseas revenues increased 36.7%, to ¥30.8 billion (\$261 million). This segment comprises pipes, valves, and industrial castings.

In the domestic market, demand for ductile iron pipes and plastic pipes was lackluster, but the Company was able to slightly increase sales of plastic pipes by raising prices, while sales of ductile iron pipes declined marginally. Sales of industrial castings expanded, mainly to the private sector, such as the steel and energy industries, but sales of products to the public sector fell sharply.

In overseas markets, exports of ductile iron pipes to the Middle East were robust, and sales of industrial castings continued to increase substantially, owing to high levels of private-sector capital expenditures.

### 3) Environmental Engineering

Revenues in Environmental Engineering were ¥90.6 billion (\$768 million), 17.5% lower than the prior year, comprising 8.0% of consolidated revenues. Domestic revenues decreased 17.6%, to ¥86.5 billion (\$733 million), and overseas revenues decreased 16.8%, to ¥4.1 billion (\$35 million). This segment comprises environmental control plants and pumps.

In the domestic market, the operating environment continued to be extremely challenging because of the decline in public-sector demand and the drop in sales prices due to more intense competition. In addition, suspension of designated pre-approved suppliers due to compliance issues had a major negative impact. As a result, the Water & Sewage Engineering Division and Pumps Division, suffered substantial decline in revenues. Overseas revenues also declined due to a decrease in sales of pumps, which is the main export product in this segment.

### 4) Other

Revenues in Other were ¥95.8 billion (\$812 million), 4.1% higher than the prior year, comprising 8.5% of consolidated revenues. Domestic revenues increased 4.9%, to ¥95.3 billion (\$808 million), and overseas revenues decreased 60.0%, to ¥0.5 billion (\$4 million). This segment comprises vending machines, electronically equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Sales of construction fell sharply because of the Company's realignment measures, including discontinuance of receiving orders from the public sector as an original contractor. Sales of vending machines, condominiums, and air-conditioning equipment increased favorably, while sales of electronically equipped machinery and septic tanks declined.

### Cost of Revenues, SG&A Expenses, and Loss from Disposal and Impairment of Businesses and Fixed Assets

The cost of revenues increased 5.4% from the prior year, to ¥794.7 billion (\$6,735 million). The cost of revenues as a percentage of consolidated revenues decreased 0.2 percentage point, to 70.5%. The decrease in the ratio was attributable to ongoing activities for cost reductions and controls as well as the increased efficiency of the manufacturing process.

Selling, general, and administrative (SG&A) expenses increased 7.2% from the prior year, to ¥199.4 billion (\$1,689 million). The ratio of SG&A expenses to revenues increased 0.2 percentage point, to 17.7%. This increase was mainly due to increases in overseas subsidiaries' SG&A expenses resulting from sales expansion.

Loss from disposal and impairment of businesses and fixed assets decreased 34.9% from the prior year, to ¥3.1 billion (\$26 million). This loss arose chiefly from the restructuring of construction businesses.

### Operating Income

Operating income climbed ¥9.3 billion (7.7%), to ¥130.3 billion (\$1,105 million) from the prior year, the highest level in the Company's history. By segment, operating income in Internal Combustion Engine and Machinery expanded substantially, supported by the increase in revenues and the positive effect of the weakening of the yen. Pipes, Valves, and Industrial Castings also reported a gain in operating income owing to continued cost cutting, including reductions in fixed expenses, and higher revenues in overseas markets. Environmental Engineering, however, posted a substantial decline in profitability and reported an operating loss accompanying the decline in sales prices. Operating income in Other,

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however, showed steady expansion, as a result of increased sales of vending machines and other products.

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 ¥124.9 billion (\$1,059 million), a 12.9% increase; Pipes, Valves, and Industrial Castings, operating income of ¥22.0 billion (\$187 million), a 14.3% increase; Environmental Engineering, operating loss of ¥5.6 billion (\$48 million), as compared to operating income of ¥4.3 billion; and Other, operating income of ¥7.1 billion (\$60 million), a 226.9% increase.

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### Other Income

Other income, net, was ¥1.2 billion (\$10 million), a decrease of ¥18.2 billion from the prior year. The reason for this substantial decrease was the absence of a gain of ¥15.9 billion from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings, Inc., in the prior year.

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

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥131.6 billion (\$1,115 million), a decrease of ¥9.0 billion from the prior year.

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

Income taxes decreased 12.7% from the prior year, to ¥49.0 billion (\$415 million). The effective tax rate was 37.2%.

Minority interests in earnings of subsidiaries increased ¥1.3 billion, to ¥6.2 billion (\$53 million). Equity in net income of affiliated companies decreased ¥0.3 billion from the prior year, to ¥1.4 billion (\$11 million). The increase in minority interests in earnings of subsidiaries resulted from the favorable operating performances of overseas subsidiaries.

### Income from Continuing Operations

Income from continuing operations was ¥77.7 billion (\$659 million), compared with ¥81.1 billion in the prior year.

### Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes, was ¥1.3 billion (\$11 million) in the year under review and ¥0.1 billion in the prior year. This loss resulted from the withdrawal from industrial-waste disposal business and the liquidation of a subsidiary engaged in that business.

### Net Income

Due to the factors described above, net income decreased ¥4.6 billion, to ¥76.5 billion (\$648 million). Return on shareholders' equity decreased 2.8 percentage points, to 12.1%, from the prior year.

### Income per ADS

Basic net income per ADS (five common shares) was ¥295 (\$2.50), as compared to ¥311 in the prior year.

### Dividends

The Company has decided to pay ¥35 per ADS as year-end cash dividends. Accordingly, including the interim dividend of ¥25 per ADS already paid, the total dividends for the entire fiscal year will be ¥60 per ADS, which will be ¥10 per ADS higher than the prior year.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or raise dividends together with share buy-backs and the cancellation of treasury stock. For reference's sake, the Company purchased 7.98 million shares outstanding (¥8.5 billion) and retired 7.95 million shares of treasury stock (¥8.5 billion) during the year under review.

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### Comprehensive Income

Comprehensive income was ¥67.3 billion (\$570 million), ¥73.0 billion lower from the prior year. This decrease was mainly due to a decrease in unrealized gains on securities.

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

### Revenues

For the year under review, revenues of the Company rose 7.2%, to ¥1,065.7 billion. In the domestic market, revenues in Internal Combustion Engine and Machinery increased due to steady sales of engines and construction machinery, and revenues in Pipes, Valves, and Industrial Castings increased due to favorable sales of industrial castings and business integration in the plastic pipes business. However, revenues in Environmental Engineering decreased due to severe conditions of the public works related business, and revenues in Other decreased, resulting from a sale of a subsidiary at the beginning of this fiscal year. Total domestic revenues decreased 1.1%, to ¥632.1 billion from the prior year.

On the other hand, revenues in overseas markets increased largely as a result of sustained high growth in the Company's overseas operations in Internal Combustion Engine and Machinery. Revenues 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 revenues increased 22.1%, to ¥433.6 billion from the prior year. The percentage of overseas sales accounted for 40.7% of revenues, 5.0 percentage points higher than in the prior year.

Please refer to next revenues by industry segment for details.

### Revenues by industry segment

#### 1) Internal Combustion Engine and Machinery

Revenues in Internal Combustion Engine and Machinery were ¥674.1 billion, 13.4% higher than in the prior year, comprising 63.3% of consolidated revenues. Domestic revenues increased 4.0%, to ¥269.2 billion, and overseas revenues also increased 20.7%, to ¥404.9 billion. This segment consists of farm equipment, engines, and construction machinery.

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

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

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### 2) Pipes, Valves, and Industrial Castings

Revenues in Pipes, Valves, and Industrial Castings were ¥189.7 billion, 11.2% higher than in the prior year, comprising 17.8% of consolidated net sales. Domestic revenues increased 7.5%, to ¥167.2 billion, and overseas revenues increased 48.7%, to ¥22.5 billion. This segment consists of pipes, valves, and industrial castings.

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

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

Revenues in Environmental Engineering were ¥109.9 billion, 6.3% lower than the prior year, comprising 10.3% of consolidated revenues. Domestic revenues decreased 7.6%, to ¥104.9 billion, and overseas revenues increased 32.4%, to ¥5.0 billion. This segment consists of environmental control plants and pumps.

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

Revenues in Other were ¥92.1 billion, 18.0% lower than the prior year, comprising 8.6% of consolidated revenues. Domestic revenues decreased 18.6%, to ¥90.8 billion, and overseas revenues increased 65.5%, to ¥1.2 billion. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Sales of electronic-equipped machinery increased steadily. However, sales of vending machines slightly decreased, and sales of air-conditioning equipment, construction, septic tanks, and condominiums also declined. In 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, revenues of this segment decreased substantially from the prior year.

## Operating Income

Operating income also rose, by 28.7%, to ¥121.1 billion, exceeding ¥100 billion for the first time in the history of the Company. The Company achieved higher operating income due to increased revenues in Internal Combustion Engine and Machinery and a reduction in costs of the public works related business. The ratio of operating income to revenues also recorded a new high of 11.4%. 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 ¥110.6 billion, a 28.4% increase; Pipes, Valves, and Industrial Castings, operating income of ¥19.3 billion, a 67.8% increase; Environmental Engineering, operating income of ¥4.3 billion, a 28.6% decrease; and Other, operating income of ¥2.2 billion, 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 revenues 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.





**Table of Contents****Cost of Revenues, SG&A Expenses, and Loss from Disposal and Impairment of Businesses and Fixed Assets**

The cost of revenues increased 5.2% from the prior year, to ¥754.0 billion. 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 revenues as a percentage of consolidated revenues decreased 1.3 percentage points, to 70.7%. 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.

Selling, general, and administrative (SG&A) expenses increased 1.9% from the prior year, to ¥186.0 billion. The ratio of SG&A expenses to revenues decreased 0.9 percentage point, to 17.5%. 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.

Loss from disposal and impairment of businesses and fixed assets increased 233.0% from the prior year, to ¥4.7 billion. 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 ¥19.5 billion, a decrease of ¥42.8 billion from the prior year. While there was a gain of ¥15.9 billion from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., with UFJ Holdings, Inc., the gain on the transfer of the substitutional portion of the Company's accumulated pension benefit obligations to the Japanese government, which amounted to ¥58.6 billion, was reported in the prior year.

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

Due to the factors described above, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥140.5 billion, a decrease of ¥15.8 billion from the prior year.

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

Income taxes increased 16.5% from the prior year, to ¥56.1 billion. 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 increased ¥1.5 billion, to ¥4.9 billion. Equity in net income of affiliated companies decreased ¥0.7 billion from the prior year, to ¥1.6 billion. 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.

**Income from Continuing Operations**

Due to the factors described previously, net income from continuing operations was ¥81.1 billion, compared with ¥107.1 billion in the prior year.

**Income (loss) from Discontinued Operations, Net of Taxes**

Loss from discontinued operations, net of taxes, was ¥0.1 billion during the year under review. In the prior year, income from discontinued operations, net of taxes, was recorded aggregating ¥10.8 billion.

**Net Income**

Due to the factors described above, net income was ¥81.0 billion, 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, 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 was approved at the general meeting of shareholders, held on June 23, 2006. The Company also paid a ¥20 per ADS interim dividend to each shareholder.

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### Comprehensive Income

Comprehensive income was ¥140.3 billion, 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.

### 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 receivables, 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 0.81% to 5.77% at March 31, 2007. The weighted average interest rate on such short-term borrowings was 5.3%. As for long-term debt, interest rates were primarily fixed, and the weighted average interest rate on such long-term debt at March 31, 2007 was 3.6%. 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 and finance receivables sold under the securitization program are excluded from receivables in the accompanying consolidated balance sheets.

Regarding the lines of credit, the Company has established committed lines of credit totaling ¥20.0 billion (\$169 million) with certain Japanese banks. However, the Company currently does not use these lines. In the United States, Europe, and Asia, the Company maintains adequate uncommitted lines of credit with financial institutions. The Company also maintains a CP program allowing for the issuance of CP of up to ¥100.0 billion (\$847 million). There was no outstanding issue of CP as of the end of March 2007.

The Company utilizes Group financing. With Group financing, the Company centralizes and pursues 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 carefully monitors its interest-bearing debt excluding debt related to sale financing programs. The Company is providing sale financing programs to support machinery sales in North America, Japan, and Thailand. The Company believes an increase of debt related to sales financing programs is a result of business expansion. At the end of March 2007, the amount of interest-bearing debt was ¥349.9 billion (\$2,965 million). Of the ¥349.9 billion, ¥329.9 billion was borrowings from financial institutions, and the remaining ¥20.0 billion consisted of corporate bonds.

The Company plans its capital expenditures considering future business demand and cash flows. As of March 2007, the Company has planned to invest approximately ¥43.0 billion (\$364 million) in the fiscal year ending March 31, 2008. The Company intends to fund the investment basically through cash obtained by operating activities, and to also utilize available borrowings from financial institutions. The Company's commitments for capital expenditures are not material.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or raise dividends together with repurchases of treasury stock. We use net cash provided by operating activities for these dividends and repurchases.

The amount of working capital decreased ¥1.4 billion, to ¥240.4 billion (\$2,037 million), from the prior year-end. Additionally, the ratio of current assets to current liabilities decreased 5.1 percentage points, to 141.7%. The primary reason for this decrease was an increase in the current portion of long-term debt. 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.



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### 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 ratings are A+ for long-term debt and a-1 for short-term debt as of March 2007 and its outlook is stable. The Company's favorable credit rating provides it access to capital markets and investors.

### Assets, Liabilities, and Shareholders' Equity

#### 1) Assets

Total assets at the end of March 2007 amounted to ¥1,502.5 billion (\$12,733 million), an increase of ¥97.1 billion (6.9%) from the end of the prior year.

Current assets were ¥817.1 billion (\$6,925 million), an increase of ¥58.9 billion from the prior year-end. Current assets increased substantially due mainly to increases in inventories and short-term finance receivables resulting from business expansion in Internal Combustion Engine and Machinery. Inventory turnover dropped 0.5 point, to 5.9 times.

In addition to the increase in current assets, investments and long-term finance receivables increased ¥24.6 billion, to ¥398.9 billion (\$3,381 million). Long-term finance receivables increased substantially resulting from a sales increase in North America, while other investments decreased owing to a decrease in the unrealized gain on securities. Property, plant, and equipment increased ¥11.3 billion, to ¥237.6 billion (\$2,014 million), due to an increase in capital expenditures. Other assets slightly increased ¥2.3 billion, to ¥48.9 billion (\$414 million).

#### 2) Liabilities

Total liabilities amounted to ¥806.8 billion (\$6,837 million), an increase of ¥36.8 billion (4.8%) from the end of the prior year.

Current liabilities were ¥576.7 billion (\$4,887 million), an increase of ¥60.2 billion from the prior year-end. Trade notes and accounts payable increased due to an increase in inventories, and interest-bearing debt increased due to increases in short- and long-term finance receivables. In addition, income taxes payable also increased.

On the other hand, long-term liabilities decreased ¥23.4 billion, to ¥230.1 billion (\$1,950 million), because accrued retirement and pension costs decreased largely due to an application of a new accounting standard for pensions.

#### 3) Minority Interests

Minority interests amounted to ¥36.1 billion (\$306 million), an increase of ¥7.2 billion (24.8%) from the end of the prior year as a result of favorable results of operations of foreign subsidiaries.

#### 4) Shareholders' Equity

Total shareholders' equity amounted to ¥659.6 billion (\$5,590 million), an increase of ¥53.2 billion (8.8%) from the end of the prior year.

Retained earnings increased ¥53.7 billion, to ¥376.8 billion (\$3,193 million) from the prior year-end due to the recorded net income. Though the unrealized gains on securities decreased, accumulated other comprehensive income remained at the same level as the prior year-end due mainly to the recorded pension liability adjustment with an application of the new accounting standard for pensions. The Company repurchased ¥8.5 billion (\$72 million) of treasury stock and retired ¥8.5 billion (\$72 million) during the year under review.

The shareholders' equity ratio\* was 43.9%, 0.7 percentage point higher than at the prior year-end. The debt-to-equity ratio\*\* was 53.0%, 2.1 percentage points lower than at the prior year-end.

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

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



**Table of Contents****Cash Flows**

Net cash provided by operating activities during the year under review was ¥96.8 billion (\$821 million), an increase of ¥9.0 billion from the prior year. Although net income decreased from the prior year, the Company's cash position was not affected, because the primary reason for the decrease of net income was the absence of the gain on nonmonetary exchange of securities which was recorded in the prior year. The increase in net cash provided by operating activities was mainly due to the favorable performance of business operations.

Net cash used in investing activities was ¥90.0 billion (\$763 million), an increase of ¥28.7 billion from the prior year. Purchases of fixed assets increased due to an increase in capital expenditures. In addition, cash provided by proceeds from sales of property, plant, and equipment, proceeds from sales of investments, and proceeds from sales of finance receivables decreased. Accordingly, net cash used in investing activities increased substantially.

Net cash used in financing activities was ¥16.8 billion (\$143 million), an increase of ¥6.6 billion from the prior year. Although purchases of treasury stock decreased, repayment of short-term borrowings and increased cash dividends increased net cash used in financing activities.

As a result, including the effect of exchange rate changes, cash and cash equivalents at the end of March 2007 were ¥82.6 billion (\$700 million), a decrease of ¥9.3 billion from the prior year.

**Derivatives**

To offset currency and interest rate fluctuation risks, the Company uses various types of derivatives, including foreign exchange forward contracts, currency swaps, and interest rate swaps. As a basic policy, the Company conducts its derivative transactions within the range of its outstanding credit and obligations, and the Company does not engage in speculative derivative transactions. The counterparties for the Company's derivative transactions are financial institutions with high creditworthiness; therefore, the Company does not anticipate any credit losses on such transactions. For more specific details, please refer to Note 15 to the consolidated financial statements.

**C. Research and Development, Patents and Licenses, etc****Research and Development**

The Company conducts its research and development activities with approximately 1,300 researchers and engineers. The following table shows the Company's research and development expenses for the last 3 fiscal years.

	Thousands of			U.S. dollars 2007
	Millions of yen			
	2005	2006	2007	
R&D Expenses	¥21,963	¥22,731	¥22,925	\$ 194,280
As a percentage of consolidated revenues	2.2%	2.1%	2.0%	

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 32 R&D departments. Each department promotes the R&D activities fortifying each business.

Total R&D expenses of 4 industrial segments, which are Internal Combustion Engine and Machinery, Pipes, Valves, and Industrial Castings, Environmental Engineering, and Other segment, were ¥17.6 billion, ¥1.9 billion, ¥1.2 billion, and ¥2.2 billion, respectively.

**Patent and License**

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2007, the Company held 5,081 Japanese patent and utility model registrations, and 886 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 2007, royalty income and expenses were ¥723

million (\$6,127 thousand) and ¥136 million (\$1,153 thousand), respectively, under such licensing arrangements.



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**D. Trend Information**

**Outlook for the Next Fiscal Year**

**Financial Outlook**

The Company forecasts consolidated revenues for the year ending March 31, 2008 will slightly increase from the year under review. In the domestic market, revenues in Pipes, Valves, and Industrial Castings are expected to increase. However, revenues in Internal Combustion Engine and Machinery are forecast to decrease slightly and revenues in Environmental Engineering and Other are forecast to decrease substantially. As a result, total domestic revenues are estimated to decrease from those of the year under review. As for overseas revenues, the Company expects higher revenues than in the year under review due to steady expansion of revenues in Internal Combustion Engine and Machinery.

The Company forecasts that operating income will almost be at the same level as in the year under review. Although a favorable swing of exchange rates mainly against the euro as well as corporate-wide cost reductions will have a favorable effect on profitability, the price increases in raw materials will cause downward pressure on operating income. The Company expects income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies, and net income for the next fiscal year to be also almost same level as in the year under review.

**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 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 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. In April 2006, 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. After the Company established its internal policies and procedures of relief payment system, the Company has received claims for relief payments from 149 residents and paid or accrued relief payments to 140 of those residents after carefully reviewing those claims as of March 31, 2007.

With regard to the procedures for making claims to the Company for relief payments, the Company has asked the residents or the bereaved family of the residents who lived close to its 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 of the Company 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 94 as of the end of March 2005, 132 as of the end of March 2006, and 152 as of the end of March 2007.

In August 2006, the Company announced that the Company would 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. And the Company donated ¥400 million (\$3,390 thousand) as a contribution for the year ended March 31, 2007.

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 Insurance in accordance with the Workers' Accident Compensation Insurance Law. The relief aid payments are contributed by the national government, municipal governments, and business entities. The contribution, which includes a special contribution by the companies which operated a business closely related to asbestos, to be made by business entities shall commence from the year ending March 31, 2008. During the year ended March 31, 2007, the Company accounted for ¥735 million (\$6,229 thousand) of the special contribution as a lump sum expense, which is imposed based on the New Asbestos Law for the next four years commencing the year ending March 31, 2008.

#### Contingencies Regarding Asbestos-Related Matters

The Company expenses the payments for the health hazard of asbestos based on the Company's policies and procedures. The amounts of these expenses during the year ended March 31, 2007 were approximately ¥4,035 million (\$34,195 thousand). Of the ¥4,035 million (\$34,195 thousand), ¥2,030 million (\$17,203 thousand) were expenses related to the payment for the relief payment system established in April 2006. The Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to asbestos issues. 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

## Edgar Filing: KUBOTA CORP - Form 20-F

On May 11, 2007, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2007 of ¥7 per common share (¥35 per five common shares) or a total of ¥9.0 billion (\$77 million). On June 22, 2007, the Company's Board of Directors approved the purchase of up to 10,000,000 shares, or up to ¥11 billion (\$93 million) of the parent company's outstanding common stock on and after June 25, 2007 through September 27, 2007.

**Table of Contents****E. Off-balance Sheet Arrangements**

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, the Company sells 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 the purchaser's interest, and the Company serves as credit enhancements for the securities issued by the Trusts. The value of the Company's interest in sold receivables 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.

The Company provides guarantees to distributors, including affiliated companies, and customers for their borrowing from financial institutions. The Company would have to perform under these guarantees in the event of default on a payment within the guarantee periods. The maximum potential amount of undiscounted future payments of these financial guarantees as of March 31, 2007 was ¥949 million (\$8,042 thousand).

**F. Tabular Disclosure of Contractual Obligations**

The following summarizes contractual obligations at March 31, 2007.

	Millions of Yen				
	Total	Payments Due by Period			More than 5 years
		Less than year	1-3 years	3-5 years	
Contractual obligations:					
Short-term borrowings	¥ 128,365	¥ 128,365	¥	¥	¥
Capital lease obligations	6,577	3,253	3,028	254	42
Long-term debt	214,957	68,176	114,603	19,046	13,132
Deposits from customers	2,522	2,522			
Operating lease obligations	1,785	682	680	178	245
Commitments for capital expenditures	3,819	3,819			
Interest payments	13,082	6,269	5,888	744	181
<b>Total</b>	<b>¥ 371,107</b>	<b>¥ 213,086</b>	<b>¥ 124,199</b>	<b>¥ 20,222</b>	<b>¥ 13,600</b>

	Thousands of U.S. Dollars				
	Total	Payments Due by Period			More than 5 years
		Less than year	1-3 years	3-5 years	
Contractual obligations:					
Short-term borrowings	\$ 1,087,839	\$ 1,087,839	\$	\$	\$
Capital lease obligations	55,737	27,568	25,661	2,152	356
Long-term debt	1,821,670	577,763	971,212	161,407	111,288
Deposits from customers	21,373	21,373			
Operating lease obligations	15,127	5,780	5,762	1,509	2,076
Commitments for capital expenditures	32,364	32,364			
Interest payments	110,864	53,127	49,898	6,305	1,534
<b>Total</b>	<b>\$ 3,144,974</b>	<b>\$ 1,805,814</b>	<b>\$ 1,052,533</b>	<b>\$ 171,373</b>	<b>\$ 115,254</b>

The Company's contributions to pension plans for the year ending March 31, 2008 are expected to be ¥13,562 million (\$114,932 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 following sets for the information about the Company's directors, executive officers and corporate auditors as of the date of filing of this Report, together with their respective dates of birth and positions. The term of office of all directors will expire at the conclusion of the ordinary general meeting of shareholders which will be held in 2008.

Name  (Birthday)	Number of	Current Positions and Brief Occupational History  (including responsibilities in other companies)
	Company Shares Owned	
Daisuke Hatakake (Jun. 29, 1941)	51,000 Shares	President and Representative Director of Kubota Corporation  Apr. 2003 President and Representative Director of Kubota Corporation (to present) Jun. 2002 General Manager of Corporate Compliance Headquarters Jun. 2001 Managing Director of Kubota Corporation, in charge of Corporate Planning & Control Dept., Finance & Accounting Dept., Corporate Information Systems Planning Dept. (assistant)  Aug. 2000 In charge of PV Business Planning & Promotion Dept. 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.  Jun. 1999 Director of Kubota Corporation Dec. 1998 General Manager of Corporate Planning & Control Dept. Apr. 1964 Joined Kubota Corporation
Moriya Hayashi (May 7, 1944)	31,000 Shares	Executive Vice President and Representative Director of Kubota Corporation, General Manager of Farm & Industrial Machinery Consolidated Division, General Manager of International Operations Headquarters in Farm & Industrial Machinery Consolidated Division  Apr. 2006 Executive Vice President and Representative Director of Kubota Corporation (to present) Apr. 2004 General Manager of Farm & Industrial Machinery Consolidated Division (to present) Apr. 2004 Executive Managing Director of Kubota Corporation Apr. 2003 Managing Director of Kubota Corporation, General Manager of Tractor Division Jan. 2002 General Manager of International Operations Headquarters in Farm & Industrial Machinery Consolidated Division (to present) Oct. 2001 Deputy General Manager of Tractor Division Jun. 2001 Director of Kubota Corporation Jun. 1999 President of Kubota Tractor Corporation Apr. 1969 Joined Kubota Corporation

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Toshihiro Fukuda  (Oct. 12, 1945)	47,000 Shares	Executive Managing Director of Kubota Corporation, in charge of Corporate Staff Section
		<p>Apr. 2007 In charge of Corporate Staff Section (to present)</p> <p>Apr. 2006 In charge of Secretary &amp; Public Relations Dept.</p> <p>Apr. 2005 In charge of CSR Planning &amp; Coordination Dept., General Manager of Corporate Compliance Headquarters</p> <p>Apr. 2005 Executive Managing Director of Kubota Corporation (to present)</p> <p>Apr. 2004 Managing Director of Kubota Corporation, in charge of Corporate Compliance Headquarters, Environmental Protection Dept., General Affairs Dept.</p> <p>Apr. 2003 General Manager of Farm Machinery Division</p> <p>Mar. 2003 In charge of Related Products Division</p> <p>Jun. 2002 Director of Kubota Corporation</p> <p>Oct. 2001 Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division and General Manager of Sales Coordination Dept. in Farm &amp; Industrial Machinery Consolidated Division</p> <p>Apr. 1969 Joined Kubota Corporation</p>
Yasuo Masumoto  (Apr. 21, 1947)	21,000 Shares	Executive Managing Director of Kubota Corporation, in charge of Tokyo Head Office, General Manager of Water, Environment & Infrastructure Consolidated Division, General Manager of Tokyo Head Office, General Manager of Production Control Headquarters in Water, Environment & Infrastructure Consolidated Division, General Manager of Coordination Dept. in Water, Environment & Infrastructure Consolidated Division
		<p>Apr. 2007 In charge of Tokyo Head Office, General Manager of Water, Environment &amp; Infrastructure Consolidated Division, General Manager of Tokyo Head Office, General Manager of Production Control Headquarters in Water, Environment &amp; Infrastructure Consolidated Division, General Manager of Coordination Dept. in Water, Environment &amp; Infrastructure Consolidated Division (to present)</p> <p>Apr. 2006 Executive Managing Director of Kubota Corporation (to present)</p> <p>Apr. 2005 Deputy General Manager of Industrial &amp; Material Systems Consolidated Division</p> <p>Jan. 2005 In charge of Quality Assurance &amp; Manufacturing Promotion Dept.</p> <p>Jun. 2004 General Manager of Purchasing Dept. in Industrial &amp; Material Systems Consolidated Division</p> <p>Apr. 2004 Managing Director of Kubota Corporation, in charge of Manufacturing Planning &amp; Promotion Dept.</p> <p>Apr. 2003 General Manager of Production Control Headquarters in Industrial &amp; Material Systems Consolidated Division</p> <p>Jun. 2002 Director of Kubota Corporation</p> <p>Oct. 2001 General Manager of Farm Machinery Division</p> <p>Apr. 1971 Joined Kubota Corporation</p>



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Eisaku Shinohara  (Aug. 25, 1947)	19,000 Shares	<p>Managing Director of Kubota Corporation, General Manager of R &amp; D Headquarters in Farm &amp; Industrial Machinery Consolidated Division, in charge of Research &amp; Development Planning &amp; Promotion Dept., Environmental Equipment R&amp;D Center</p> <p>Apr. 2007 In charge of Environmental Equipment R&amp;D Center (to present)</p> <p>Apr. 2005 Managing Director of Kubota Corporation, in charge of Research &amp; Development Planning &amp; Promotion Dept. (to present)</p> <p>Apr. 2004 General Manager of R &amp; D Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>Jun. 2003 Director of Kubota Corporation</p> <p>Oct. 2001 Deputy General Manager of R&amp;D Headquarters in Farm &amp; Industrial Machinery Consolidated Division and General Manager of Vehicle Technology Generalization Dept. in Tractor Division</p> <p>Apr. 1974 Joined Kubota Corporation</p>
Yoshihiko Tabata  (Mar. 23, 1946)	20,000 Shares	<p>Managing Director of Kubota Corporation, General Manager of Engine Division</p> <p>Oct. 2006 General Manager of Planning &amp; Sales Promotion Dept. in Engine Division</p> <p>Apr. 2006 Managing Director of Kubota Corporation (to present)</p> <p>Jun. 2004 Director of Kubota Corporation</p> <p>Oct. 2003 General Manager of Engine Division (to present)</p> <p>May 1998 President of Kubota Engine America Corporation</p> <p>Dec. 1976 Joined Kubota Corporation</p>
Kazunobu Ueta  (Jan. 1, 1947)	22,000 Shares	<p>Managing Director of Kubota Corporation, General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division</p> <p>Apr. 2006 Managing Director of Kubota Corporation (to present)</p> <p>Apr. 2005 In charge of Farm Facilities Division</p> <p>Apr. 2005 General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>Jun. 2004 Director of Kubota Corporation, in charge of Related Products Division</p> <p>Apr. 2004 In charge of Related Products Division (assistant) and Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division, General Manager of Sales Control Dept. in Farm &amp; Industrial Machinery Consolidated Division</p> <p>Apr. 2000 Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division</p> <p>Apr. 1969 Joined Kubota Corporation</p>
Morimitsu Katayama  (Jan. 17, 1948)	25,000 Shares	<p>Managing Director of Kubota Corporation, General Manager of Manufacturing Headquarters in Farm &amp; Industrial Machinery Consolidated Division, General Manager of Sakai Plant, in charge of Quality Assurance &amp; Manufacturing Promotion Dept.</p> <p>Apr. 2007 Managing Director of Kubota Corporation, in charge of Quality Assurance &amp; Manufacturing Promotion Dept. (to present)</p> <p>Jan. 2005 In charge of Quality Assurance &amp; Manufacturing Promotion Dept. (assistant)</p> <p>Jun. 2004 Director of Kubota Corporation, in charge of Manufacturing Planning &amp; Promotion Dept. (assistant)</p> <p>Apr. 2004 General Manager of Manufacturing Headquarters in Farm &amp; Industrial Machinery Consolidated Division and General Manager of Sakai Plant (to present)</p> <p>Apr. 2003 General Manager of Sakai Plant</p> <p>Oct. 2001 General Manager of Construction Machinery Division and General Manager of Construction Machinery Manufacturing Dept. in Hirakata Plant</p> <p>Apr. 1963 Joined Kubota Corporation</p>



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<p>Nobuyuki Toshikuni  (Jan. 30, 1951)</p>	<p>13,000 Shares</p>	<p>Managing Director of Kubota Corporation, General Manager of Tractor Division</p> <p>Apr. 2007 Managing Director of Kubota Corporation (to present)  Jun. 2004 Director of Kubota Corporation  Apr. 2004 General Manager of Tractor Division (to present)  Oct. 2001 President of Kubota Tractor Corporation  Apr. 1973 Joined Kubota Corporation</p>
<p>Hirokazu Nara  (Oct. 2, 1948)</p>	<p>16,000 Shares</p>	<p>Managing Director of Kubota Corporation, in charge of Corporate Staff Section (assistant), Corporate Planning &amp; Control Dept., Finance &amp; Accounting Dept.</p> <p>Apr. 2007 Managing Director of Kubota Corporation, in charge of Corporate Staff Section (assistant) (to present)  Oct. 2005 In charge of Corporate Planning &amp; Control Dept. (to present)  Jun. 2005 In charge of Finance &amp; Accounting Dept. (to present)  Jun. 2005 Director of Kubota Corporation, in charge of Air Condition Equipment Division, Septic Tanks Division, Housing &amp; Building Materials Business Coordination Dept., PV Business Planning &amp; Promotion Dept., General Manager of Corporate Planning &amp; Control Dept.  Apr. 2005 In charge of Air Condition Equipment Division (assistant), Septic Tanks Division (assistant), Housing &amp; Building Materials Business Coordination Dept. (assistant), PV Business Planning &amp; Promotion Dept. (assistant), Finance &amp; Accounting Dept. (assistant) and General Manager of Corporate Planning &amp; Control Dept.  Apr. 2003 General Manager of Corporate Planning &amp; Control Dept.  Jun. 1996 General Manager of Planning Dept. in Vending Machinery Division  Apr. 1971 Joined Kubota Corporation</p>
<p>Masayoshi Kitaoka  (Dec. 11, 1949)</p>	<p>9,000 Shares</p>	<p>Director of Kubota Corporation, in charge of Personnel Dept., Health &amp; Safety Planning &amp; Promotion Dept., General Manager of Head Office</p> <p>Apr. 2007 In charge of Personnel Dept., Health &amp; Safety Planning &amp; Promotion Dept., General Manager of Head Office (to present)  Jun. 2005 Director of Kubota Corporation (to present)  Apr. 2004 General Manager of Farm Machinery Division  Aug. 2003 General Manager of Electronic Equipped Machinery Division  Dec. 2002 General Manager of Electronic Equipped Machinery Division and General Manager of FA Sales Dept. in Electronic Equipped Machinery Division  Oct. 2001 General Manager of Electronic Equipped Machinery Division and General Manager of CAD Dept. in Electronic Equipped Machinery Division  Apr. 1973 Joined Kubota Corporation</p>

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Tetsuji Tomita  (Mar. 6, 1950)	9,000 Shares	Director of Kubota Corporation, President of Kubota Tractor Corporation  Jun. 2005 Director of Kubota Corporation (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 Kubota Corporation
Masatoshi Kimata  (Jun. 22, 1951)	17,000 Shares	Director of Kubota Corporation, Deputy General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division  Apr. 2007 Deputy General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division (to present) Jun. 2005 Director of Kubota Corporation (to present) Oct. 2001 General Manager of Tsukuba Plant Apr. 1977 Joined Kubota Corporation
Nobuyo Shioji  (Apr. 11, 1949)	3,000 Shares	Director of Kubota Corporation, General Manager of Construction Machinery Division  Jun. 2006 Director of Kubota Corporation (to present) Apr. 2005 General Manager of Construction Machinery Division (to present) Apr. 2004 General Manager of Construction Machinery Division and General Manager of Planning & Sales Promotion Dept. in Construction Machinery Division Apr. 2003 Deputy General Manager of Construction Machinery Division and General Manager of Planning & Sales Promotion Dept. in Construction Machinery Division Jun. 2001 General Manager of Planning & Sales Promotion Dept. in Construction Machinery Division Apr. 1973 Joined Kubota Corporation
Takeshi Torigoe  (Apr. 8, 1950)	12,000 Shares	Director of Kubota Corporation, General Manager of Steel Castings Division  Jun. 2006 Director of Kubota Corporation (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 Kubota Corporation
Satoru Sakamoto  (Jul. 18, 1952)	5,000 Shares	Director of Kubota Corporation, General Manager of Air Condition Equipment Division, President of Kubota Air Conditioner, Ltd.  Jun. 2006 Director of Kubota Corporation (to present) Apr. 2006 General Manager of Air Condition Equipment Division and President of Kubota Air Conditioner, Ltd. (to present) Oct. 2005 Deputy General Manager of Air Condition Equipment Division and Director of Kubota Air Conditioner, Ltd. Apr. 2003 General Manager of Planning Dept. in Ductile Iron Pipe Division Jun. 2001 General Manager of Corporate Planning & Control Dept. Apr. 1976 Joined Kubota Corporation

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Hideki Iwabu  (Oct. 21, 1952)	11,000 Shares	Director of Kubota Corporation, General Manager of Water & Sewage Engineering Division  Aug. 2006 General Manager of Planning Dept. in Water & Sewage Engineering Division Jun. 2006 Director of Kubota Corporation (to present) Apr. 2006 General Manager of Water & Sewage Engineering Division (to present) Apr. 2004 General Manager of Sewage Engineering Dept. II in Water & Sewage Engineering Division Jun. 2001 General Manager of Water & Sewage Engineering Dept. in Water & Sewage Engineering Division Apr. 1975 Joined Kubota Corporation
Takashi Yoshii  (Oct. 7, 1951)	16,000 Shares	Director of Kubota Corporation, President of Kubota Manufacturing of America Corporation  Jun. 2007 Director of Kubota Corporation (to present) Oct. 2005 President of Kubota Manufacturing of America Corporation (to present) Apr. 2005 General Manager of R&D Administration Dept. and General Manager of Prototype Engineering Dept. in Farm & Industrial Machinery Consolidated Division May 2003 General Manager of R&D Administration Dept. in Farm & Industrial Machinery Consolidated Division Apr. 1974 Joined Kubota Corporation
Kohkichi Uji  (Feb. 16, 1952)	4,000 Shares	Director of Kubota Corporation, General Manager of Ductile Iron Pipe Division, General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division and Director of Tops Water Co., Ltd.  Jun. 2007 Director of Kubota Corporation (to present) Apr. 2007 General Manager of Ductile Iron Pipe Division and General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division and Director of Tops Water Co., Ltd. (to present) Jun. 2006 General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division and Director of Tops Water Co., Ltd. Oct. 2003 General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division Apr. 2003 General Manager of Sales Administration Dept. in Ductile Iron Pipe Division Apr. 1974 Joined Kubota Corporation
Toshihiro Kubo  (Apr. 5, 1953)	8,000 Shares	Director of Kubota Corporation, General Manager of Planning Dept. in Ductile Iron Pipe Division  Jun. 2007 Director of Kubota Corporation (to present) Oct. 2005 General Manager of Planning Dept. in Ductile Iron Pipe Division (to present) Apr. 2003 General Manager of R&D Dept. in Ductile Iron Pipe Division Apr. 1979 Joined Kubota Corporation

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Kenshiro Ogawa	18,000 Shares	Director of Kubota Corporation, General Manager of Tsukuba Plant
(Jul. 23, 1953)		
		Jun. 2007 Director of Kubota Corporation (to present)
		Apr. 2007 General Manager of Tsukuba Plant (to present)
		Apr. 2003 General Manager of Engine Manufacturing Dept. in Sakai Plant and Rinkai Engine Manufacturing Dept. in Sakai Plant
		Apr. 1979 Joined Kubota Corporation
Junichi Maeda	20,000 Shares	Corporate Auditor of Kubota Corporation
(May 23, 1945)		
		Jun. 2005 Corporate Auditor of Kubota Corporation (to present)
		Jun. 2003 Director of Kubota Corporation
		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 Kubota Corporation
Yoshiharu Nishiguchi	22,000 Shares	Corporate Auditor of Kubota Corporation
(Jan.29, 1947)		
		Jun. 2007 Corporate Auditor of Kubota Corporation (to present)
		Apr. 2007 Director of Kubota Corporation
		Apr. 2006 In charge of General Affairs Dept., Tokyo Administration Dept.
		Apr. 2005 Managing Director of Kubota Corporation, in charge of Personnel Dept., Health & Safety Planning & Promotion Dept., General Manager of Head Office
		Apr. 2004 In charge of Septic Tanks Division, Housing & Building Materials Business Coordination Dept., Secretary & Public Relations Dept., PV Business Planning & Promotion Dept.
		Jun. 2003 Director of Kubota Corporation, in charge of Air Condition Equipment Division, Corporate Planning & Control Dept., Finance & Accounting Dept.
		Dec. 2002 General Manager of Compliance Auditing Dept.
		Jun. 2000 General Manager of Finance & Accounting Dept.
		Jul. 1998 General Manager of Accounting Dept.
		Apr. 1970 Joined Kubota Corporation
Yuzuru Mizuno	4,000 Shares	Corporate Auditor of Kubota Corporation
(Jan. 21, 1948)		
		Jul. 2005 Executive Senior Councilor of Corporate Accounting & Finance of Matsushita Electric Industrial Co., Ltd.
		Jun. 2005 Corporate Auditor of Kubota Corporation (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.



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Yoshio Suekawa (Sep. 1, 1937)	7,000 Shares	Corporate Auditor of Kubota Corporation
		Jun. 2004 Corporate Auditor of Kubota Corporation (to present)
		Apr. 2004 Appointed as a special visiting professor, the Faculty of Commerce, Doshisha University
		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)

Masanobu Wakabayashi (Jan. 19, 1944)	0 Shares	Corporate Auditor of Kubota Corporation
		Jun. 2007 Corporate Auditor of Kubota Corporation (to present)
		Mar. 2004 Chairman of Osaka Prefectural Labour Relations Commission (to present)
		Apr. 1993 Vice President of Osaka Bar Association
		Apr. 1979 Established Masanobu Wakabayashi Law Office (to present)
		Apr. 1970 Registered as an attorney with Osaka Bar Association

Among Directors or Corporate Auditors of Kubota Corporation, there is no family relationship. No Directors and Corporate Auditors, except Yoshio Suekawa and Masanobu Wakabayashi, Corporate Auditors, of Kubota Corporation have business activities 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 2007 to all Directors (some of whom are also the executive officers) and Corporate Auditors of the Company as a group (26 persons) was ¥894 million. No options to purchase securities from the registrant or any of its subsidiaries were outstanding on March 31, 2007.

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 four years from their assumption of office. However, they may serve any number of consecutive terms.

Under the Corporate Law, 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**

	2005	2006	2007
	22,916	23,049	23,727

**Head Count in Each Segment**

	2005	2006	2007
Internal Combustion Engine and Machinery	12,026	12,383	13,440
Pipes, Valves, and Industrial Castings	4,116	4,028	3,951
Environmental Engineering	2,489	2,563	2,484
Other	3,872	3,618	3,390
Corporate	413	457	462
Total	22,916	23,049	23,727

The number of full-time employees of Kubota as of March 31, 2007 was 23,727. 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 believes it maintains good relationship with the union.

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 22, 2007 was as follows:

Title of Class	Identity of persons or group	Number of shares owned	Percentage of class
Common stock	Directors and Corporate Auditors	430,000	0.03%

For individual shareholdings, see Item 6.A Directors and Senior Management.

Employee Stock Ownership Association (Kubota Fund) owned 16,824,807 shares as of March 31, 2007, which amounted to 1.3% 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, 2007, 4 shareholders held 5 percent or more of the shares issued. The 10 largest shareholders are as follows:

Name	(As of March 31, 2007)	
	Number of shares (thousand)	(%)
Japan Trustee Services Bank, Ltd.	103,855	8.03
The Master Trust Bank of Japan, Ltd.	103,070	7.97
Nippon Life Insurance Company	88,687	6.86
Meiji Yasuda Life Insurance Company	66,221	5.12
The Dai-ichi Mutual Life Insurance Company	47,307	3.66
Sumitomo Mitsui Banking Corporation	45,006	3.48
Mizuho Corporate Bank, Ltd.	40,851	3.16
The Chase Manhattan Bank N.A. London	40,194	3.11
Mizuho Bank, Ltd.	28,388	2.19
Trust & Custody Services Bank, Ltd.	24,670	1.90

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, 2007, there were 1,291,919,180 shares of Common Stock issued, of which 18,557,148 shares were in the form of ADR and 139,710,152 shares were held by the residents in the U.S. The number of registered ADR holders was 42 and the number of registered holders of common stock in the U.S. was 102.

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, 2007, the Company had sales transactions with affiliates accounted under the equity method, aggregating ¥51,882 million (\$439,678 thousand). As of March 31, 2007, the Company had trade notes and accounts receivable from affiliated companies of ¥18,411 million (\$156,025 thousand).

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 – 10 months prison sentences, suspended for 2 years.

In the meanwhile, the Company received a surcharge order of ¥7,072 million (\$59,932 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, 2007 the Company is still in the process of the hearing procedures.

**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 Item 5.D, 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 of		NYSE price per ADS				
	common stock High	Low	(5 common shares) High		Low		
Annual Highs and Lows							
2003	¥444	¥280	\$17	\$25	\$11	\$90	
2004	517	260	24	15	11	06	
2005	596	446	28	46	19	05	
Quarterly Highs and Lows							
2006							
1 <sup>st</sup> quarter	¥651	¥517	\$29	\$85	\$24	\$20	
2 <sup>nd</sup> quarter	821	603	36	49	27	67	
3 <sup>rd</sup> quarter	1,073	733	45	90	32	10	
4 <sup>th</sup> quarter	1,295	930	55	21	40	58	
2007							
1 <sup>st</sup> quarter	1,379	918	60	60	40	16	
2 <sup>nd</sup> quarter	1,123	897	48	95	38	51	
3 <sup>rd</sup> quarter	1,134	927	47	30	39	81	
4 <sup>th</sup> quarter	1,306	1,012	53	83	43	70	
2008							
1 <sup>st</sup> quarter	1,162	909	48	30	37	80	
Monthly Highs and Lows							
February, 2007	¥1,295	¥1,106	\$53	\$83	\$47	\$25	
March	1,207	1,012	49	99	43	70	
April	1,162	985	48	30	42	34	
May	1,134	909	47	04	37	80	
June	1,074	977	43	50	40	05	
July	1,116	977	45	80	40	53	
August	1,059	857	43	67	38	31	

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

**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 the Company's 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;

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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;
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.

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### 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, 2007, 1,291,919,180 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.

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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 ordinances of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by ordinances 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 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.

### ***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.

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### ***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) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (ii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) 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 (as long as its non-consolidated annual financial statements and certain documents for the last business year fairly present its asset and profit or loss status, as required by ordinances of the Ministry of Justice) (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 (i) 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 (i) 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.

### ***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. Any such report shall be filed with the Director General of the relevant Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors' Network (EDINET) system. Copies of such report must also be furnished to the issuer of such shares.

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. .

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 revenues 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, eligible 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 eligible 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 attributable 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 revenues*

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, 2009, and (ii) 15 percent for dividends due and payable on or after April 1, 2009. 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 or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and 10 percent under the income tax treaties with the U.K. and the United States).

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 are 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, as well as on the 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.

*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.*

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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 ADRs. 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, and subject to the passive foreign investment Company, or PFIC rules discussed below, 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 generally 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 the 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, 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*

**Subject to the PFIC rules discussed below, 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.**

### *Passive Foreign investment Company Rules*

We believe that the Common Stock and ADSs should not be treated as stock of a PFIC for U.S. federal income tax purposes, but this conclusion is a factual determination that is made annually thus may be subject to change. If we were to be treated as a PFIC, unless the Common Stock or ADSs are marketable stock and a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to the Common Stock or ADSs, gain realized on the sale or other disposition of the Common Stock or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

### **F. Dividends and Paying Agents**

Not applicable.

G. Statement by Experts

Not applicable.

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**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.

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.



**Table of Contents****Item 11. Quantitative and Qualitative Disclosures about Market Risk**

The Company is exposed to market risks, including changes of foreign currency exchanges rate, interest rates and prices of marketable equity securities. In order to hedge the risks of changes in foreign currency exchanges rates and interest rates, the Company uses derivative financial instruments. The Company uses these derivative financial instruments solely for risk hedging purposes and no derivative instruments are held or used for speculative purposes.

**Foreign Currency Exchange Risks**

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in 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.

The following table provides information regarding the Company's derivative financial instruments related to foreign exchange forward contracts and currency options as of March 31, 2007. All foreign exchange forward contracts and currency options have original maturities of less than one year.

**Foreign Exchange Forward Contracts and Currency Options (as of March 31, 2007)**

	Millions of Yen		Thousands of Dollars	
	Contract Amounts	Fair Value	Contract Amounts	Fair Value
Sell Baht, Buy Yen	¥ 41,093	¥ (1,234)	\$ 348,246	\$ (10,458)
Sell U.S. Dollar, Buy Yen	30,205	421	255,975	3,568
Sell Euro, Buy Yen	9,928	(82)	84,136	(695)
Others	1,380	(4)	11,694	(34)
<b>Total</b>	<b>¥ 82,606</b>	<b>¥ (899)</b>	<b>\$ 700,051</b>	<b>\$ (7,619)</b>

**Interest Rate Risks**

The Company is exposed to interest rate risks mainly inherent in its finance receivables and debt obligations. The Company has finance receivables with fixed rates and long-term debt with both fixed and variable rates. 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.

The following tables provide information about the Company's financial instruments that are sensitive to changes in interest rates at March 31, 2007. For finance receivables and long-term debt, these tables present annual maturities and fair value. For interest rate swap contracts, the table presents weighed average rate and notional amount by expected maturity dates.

**Finance Receivables (as of March 31, 2007)**

(Years ending March 31)	Millions of Yen	Thousands of U.S. Dollars
Annual maturities:		
2008	¥ 97,798	\$ 828,797
2009	74,335	629,958
2010	44,650	378,390
2011	29,909	253,466

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2012		14,354	121,644
2013 and thereafter		6,783	57,483
<b>Total</b>	<b>¥</b>	<b>267,829</b>	<b>\$ 2,269,738</b>
Fair value	<b>¥</b>	<b>248,744</b>	<b>\$ 2,108,000</b>

Long-Term Debt (as of March 31, 2007)

<b>(Years ending March 31)</b>		<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
Annual maturities:			
2008	<b>¥</b>	68,176	<b>\$ 577,763</b>
2009		57,613	488,246
2010		56,990	482,966
2011		17,451	147,890
2012		1,595	13,517
2013 and thereafter		13,132	111,288
<b>Total</b>	<b>¥</b>	<b>214,957</b>	<b>\$ 1,821,670</b>
Fair value	<b>¥</b>	<b>210,777</b>	<b>\$ 1,786,246</b>

Interest Rate Swap Contracts (as of March 31, 2007)

<b>(Maturities, years ending March 31)</b>	<b>Weighted average rate</b>		<b>Notional amount</b>	
	<b>Receive</b>	<b>Pay</b>	<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
2008	3.56%	3.66%	¥ 37,417	\$ 317,093
2009	3.85	3.92	28,710	243,305
2010	4.24	4.38	14,255	120,805
2011	3.52	4.27	900	7,627
2012	2.44	4.63	80	678
2013	2.44	4.63	13	110

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**Equity Price Risk**

The Company holds available-for-sale securities included in investments. These securities are exposed to changes in equity price risks. The estimated fair value of available-for-sale securities at March 31, 2007 was ¥204 billion (\$1,726 million). The Company does not hold marketable securities for trading purposes.

**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**

**Disclosure 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, 2007. Based on that evaluation, the Company's chief executive and chief financial officers concluded that the disclosure controls and procedures were effective as of that date.

**Management's Report on Internal Control over Financial Reporting**

Management's report on the Company's internal control over financial reporting, and the report of Deloitte Touche Tohmatsu, our independent registered public accounting firm, on management's assessment of the Company's internal control over financial reporting are presented in the Financial Section of the Company's 2007 Annual Report to Shareholders included as an attachment to this Form 20-F.

**Changes in Internal Control over Financial Reporting**

With the exception of the remediation measures described below which were implemented during the fiscal year ended March 31, 2007, no change in the Company's internal control over financial reporting occurred during that fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In the consolidated financial statements included in the Company's annual report on Form 20-F for the fiscal year ended March 31, 2005, the results of operations of a subsidiary which the Company sold during that fiscal year 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 ) No.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. To remediate this material weakness, the Company has taken the following measures during the fiscal years ended March 31, 2007.

The Company has formulated an accounting staff's checklist to ensure the correct application of SFAS No.144 with respect to discontinued operations. With this checklist, the Company's management now checks 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 No.144.

The Company has implemented management's additional oversight controls to review and approve accounting treatment and related documentation to ensure SFAS No.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 No.144 when the committee reviews the Company's financial statements and its disclosures. By the end of the fiscal year ended March 31, 2007, the Company has completed the implementation of the remediation measures described above.



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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 Price Waterhouse in Los Angeles. Currently he maintains Suekawa CPA Office. 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. 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 in April, 2004, 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 is incorporated by reference to this Annual Report.

**Table of Contents****Item 16C. Principal Accountant Fees and Services****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, 2007	Year ended March 31, 2006
Audit Fees	¥ 639	¥ 263
Audit-Related Fees	12	15
Tax Fees	174	149
All Other Fees	8	92
<b>Total</b>	<b>¥ 833</b>	<b>¥ 519</b>

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.

**Policies for Pre-Approval of Audit and Non-Audit Services rendered by Independent Registered Public Accounting Firm**

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 the services of its Independent Registered Public Accounting Firm. 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.

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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.



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**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.
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 the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by its 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 the Company, (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 2007:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (Yen)	(c) Total Number of	(d) Maximum Number of
			Shares Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2006 - April 30, 2006	13,955	1,295.14	0	0
May 1, 2006 - May 31, 2006	10,542	1,162.79	0	0
June 1, 2006 - June 30, 2006	8,060	995.68	0	10,000,000
July 1, 2006 - July 31, 2006	20,168	1,022.66	0	10,000,000
August 1, 2006 - August 31, 2006	4,714,874	930.09	4,700,000	5,300,000
September 1, 2006 - September 30, 2006	12,524	947.18	0	5,000,000
October 1, 2006 - October 31, 2006	11,156	1,017.14	0	5,000,000
November 1, 2006 - November 30, 2006	9,275	973.53	0	5,000,000
December 1, 2006 - December 31, 2006	30,988	1,050.39	0	5,000,000
January 1, 2007 - January 31, 2007	15,145	1,138.49	0	5,000,000
February 1, 2007 - February 28, 2007	3,120,983	1,274.71	3,100,000	1,900,000
March 1, 2007 - March 31, 2007	9,605	1,138.40	0	0
<b>Total</b>	<b>7,977,285</b>		<b>7,800,000</b>	

Note: 1) 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 in accordance with the Corporate law.

Note: 2) In fiscal 2007, the Company established 3 programs of purchasing its shares on market. The Company executed the programs pursuant to Article 165, Paragraph 2 of the Corporate Law and its Articles of Incorporation. 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 23, 2006

- i) Date of announcement: June 23, 2006
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥11.0 billion
- v) Period: From June 26, 2006 to September 19, 2006

(2) The program resolved at the Board of Directors Meeting held on September 20, 2006

- i) Date of announcement: September 20, 2006
- ii) Type of shares to be repurchased: Shares of common stock of the Company

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- iii) Number of shares to be repurchased: Not exceeding 5.0 million shares
  - iv) Amount of shares to be repurchased: Not exceeding ¥5.0 billion
  - v) Period: From September 21, 2006 to December 14, 2006
- (3) The program resolved at the Board of Directors Meeting held on December 15, 2006

- i) Date of announcement: December 15, 2006
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 5.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥5.0 billion
- v) Period: From December 18, 2006 to March 22, 2007

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**PART III**

**Item 17. Financial Statements**

See Financial Section of the Company's 2007 Annual Report to Shareholders attached hereto.

**Item 18. Financial Statements**

Not applicable.

**Item 19. Exhibits**

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

- 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 26, 2007

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

**Table of Contents****Attachment**

Financial Section of the Company's 2007 Annual Report to Shareholders

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<u>Report of Independent Registered Public Accounting Firm</u> (relating to management's report on internal control over financial reporting)	56

**Table of Contents****Five-Year Financial Summary**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, 2005, 2004, and 2003

	Millions of Yen					Thousands of U.S. Dollars (Except Per Share Information)
	(Except Per Share Information)					(Note 1)
	2007	2006	2005	2004	2003	2007
<b>For the year</b>						
Revenues	¥ 1,127,456	¥ 1,065,736	¥ 994,483	¥ 939,234	¥ 934,765	\$ 9,554,712
Percentage of previous year	105.8%	107.2%	105.9%	100.5%	95.9%	
Cost of revenues	794,687	753,952	716,495	703,938	698,149	6,734,635
Selling, general, and administrative expenses	199,356	186,017	182,498	199,062	180,857	1,689,458
Loss from disposal and impairment of businesses and fixed assets	3,066	4,709	1,414	6,359	2,816	25,983
Operating income	130,347	121,058	94,076	29,875	52,943	1,104,636
Income from continuing operations	77,743	81,149	107,132	12,848	8,995	658,839
Income (loss) from discontinued operations, net of taxes	(1,286)	(115)	10,769	(1,148)	(16,999)	(10,898)
Net income (loss):	76,457	81,034	117,901	11,700	(8,004)	647,941
Percentage of previous year	94.4%	68.7%	1,007.7%			
Percentage of revenues	6.8%	7.6%	11.9%	1.2%	(0.9)%	
<b>At year-end</b>						
Total assets	¥ 1,502,532	¥ 1,405,402	¥ 1,193,056	¥ 1,124,225	¥ 1,139,011	\$ 12,733,322
Working capital	240,417	241,786	171,326	199,747	159,221	2,037,432
Long-term debt	150,105	152,024	117,488	144,845	155,966	1,272,076
Total shareholders equity	659,637	606,484	481,019	391,082	315,443	5,590,144
<b>Per common share and per 5 common shares data (Yen and U.S. Dollars):</b>						
Income from continuing operations per common share:						
Basic	¥ 60.00	¥ 62.23	¥ 80.97	¥ 9.57	¥ 6.56	\$ 0.51
Diluted	60.00	61.76	78.91	9.34	6.56	0.51
Income from continuing operations per 5 common shares:						
Basic	¥ 300	¥ 311	¥ 405	¥ 48	¥ 33	\$ 2.55
Diluted	300	309	395	47	33	2.55
Net income (loss) per common share:						
Basic	¥ 59.01	¥ 62.14	¥ 89.11	¥ 8.72	¥ (5.84)	\$ 0.50
Diluted	59.01	61.67	86.83	8.53	(5.84)	0.50
Net income (loss) per 5 common shares:						
Basic	¥ 295	¥ 311	¥ 446	¥ 44	¥ (29)	\$ 2.50
Diluted	295	308	434	43	(29)	2.50
Shareholders equity per common share outstanding						
	¥ 510.75	¥ 466.71	¥ 369.90	¥ 291.81	¥ 234.45	\$ 4.33
Shareholders equity per 5 common shares outstanding						
	¥ 2,554	¥ 2,334	¥ 1,849	¥ 1,459	¥ 1,172	\$ 21.64



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Cash dividends per common share	¥	11	¥	9	¥	6	¥	6	¥	6	\$	0.09
Cash dividends per 5 common shares	¥	55	¥	45	¥	30	¥	30	¥	30	\$	0.47

- Notes:
- The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥118=US\$1. See Note 1 to the 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. See Note 1 to the consolidated financial statements.
  - 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.
  - Cash dividends per common share are based on dividends paid during the year.
  - The figures of the consolidated statements of income from 2003 through 2006 related to the retail finance business have been reclassified to conform to the current year presentation. See Note 1 to the consolidated financial statements.
  - In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, 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. See Note 19 to the consolidated financial statements.

**Table of Contents****SEGMENT INFORMATION**

The following segment information for the years ended March 31, 2007 and 2006, which is required under the regulations of the Securities and Exchange Law of Japan, is not consistent with accounting principles generally accepted in the United States of America.

***Industry Segments***

	Millions of Yen						
	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
<b>Year Ended March 31, 2007</b>							
Revenues:							
Unaffiliated customers	¥ 746,808	¥ 194,224	¥ 90,613	¥ 95,811	¥ 1,127,456	¥	¥ 1,127,456
Intersegment	22	768	340	16,893	18,023	(18,023)	
Total	746,830	194,992	90,953	112,704	1,145,479	(18,023)	1,127,456
Cost of revenues and operating expenses	621,926	172,985	96,568	105,577	997,056	53	997,109
Operating income (loss)	¥ 124,904	¥ 22,007	¥ (5,615)	¥ 7,127	¥ 148,423	¥ (18,076)	¥ 130,347
Identifiable assets at March 31, 2007	¥ 862,298	¥ 197,555	¥ 68,742	¥ 97,192	¥ 1,225,787	¥ 276,745	¥ 1,502,532
Depreciation	16,241	4,776	590	1,305	22,912	2,182	25,094
Loss from impairment	12		138		150	298	448
Capital expenditures	30,308	4,549	647	1,830	37,334	7,381	44,715

	Millions of Yen						
	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
<b>Year Ended March 31, 2006</b>							
Revenues:							
Unaffiliated customers	¥ 674,087	¥ 189,708	¥ 109,864	¥ 92,077	¥ 1,065,736	¥	¥ 1,065,736
Intersegment	40	2,184	209	15,176	17,609	(17,609)	
Total	674,127	191,892	110,073	107,253	1,083,345	(17,609)	1,065,736
Cost of revenues and operating expenses	563,517	172,637	105,783	105,073	947,010	(2,332)	944,678
Operating income	¥ 110,610	¥ 19,255	¥ 4,290	¥ 2,180	¥ 136,335	¥ (15,277)	¥ 121,058
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	575	1,492	22,659	2,508	25,167
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

Thousands of U.S. Dollars

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Year Ended March 31, 2007	Internal Combustion Engine & Machinery	Pipes, Valves, & Industrial Castings	Environmental Engineering	Other	Total	Corporate & Eliminations	Consolidated
<b>Revenues:</b>							
Unaffiliated customers	\$ 6,328,881	\$ 1,645,966	\$ 767,907	\$ 811,958	\$ 9,554,712	\$	\$ 9,554,712
Intersegment	187	6,508	2,881	143,161	152,737	(152,737)	
<b>Total</b>	<b>6,329,068</b>	<b>1,652,474</b>	<b>770,788</b>	<b>955,119</b>	<b>9,707,449</b>	<b>(152,737)</b>	<b>9,554,712</b>
<b>Cost of revenues and operating expenses</b>	<b>5,270,560</b>	<b>1,465,974</b>	<b>818,373</b>	<b>894,720</b>	<b>8,449,627</b>	<b>449</b>	<b>8,450,076</b>
<b>Operating income (loss)</b>	<b>\$ 1,058,508</b>	<b>\$ 186,500</b>	<b>\$ (47,585)</b>	<b>\$ 60,399</b>	<b>\$ 1,257,822</b>	<b>\$ (153,186)</b>	<b>\$ 1,104,636</b>
<b>Identifiable assets at March 31, 2007</b>	<b>\$ 7,307,610</b>	<b>\$ 1,674,195</b>	<b>\$ 582,559</b>	<b>\$ 823,661</b>	<b>\$ 10,388,025</b>	<b>\$ 2,345,297</b>	<b>\$ 12,733,322</b>
Depreciation	137,636	40,474	5,000	11,059	194,169	18,492	212,661
Loss from impairment	102		1,169		1,271	2,526	3,797
Capital expenditures	256,847	38,551	5,483	15,509	316,390	62,551	378,941

- Notes: 1. The Company changed the presentation of finance income and expenses from retail finance business, which are classified into Revenues and Cost of revenues and operating expenses .
2. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the results of operations related to discontinued operations are eliminated from Environmental Engineering , Total , and Consolidated .

**Table of Contents****Geographic Segments**

Year Ended March 31, 2007	Millions of Yen				Corporate & Eliminations	Consolidated
	Japan	North America	Other Areas	Total		
<b>Revenues:</b>						
Unaffiliated customers	¥ 637,881	¥ 325,188	¥ 164,387	¥ 1,127,456	¥	¥ 1,127,456
Intersegment	270,392	7,392	5,843	283,627	(283,627)	
<b>Total</b>	<b>908,273</b>	<b>332,580</b>	<b>170,230</b>	<b>1,411,083</b>	<b>(283,627)</b>	<b>1,127,456</b>
Cost of revenues and operating expenses	810,520	297,951	152,193	1,260,664	(263,555)	997,109
Operating income	¥ 97,753	¥ 34,629	¥ 18,037	¥ 150,419	¥ (20,072)	¥ 130,347
Identifiable assets at March 31, 2007	¥ 745,943	¥ 452,994	¥ 131,412	¥ 1,330,349	¥ 172,183	¥ 1,502,532

Year Ended March 31, 2006	Millions of Yen				Corporate & Eliminations	Consolidated
	Japan	North America	Other Areas	Total		
<b>Revenues:</b>						
Unaffiliated customers	¥ 660,379	¥ 286,335	¥ 119,022	¥ 1,065,736	¥	¥ 1,065,736
Intersegment	250,976	4,934	4,070	259,980	(259,980)	
<b>Total</b>	<b>911,355</b>	<b>291,269</b>	<b>123,092</b>	<b>1,325,716</b>	<b>(259,980)</b>	<b>1,065,736</b>
Cost of revenues and operating expenses	807,439	264,498	111,616	1,183,553	(238,875)	944,678
Operating income	¥ 103,916	¥ 26,771	¥ 11,476	¥ 142,163	¥ (21,105)	¥ 121,058
Identifiable assets at March 31, 2006	¥ 730,366	¥ 390,122	¥ 80,353	¥ 1,200,841	¥ 204,561	¥ 1,405,402

Year Ended March 31, 2007	Thousands of U.S. Dollars				Corporate & Eliminations	Consolidated
	Japan	North America	Other Areas	Total		
<b>Revenues:</b>						
Unaffiliated customers	\$ 5,405,771	\$ 2,755,831	\$ 1,393,110	\$ 9,554,712	\$	\$ 9,554,712
Intersegment	2,291,457	62,644	49,517	2,403,618	(2,403,618)	
<b>Total</b>	<b>7,697,228</b>	<b>2,818,475</b>	<b>1,442,627</b>	<b>11,958,330</b>	<b>(2,403,618)</b>	<b>9,554,712</b>
Cost of revenues and operating expenses	6,868,813	2,525,009	1,289,771	10,683,593	(2,233,517)	8,450,076
Operating income	\$ 828,415	\$ 293,466	\$ 152,856	\$ 1,274,737	\$ (170,101)	\$ 1,104,636
Identifiable assets at March 31, 2007	\$ 6,321,551	\$ 3,838,932	\$ 1,113,661	\$ 11,274,144	\$ 1,459,178	\$ 12,733,322

- Notes: 1. The Company changed the presentation of finance income and expenses from retail finance business, which are classified into Revenues and Cost of revenues and operating expenses .
2. In accordance with SFAS No. 144, the results of operations related to discontinued operations are eliminated from Japan , Total , and Consolidated .

**Revenues by Region**

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Years Ended March 31, 2007 and 2006	Millions of Yen				Thousands of
	2007		2006		U.S. Dollars 2007
Japan	¥ 603,502	53.5%	¥ 632,128	59.3%	\$ 5,114,424
Overseas:					
North America	323,092	28.7	284,586	26.7	2,738,068
Other Areas	200,862	17.8	149,022	14.0	1,702,220
Subtotal	523,954	46.5	433,608	40.7	4,440,288
Total	¥ 1,127,456	100.0%	¥ 1,065,736	100.0%	\$ 9,554,712

- Notes:
1. Revenues by region represent revenues to unaffiliated customers based on the customers' locations.
  2. The Company changed the presentation of finance income from retail finance business, which is classified into Revenues.
  3. In accordance with SFAS No. 144, revenues from discontinued operations are eliminated from Japan and Total.

**Table of Contents****Consolidated Balance Sheets**

Kubota Corporation and Subsidiaries March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	(Note 1) 2007
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 82,601	¥ 91,858	\$ 700,008
Notes and accounts receivable (Notes 3, 6, 7, 10 and 18):			
Trade notes	82,491	70,007	699,076
Trade accounts	235,728	242,865	1,997,695
Less: Allowance for doubtful notes and accounts receivable	(2,011)	(2,155)	(17,042)
Short-term finance receivables net (Notes 5, 7 and 18)	97,798	79,116	828,797
Inventories (Note 2)	205,658	175,660	1,742,864
Other current assets (Notes 12 and 18)	114,835	100,873	973,178
<b>Total current assets</b>	<b>817,100</b>	<b>758,224</b>	<b>6,924,576</b>
<b>Investments and long-term finance receivables:</b>			
Investments in and advances to affiliated companies (Note 3)	13,754	13,145	116,559
Other investments (Note 4)	215,130	236,629	1,823,136
Long-term finance receivables net (Notes 5, 7 and 18)	170,031	124,509	1,440,941
<b>Total investments and long-term finance receivables</b>	<b>398,915</b>	<b>374,283</b>	<b>3,380,636</b>
<b>Property, plant, and equipment (Note 7):</b>			
Land	90,416	82,978	766,237
Buildings	208,529	203,985	1,767,195
Machinery and equipment	362,732	367,150	3,074,000
Construction in progress	8,216	6,236	69,627
<b>Total</b>	<b>669,893</b>	<b>660,349</b>	<b>5,677,059</b>
Accumulated depreciation	(432,247)	(433,977)	(3,663,110)
<b>Net property, plant, and equipment</b>	<b>237,646</b>	<b>226,372</b>	<b>2,013,949</b>
<b>Other assets (Notes 6, 8 and 12)</b>	<b>48,871</b>	<b>46,523</b>	<b>414,161</b>
<b>Total</b>	<b>¥ 1,502,532</b>	<b>¥ 1,405,402</b>	<b>\$ 12,733,322</b>

See notes to consolidated financial statements.

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	Thousands of		
	Millions of Yen		U.S. Dollars
	2007	2006	(Note 1) 2007
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 128,365	¥ 132,209	\$ 1,087,839
Trade notes payable	30,487	33,560	258,364
Trade accounts payable	206,808	186,901	1,752,610
Advances received from customers	3,699	7,311	31,347
Notes and accounts payable for capital expenditures	20,895	13,348	177,076
Accrued payroll costs	28,277	24,310	239,636
Accrued expenses	32,498	28,587	275,407
Income taxes payable	23,945	12,376	202,924
Other current liabilities (Notes 12 and 17)	30,280	27,816	256,610
Current portion of long-term debt (Note 7)	71,429	50,020	605,331
<b>Total current liabilities</b>	<b>576,683</b>	<b>516,438</b>	<b>4,887,144</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	150,105	152,024	1,272,076
Accrued retirement and pension costs (Note 8)	27,306	53,633	231,407
Other long-term liabilities (Note 12)	52,732	47,925	446,881
<b>Total long-term liabilities</b>	<b>230,143</b>	<b>253,582</b>	<b>1,950,364</b>
<b>Commitments and contingencies (Note 17)</b>			
<b>Minority interests</b>	<b>36,069</b>	<b>28,898</b>	<b>305,670</b>
<b>Shareholders equity (Notes 9 and 14):</b>			
Common stock,			
authorized 1,874,700,000 shares in 2007 and 2006, respectively			
outstanding 1,291,512,741 shares and 1,299,487,964 shares in 2007 and			
2006, respectively			
Capital surplus	84,070	84,070	712,458
Legal reserve	93,150	93,150	789,407
Retained earnings (Note 3)	19,539	19,539	165,585
Accumulated other comprehensive income	376,815	323,116	3,193,347
Treasury stock (406,439 shares and 381,216 shares in 2007 and 2006, respectively), at cost	86,247	86,769	730,907
	(184)	(160)	(1,560)
<b>Total shareholders equity</b>	<b>659,637</b>	<b>606,484</b>	<b>5,590,144</b>
<b>Total</b>	<b>¥ 1,502,532</b>	<b>¥ 1,405,402</b>	<b>\$ 12,733,322</b>

**Table of Contents****Consolidated Statements of Income**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, and 2005

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	(Note 1) 2007
<b>Revenues (Notes 3 and 5)</b>	<b>¥ 1,127,456</b>	<b>¥ 1,065,736</b>	<b>¥ 994,483</b>	<b>\$ 9,554,712</b>
<b>Cost of revenues (Note 5)</b>	<b>794,687</b>	<b>753,952</b>	<b>716,495</b>	<b>6,734,635</b>
<b>Selling, general, and administrative expenses</b>	<b>199,356</b>	<b>186,017</b>	<b>182,498</b>	<b>1,689,458</b>
<b>Loss from disposal and impairment of businesses and fixed assets (Note 16)</b>	<b>3,066</b>	<b>4,709</b>	<b>1,414</b>	<b>25,983</b>
<b>Operating income</b>	<b>130,347</b>	<b>121,058</b>	<b>94,076</b>	<b>1,104,636</b>
<b>Other income (expenses):</b>				
Interest and dividend income	3,283	2,807	1,942	27,822
Interest expense	(1,219)	(1,156)	(1,662)	(10,330)
Gain on sales of securities net (Note 4)	1,313	4,703	1,604	11,127
Gain on nonmonetary exchange of securities (Note 1)	997	15,901		8,449
Subsidy from the government (Note 8)			58,571	
Other net (Note 11)	(3,156)	(2,792)	1,835	(26,746)
<b>Other income, net</b>	<b>1,218</b>	<b>19,463</b>	<b>62,290</b>	<b>10,322</b>
<b>Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies</b>	<b>131,565</b>	<b>140,521</b>	<b>156,366</b>	<b>1,114,958</b>
<b>Income taxes (Note 12):</b>				
Current	48,008	34,433	34,491	406,848
Deferred	953	21,634	13,625	8,076
<b>Total income taxes</b>	<b>48,961</b>	<b>56,067</b>	<b>48,116</b>	<b>414,924</b>
<b>Minority interests in earnings of subsidiaries</b>	<b>6,214</b>	<b>4,938</b>	<b>3,442</b>	<b>52,661</b>
<b>Equity in net income of affiliated companies (Note 3)</b>	<b>1,353</b>	<b>1,633</b>	<b>2,324</b>	<b>11,466</b>
<b>Income from continuing operations</b>	<b>77,743</b>	<b>81,149</b>	<b>107,132</b>	<b>658,839</b>
<b>Income (loss) from discontinued operations, net of taxes (Note 19)</b>	<b>(1,286)</b>	<b>(115)</b>	<b>10,769</b>	<b>(10,898)</b>
<b>Net income</b>	<b>¥ 76,457</b>	<b>¥ 81,034</b>	<b>¥ 117,901</b>	<b>\$ 647,941</b>
				U.S. Dollars
		Yen		(Note 1)
<b>Net income (loss) per common share (Note 13):</b>				
Basic:				
Continuing operations	¥ 60.00	¥ 62.23	¥ 80.97	\$ 0.51



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Discontinued operations		(0.99)		(0.09)		8.14		(0.01)
<b>Net income</b>	<b>¥</b>	<b>59.01</b>	<b>¥</b>	62.14	<b>¥</b>	89.11	<b>\$</b>	<b>0.50</b>
Diluted:								
Continuing operations	<b>¥</b>	<b>60.00</b>	<b>¥</b>	61.76	<b>¥</b>	78.91	<b>\$</b>	<b>0.51</b>
Discontinued operations		(0.99)		(0.09)		7.92		(0.01)
<b>Net income</b>	<b>¥</b>	<b>59.01</b>	<b>¥</b>	61.67	<b>¥</b>	86.83	<b>\$</b>	<b>0.50</b>

See notes to consolidated financial statements.

**Table of Contents****Consolidated Statements of Comprehensive Income (Loss)**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	2007
	¥	¥	¥	\$
<b>Net income</b>	<b>¥ 76,457</b>	<b>¥ 81,034</b>	<b>¥ 117,901</b>	<b>\$ 647,941</b>
<b>Other comprehensive income (loss), net of tax (Note 14):</b>				
Foreign currency translation adjustments	<b>4,670</b>	13,570	(1,468)	<b>39,576</b>
Unrealized gains (losses) on securities	<b>(13,607)</b>	45,017	517	<b>(115,313)</b>
Minimum pension liability adjustment			3,492	
Unrealized gains (losses) on derivatives	<b>(244)</b>	675	(1,109)	<b>(2,068)</b>
<b>Other comprehensive income (loss)</b>	<b>(9,181)</b>	59,262	1,432	<b>(77,805)</b>
<b>Comprehensive income</b>	<b>¥ 67,276</b>	<b>¥ 140,296</b>	<b>¥ 119,333</b>	<b>\$ 570,136</b>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, and 2005

	Shares of Common Stock Outstanding (Thousands)	Millions of Yen					Accumulated	Treasury Stock at Cost
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Other		
						Comprehensive Income (Loss)		
<b>Balance, March 31, 2004</b>	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	
<b>Balance, March 31, 2005</b>	1,300,413	78,156	87,263	19,539	290,187	27,507	(21,633)	
Net income					81,034			
Other comprehensive income						59,262		
Cash dividends, ¥9 per common share					(11,769)			
Purchases of treasury stock	(16,285)						(14,863)	
Retirement of treasury stock					(36,336)		36,336	
Conversion of bonds	15,360	5,914	5,887					

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<b>Balance, March 31, 2006</b>	1,299,488	84,070	93,150	19,539	323,116	86,769	(160)
Net income					<b>76,457</b>		
Other comprehensive loss						<b>(9,181)</b>	
Adjustment to initially apply SFAS No. 158, net of taxes						<b>8,659</b>	
Cash dividends, ¥11 per common share					<b>(14,274)</b>		
Purchases of treasury stock	<b>(7,975)</b>						<b>(8,508)</b>
Retirement of treasury stock					<b>(8,484)</b>		<b>8,484</b>
<b>Balance, March 31, 2007</b>	<b>1,291,513</b>	<b>¥ 84,070</b>	<b>¥ 93,150</b>	<b>¥ 19,539</b>	<b>¥ 376,815</b>	<b>¥ 86,247</b>	<b>¥ (184)</b>

Thousands of U.S. Dollars (Note 1)

	Accumulated						
	Common		Capital	Legal	Retained	Other	Treasury
	Stock	Surplus	Reserve	Earnings	Income (Loss)	Stock	
<b>Balance, March 31, 2006</b>	\$ 712,458	\$ 789,407	\$ 165,585	\$ 2,738,271	\$ 735,331	\$ (1,356)	
Net income				<b>647,941</b>			
Other comprehensive loss					<b>(77,805)</b>		
Adjustment to initially apply SFAS No. 158, net of taxes					<b>73,381</b>		
Cash dividends, \$0.09 per common share				<b>(120,967)</b>			
Purchases of treasury stock						<b>(72,102)</b>	
Retirement of treasury stock				<b>(71,898)</b>		<b>71,898</b>	
<b>Balance, March 31, 2007</b>	<b>\$ 712,458</b>	<b>\$ 789,407</b>	<b>\$ 165,585</b>	<b>\$ 3,193,347</b>	<b>\$ 730,907</b>	<b>\$ (1,560)</b>	

See notes to consolidated financial statements.

**Table of Contents****Consolidated Statements of Cash Flows**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, and 2005

	2007	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2007
<b>Operating activities:</b>				
Net income	¥ 76,457	¥ 81,034	¥ 117,901	\$ 647,941
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	27,097	25,821	25,808	229,635
Subsidy from the government			(58,571)	
Gain on sales of securities	(1,313)	(4,703)	(1,604)	(11,127)
Gain on nonmonetary exchange of securities	(997)	(15,901)		(8,449)
Minority interests in earnings of subsidiaries	6,214	4,938	3,442	52,661
Equity in net income of affiliated companies	(1,353)	(1,633)	(2,324)	(11,466)
Deferred income taxes	953	21,634	13,625	8,076
Change in assets and liabilities, net of effects from sales and transfer of businesses:				
(Increase) decrease in notes and accounts receivable	35	11,099	(19,540)	297
Increase in inventories	(24,255)	(11,736)	(8,129)	(205,551)
Increase in other current assets	(3,935)	(10,559)	(15,159)	(33,347)
Increase (decrease) in trade notes and accounts payable	11,999	(4,060)	22,404	101,686
Increase (decrease) in income taxes payable	11,305	(167)	(3,363)	95,805
Increase in other current liabilities	5,085	4,408	3,151	43,093
Decrease in accrued retirement and pension costs	(10,942)	(12,514)	(7,306)	(92,729)
Other	480	196	(3,427)	4,068
Net cash provided by operating activities	96,830	87,857	66,908	820,593
<b>Investing activities:</b>				
Purchases of fixed assets	(34,286)	(25,680)	(20,818)	(290,559)
Purchases of investments and change in advances	(1,311)	442	(495)	(11,110)
Proceeds from sales of property, plant, and equipment	3,709	5,568	2,769	31,432
Proceeds from sales of investments	2,391	8,499	2,981	20,263
Proceeds from sale of business		218	1,117	
Increase in finance receivables	(190,098)	(142,393)	(119,878)	(1,611,000)
Collection of finance receivables	129,442	80,163	53,575	1,096,966
Sales of finance receivables		11,753	5,208	
Net decrease in short-term investments			3,001	
Cash transferred in sale of a business			(6,048)	
Other	146	138	360	1,237
Net cash used in investing activities	(90,007)	(61,292)	(78,228)	(762,771)
<b>Financing activities:</b>				
Proceeds from issuance of long-term debt	86,434	88,829	39,582	732,492
Repayments of long-term debt	(73,654)	(71,719)	(39,081)	(624,186)
Net increase (decrease) in short-term borrowings	(5,937)	335	34,453	(50,314)
Cash dividends	(14,274)	(11,769)	(7,989)	(120,967)
Purchases of treasury stock	(8,515)	(14,898)	(21,451)	(72,161)
Other	(889)	(964)	(1,006)	(7,533)

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Net cash provided by (used in) financing activities	(16,835)	(10,186)	4,508	(142,669)
Effect of exchange rate changes on cash and cash equivalents	755	916	154	6,398
Net increase (decrease) in cash and cash equivalents	(9,257)	17,295	(6,658)	(78,449)
Cash and cash equivalents, beginning of year	91,858	74,563	81,221	778,457
Cash and cash equivalents, end of year	¥ 82,601	¥ 91,858	¥ 74,563	\$ 700,008

See notes to consolidated financial statements.

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### **Notes to Consolidated Financial Statements**

Kubota Corporation and Subsidiaries Years Ended March 31, 2007, 2006, and 2005

#### **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 8 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 2006 and 2005 to conform with classifications used in 2007.

##### **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, 2007 of ¥118=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, as applicable.

The Company is involved with a VIE which engages 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, 2007 and 2006 were ¥1,057 million (\$8,958 thousand) and ¥2,497 million, respectively. 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 to consolidated revenues for the years ended March 31, 2007, 2006, and 2005 that pertain to long-term contracts were 1.8%, 4.0%, and 6.2%, 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 to consolidated revenues for the years ended March 31, 2007, 2006, and 2005 that pertain to housing real estate sales were 0.8%, 0.5%, 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. Those portions retained are subsequently measured at fair value. The Company estimates fair value based on the present value of future expected cash flows less credit losses.

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

### **Allowance for Doubtful Receivables**

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

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### **Inventories**

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

### **Investments**

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

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

#### **(Merger of Bank of Tokyo and Mitsubishi Bank)**

On April 1, 1996, The Bank of Tokyo, Ltd. ( BOT ) and The Mitsubishi Bank, Limited, merged. Upon the merger, each common share of BOT owned by the Company which had been carried at cost was converted into 0.8 share of the combined entity, The Bank of Tokyo-Mitsubishi, Ltd. (currently part of Mitsubishi UFJ Financial Group, Inc. ( MUFG )). For purposes of comparability with financial statements under Japanese GAAP, the Company did not account for the exchange under EITF 91-5, which requires recognition of a nonmonetary exchange gain on the common shares of BOT.

If EITF 91-5 had been adopted, net income for the year ended March 31, 1997 would have increased by ¥3,081 million reflecting the unrecognized gain on the initial nonmonetary exchange, and net losses for the years ended March 31 from 1999 through 2003 would have increased totaling ¥3,461 million reflecting primarily subsequent losses on sales and impairment of the investment. There would have been no impact on operating results for the years ended March 31, 2007, 2006, and 2005. Retained earnings would have decreased by ¥380 million (\$3,220 thousand) at March 31, 2007, 2006, and 2005, with a corresponding increase in accumulated other comprehensive income.

#### **(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, 2006, the Company accounted for the gain on nonmonetary exchange of securities of ¥15,901 million, based on the fair value of MUFG's common shares of ¥18,284 million less carrying amounts of UFJ's common shares of ¥2,383 million.

#### **(Merger of Hanshin Electric Railway and Hankyu Holdings)**

On October 1, 2006, Hanshin Electric Railway Co., Ltd. ( Hanshin ) and Hankyu Holdings, Inc. merged. Upon the merger, each common share of Hanshin owned by the Company which had been carried at cost was converted into 1.4 shares of the combined entity, Hankyu Hanshin Holdings, Inc. ( Hankyu Hanshin ).

For the year ended March 31, 2007, the Company accounted for gain on nonmonetary exchange of securities of ¥997 million (\$8,449 thousand), based on the fair value of Hankyu Hanshin's common shares of ¥1,205 million (\$10,212 thousand) less carrying amounts of Hanshin's common shares of ¥208 million (\$1,763 thousand).

### **Property, Plant, and Equipment**



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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.

### **Retirement and Pension Plans**

The Company accounted for retirement and pension plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R). The Company adopted the recognition and disclosure provisions of SFAS No. 158 on March 31, 2007. The Company recognizes its underfunded status of the defined benefit plan as a liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax.

The Company amortizes the prior service costs (benefits) due to amendments of the benefit plans 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 14 years).

### **Consideration Given by a Vendor to a Customer**

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

### **Research and Development and Advertising**

Research and development and advertising costs are expensed as incurred.

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### **Shipping and Handling Costs**

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

### **Expense from the Payments 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 No. 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 recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value.

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

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

### **Impairment of Long-Lived Assets**

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

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

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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, 2007, 2006, and 2005, time deposits with original maturities of three months or less amounting to ¥3,832 million (\$32,475 thousand), ¥4,195 million, and ¥3,333 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥11,066 million (\$93,780 thousand), ¥6,911 million, and ¥4,401 million, and for income taxes amounted to ¥36,733 million (\$311,297 thousand), ¥32,724 million, and ¥32,092 million in 2007, 2006, and 2005, respectively.

The Company retired treasury stock of ¥8,484 million (\$71,898 thousand), ¥36,336 million, and ¥23,881 million in 2007, 2006, and 2005, respectively.

Convertible bonds of ¥11,801 million were converted into common stock in 2006.

The Company capitalized leased assets under capital leases of ¥4,231 million (\$35,856 thousand), ¥3,945 million, and ¥3,909 million in 2007, 2006, and 2005, 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 June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109*. This interpretation introduces a new approach that significantly changes how companies recognize and measure tax benefits associated with tax positions and disclose uncertainties related to income tax positions. This interpretation is effective in fiscal years beginning after December 15, 2006. 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****Reclassification of Finance Income and Expenses from Retail Finance Business in the Consolidated Statements of Income**

Finance income and expenses from retail finance business were previously classified mainly into Interest income and Interest expense in other income in the consolidated statements of income. The Company reconsidered their classification and currently classifies them into Revenues and Cost of revenues pursuant to Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, since the significance of retail finance business has been increasing and the business is becoming one of the major or central operations of the Company. The reclassification has been made to the presentation of the prior years' statements of income to conform with the classification used for the year ended March 31, 2007.

The impact of the reclassification of the affected line items in the consolidated statements of income with respect to the years ended March 31, 2006 and 2005 is as follows:

**Consolidated Statements of Income**

	Millions of Yen					
	Previous Classification	2006 Reclassification	As Reclassified	Previous Classification	2005 Reclassification	As Reclassified
Revenues	¥ 1,050,425	¥ 15,311	¥ 1,065,736	¥ 982,878	¥ 11,605	¥ 994,483
Cost of revenues	746,756	7,196	753,952	712,708	3,787	716,495
Selling, general, and administrative expenses	185,383	634	186,017	181,691	807	182,498
Operating income	113,577	7,481	121,058	87,065	7,011	94,076
Interest and dividend income	14,355	(11,548)	2,807	9,488	(7,546)	1,942
Interest expense	(7,084)	5,928	(1,156)	(4,660)	2,998	(1,662)
Other net	(931)	(1,861)	(2,792)	4,298	(2,463)	1,835
Other income, net	26,944	(7,481)	19,463	69,301	(7,011)	62,290

**2. INVENTORIES**

Inventories at March 31, 2007 and 2006 were as follows:

	Thousands of	
	Millions of Yen	U.S. Dollars
	2007	2006
<b>Manufacturing:</b>		
Finished products	¥ 123,901	¥ 103,686
Spare parts	21,332	21,287
Work in process	31,793	25,693
Raw materials and supplies	23,100	21,205
Subtotal	200,126	171,871
<b>Real estate:</b>		
Completed projects, land to be developed, and projects under development	5,532	3,789
	¥ 205,658	¥ 175,660
		\$ 1,742,864

**3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES**

Investments in and advances to affiliated companies at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments	¥ 13,734	¥ 13,109	\$ 116,390
Advances	20	36	169
	¥ 13,754	¥ 13,145	\$ 116,559

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

At March 31, 2007 and 2006	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
			2007
Current assets	¥ 59,006	¥ 65,492	\$ 500,051
Noncurrent assets	57,354	54,112	486,051
<b>Total assets</b>	<b>116,360</b>	119,604	<b>986,102</b>
Current liabilities	62,182	66,462	526,966
Noncurrent liabilities	21,542	21,807	182,559
<b>Net assets</b>	<b>¥ 32,636</b>	¥ 31,335	<b>\$ 276,577</b>

Years Ended March 31, 2007, 2006, and 2005	Millions of Yen			Thousands of
	2007	2006	2005	U.S. Dollars
				2007
Revenues	¥ 219,750	¥ 219,920	¥ 222,753	\$ 1,862,288
Cost of revenues	161,392	162,124	165,050	1,367,729
Net income	2,956	3,126	4,886	25,051

Trade notes and accounts receivable from affiliated companies at March 31, 2007 and 2006 were ¥18,411 million (\$156,025 thousand) and ¥19,355 million, respectively.

Revenues from affiliated companies aggregated ¥51,882 million (\$439,678 thousand), ¥54,484 million, and ¥64,465 million for the years ended March 31, 2007, 2006, and 2005, respectively.

Cash dividends received from affiliated companies were ¥28 million (\$237 thousand), ¥48 million, and ¥28 million for the years ended March 31, 2007, 2006, and 2005, respectively.

Retained earnings include net undistributed earnings of affiliated companies in the amount of ¥8,729 million (\$73,975 thousand) and ¥7,962 million at March 31, 2007 and 2006, respectively.

**4. OTHER INVESTMENTS**

The cost, fair value, and gross unrealized holding gains and losses for securities by major security type at March 31, 2007 and 2006 were as follows:

	Millions of Yen							
	2007				2006			
	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Cost	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
<b>Other investments:</b>								
Available-for-sale:								
Equity securities of financial institutions	¥ 36,988	¥ 125,948	¥ 88,960	¥	¥ 37,208	¥ 153,697	¥ 116,489	¥
Other equity securities	21,119	77,778	56,677	18	19,970	71,705	51,736	1

¥ 58,107 ¥ 203,726 ¥ 145,637 ¥ 18 ¥ 57,178 ¥ 225,402 ¥ 168,225 ¥ 1

	Thousands of U.S. Dollars 2007			
	Cost	Fair Value	Gross	Gross
			Unrealized	Unrealized
			Holding	Holding
		Gains	Losses	
<b>Other investments:</b>				
Available-for-sale:				
Equity securities of financial institutions	\$ 313,458	\$ 1,067,356	\$ 753,898	\$
Other equity securities	178,975	659,136	480,314	153
	\$ 492,433	\$ 1,726,492	\$ 1,234,212	\$ 153

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Gross unrealized holding losses and fair values on available-for-sale securities at March 31, 2007 and 2006 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Millions of Yen							
	2007				2006			
	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
<b>Other investments:</b>								
Available-for-sale other equity securities	¥ 154	¥ 18	¥	¥	¥ 3	¥ 1	¥	¥

	Thousands of U.S. Dollars			
	2007			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
<b>Other investments:</b>				
Available-for-sale other equity securities	\$ 1,305	\$ 153	\$	\$

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, 2007, 2006, and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
	Proceeds from sales	¥ 2,391	¥ 8,499	¥ 2,981
Gross realized gains	1,463	4,944	1,821	12,398
Gross realized losses	(150)	(241)	(217)	(1,271)

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥11,404 million (\$96,644 thousand) and ¥11,227 million at March 31, 2007 and 2006, 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, 2007, 2006, and 2005, valuation losses on other investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥524 million (\$4,441 thousand), ¥403 million, and ¥423 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 eight years, with interest at rates ranging from 0.0% to 14.8% per annum.

Annual maturities of finance receivables at March 31, 2007 were as follows:



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<b>Years Ending March 31,</b>	<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
2008	¥ 97,798	\$ 828,797
2009	74,335	629,958
2010	44,650	378,390
2011	29,909	253,466
2012	14,354	121,644
2013 and thereafter	6,783	57,483
<b>Total</b>	<b>¥ 267,829</b>	<b>\$ 2,269,738</b>

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Revenues and cost of revenues for the years ended March 31, 2007, 2006, and 2005 included finance income and expenses as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Finance income	¥ 22,217	¥ 15,311	¥ 11,605	\$ 188,280
Finance expenses	12,282	7,196	3,787	104,085

The Company sells finance receivables. (See Note 18. SECURITIZATION OF RECEIVABLES.) Pretax gains or losses on such sales are included in finance income or finance expenses in the table above.

**6. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The changes in the allowance for doubtful notes and accounts receivable for the years ended March 31, 2007, 2006, and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Balance at beginning of year	¥ 2,155	¥ 2,257	¥ 3,054	\$ 18,262
Provision for doubtful accounts	255	55	79	2,161
Write-offs	(468)	(179)	(175)	(3,966)
Other	69	22	(701)	585
Balance at end of year	¥ 2,011	¥ 2,155	¥ 2,257	\$ 17,042

The balances of the allowance for doubtful non-current receivable are reported as other assets in the consolidated balance sheets. The changes in the allowance for doubtful non-current receivable for the years ended March 31, 2007, 2006, and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Balance at beginning of year	¥ 3,913	¥ 4,474	¥ 3,806	\$ 33,161
Provision for doubtful accounts	13	101	940	110
Write-offs	(792)	(313)	(91)	(6,712)
Other	(323)	(349)	(181)	(2,737)
Balance at end of year	¥ 2,811	¥ 3,913	¥ 4,474	\$ 23,822

**7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

Short-term borrowings at March 31, 2007 and 2006 consisted of notes payable to banks of ¥128,365 million (\$1,087,839 thousand) and ¥132,209 million, respectively.

Stated annual interest rates of short-term borrowings ranged primarily from 0.81% to 5.77% and from 0.31% to 4.71% at March 31, 2007 and 2006, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2007 and 2006 were 5.3% and 4.0%, respectively.

Available lines of credit with certain banks totaled ¥20,000 million (\$169,492 thousand) at March 31, 2007 and 2006, respectively. The Company had no outstanding borrowings as of March 31, 2007 and 2006 related to lines of credit.

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Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Due in Years Ending March 31	Millions of Yen		Thousands of U.S. Dollars
		2007	2006	2007
<b>Unsecured bonds:</b>				
1.20% yen notes	2011	¥ 10,000	¥ 10,000	\$ 84,746
1.54% yen notes	2013	10,000	10,000	84,746
<b>Loans, principally from banks and insurance companies, maturing on various dates through 2015:</b>				
Collateralized		70,491	47,083	597,381
Unsecured		124,466	128,938	1,054,797
<b>Capital lease obligations</b>		<b>6,577</b>	<b>6,023</b>	<b>55,737</b>
Total		221,534	202,044	1,877,407
Less current portion		(71,429)	(50,020)	(605,331)
		¥ 150,105	¥ 152,024	\$ 1,272,076

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The interest rates on unsecured 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, 2007 and 2006 were 3.6% and 2.3%, respectively.

Annual maturities of long-term debt at March 31, 2007 were as follows:

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 71,429	\$ 605,331
2009	59,613	505,195
2010	58,018	491,678
2011	17,619	149,313
2012	1,681	14,246
2013 and thereafter	13,174	111,644
<b>Total</b>	<b>¥ 221,534</b>	<b>\$ 1,877,407</b>

At March 31, 2007 and 2006, assets pledged as collateral for debt were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Trade notes	¥ 456	¥ 531	\$ 3,864
Trade accounts	2,524	1,465	21,390
Finance receivables	117,835	87,994	998,602
Property, plant, and equipment	9,646	9,817	81,746
<b>Total</b>	<b>¥ 130,461</b>	<b>¥ 99,807</b>	<b>\$ 1,105,602</b>

The above assets were pledged against the following liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Short-term borrowings	¥ 35,927	¥ 36,473	\$ 304,466
Current portion of long-term debt	28,709	16,394	243,296
Long-term debt	41,782	30,689	354,085
<b>Total</b>	<b>¥ 106,418</b>	<b>¥ 83,556</b>	<b>\$ 901,847</b>

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.

**Table of Contents****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.

In the parent company, employees who terminate their employment have the option to receive benefits in the form of lump-sum payments or annuity payments from a defined benefit pension plan. The benefits are 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 performance evaluation at the end of each fiscal year

The plan consists of a lifetime pension plan and a limited annuity plan, and annual contributions are made by the parent company for an amount determined on the basis of an accepted actuarial method for the plan. The 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 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. Under the Japanese law that regulates retirement benefit plans, the Company could transfer the benefit obligation for the substitutional portion and related plan assets to the government, and the Company transferred the obligation and the plan assets to the government in January 2005. As a result of the transfer of the substitutional portion, the parent company has succeeded the corporate portion of the Contributory Plan.

For the year ended March 31, 2005, the Company recognized, 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 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 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 revenues of ¥1,511 million and selling, general, and administrative expenses of ¥744 million.

The Company adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statements No. 87, 88, 106, and 132 (R) on March 31, 2007. The Company recognizes its underfunded status of the defined benefit postretirement plan as a liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The statement replaced SFAS No. 87, "Employers' Accounting for Pensions" which required to report at least minimum pension liability measured as excess of the accumulated benefit obligation over the fair value of the plan assets. The amount of pension liability adjustment is comprised of prior service cost (benefit) and actuarial loss (gain), which will be subsequently recognized as net periodic benefit cost in the consolidated statements of income pursuant to the Company's accounting policy for amortizing such amounts.

The incremental effects of adopting the statement on the consolidated balance sheets at March 31, 2007 are presented in the following table. The adoption of the statement had no effect on the consolidated statement of income for the year ended March 31, 2007, or for any prior period presented, and it will not affect the Company's operating results in future periods.

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	Millions of Yen		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Investments in and advances to affiliate companies	¥ 13,775	¥ (21)	¥ 13,754
Other assets	49,588	(717)	48,871
Accrued retirement and pension costs	43,159	(15,853)	27,306
Other long-term liabilities	46,363	6,369	52,732
Minority interests	35,982	87	36,069
Accumulated other comprehensive income	77,588	8,659	86,247

	Thousands of U.S. Dollars		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Investments in and advances to affiliate companies	\$ 116,737	\$ (178)	\$ 116,559
Other assets	420,237	(6,076)	414,161
Accrued retirement and pension costs	365,754	(134,347)	231,407
Other long-term liabilities	392,907	53,974	446,881
Minority interests	304,932	738	305,670
Accumulated other comprehensive income	657,526	73,381	730,907

Net periodic benefit cost for the unfunded severance indemnity plan, the defined benefit pension plan, and the Contributory Plan of the parent company and for the unfunded severance indemnity plans and the defined benefit pension plans of certain subsidiaries for the years ended March 31, 2007, 2006, and 2005 consisted of the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Service cost	¥ 5,974	¥ 6,841	¥ 8,343	\$ 50,627
Interest cost	3,799	3,858	7,457	32,195
Expected return on plan assets	(2,748)	(2,277)	(3,129)	(23,288)
Amortization of prior service benefit	(777)	(780)	(522)	(6,585)
Recognized actuarial loss			2,047	
Transfer to an affiliated company		(514)		
Derecognition of previously accrued salary progression			(11,111)	
Settlement loss			13,366	
Net periodic benefit cost	¥ 6,248	¥ 7,128	¥ 16,451	\$ 52,949

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Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets, together with plans funded status were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Change in benefit obligations:</b>			
Benefit obligations at beginning of year	¥ 176,109	¥ 176,250	\$ 1,492,449
Service cost	5,974	6,841	50,627
Interest cost	3,799	3,858	32,195
Amendments	(439)	(25)	(3,720)
Transfer to an affiliated company		(5,961)	
Actuarial loss	1,024	5,904	8,678
Benefits paid (lump-sum payments)	(8,868)	(8,181)	(75,153)
Benefits paid (annuity payments)	(3,446)	(3,203)	(29,203)
Foreign currency exchange rate changes	89	626	754
<b>Benefit obligations at end of year</b>	<b>¥ 174,242</b>	<b>¥ 176,109</b>	<b>\$ 1,476,627</b>
<b>Change in plan assets:</b>			
Fair value of plan assets at beginning of year	¥ 142,755	¥ 108,060	\$ 1,209,788
Actual return on plan assets	(366)	31,830	(3,102)
Employer contributions	13,338	12,759	113,034
Transfer to an affiliated company		(2,815)	
Benefits paid (lump-sum payments)	(5,293)	(4,432)	(44,856)
Benefits paid (annuity payments)	(3,446)	(3,203)	(29,203)
Foreign currency exchange rate changes	78	556	661
<b>Fair value of plan assets at end of year</b>	<b>¥ 147,066</b>	<b>¥ 142,755</b>	<b>\$ 1,246,322</b>
<b>Plans funded status at end of year:</b>			
Funded status	¥ (27,176)	¥ (33,354)	\$ (230,305)
Unrecognized actuarial gain	N/A	(12,193)	N/A
Unrecognized prior service benefit	N/A	(7,198)	N/A
<b>Net amount recognized</b>	<b>N/A</b>	<b>¥ (52,745)</b>	<b>N/A</b>

N/A Not applicable. In accordance with the provisions of SFAS No. 158, the funded status was recognized as an asset or liability and any unrecognized actuarial gain, prior service benefit was recognized in accumulated comprehensive income at March 31, 2007.

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

Accumulated benefit obligations at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Accumulated benefit obligations:</b>			
Accumulated benefit obligations at end of year	¥ 168,808	¥ 168,779	\$ 1,430,576
Projected benefit obligations and fair value of plan assets with projected benefit obligations in excess of plan assets, and accumulated benefit obligations and fair value of plan assets with accumulated benefit obligations in excess of plan assets were as follows:			

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Retirement and pension plans with projected benefit obligations in excess of plan assets:</b>			
Projected benefit obligations	¥ 171,494	¥ 173,537	\$ 1,453,339
Fair value of plan assets	144,016	140,170	1,220,475
<b>Retirement and pension plans with accumulated benefit obligations in excess of plan assets:</b>			
Accumulated benefit obligations	166,060	166,207	1,407,288
Fair value of plan assets	144,016	140,170	1,220,475



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Amounts recognized in the consolidated balance sheets at March 31, 2007 consist of the following:

	Millions of Yen	Thousands of U.S. Dollars
Accrued retirement and pension costs	¥ (27,306)	\$ (231,407)
Prepaid expenses for benefit plans, included in other assets	130	1,102
<b>Funded status</b>	<b>¥ (27,176)</b>	<b>\$ (230,305)</b>

Amounts recognized in the consolidated balance sheets at March 31, 2006 consist of the following:

	Millions of Yen
Accrued retirement and pension costs	¥ (53,633)
Prepaid expenses for benefit plans, included in other assets	888
<b>Net amount recognized</b>	<b>¥ (52,745)</b>

Amounts recognized in accumulated other comprehensive income, before-tax, at March 31, 2007 consist of the following:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial gain	¥ (7,873)	\$ (66,720)
Prior service benefit	(6,860)	(58,136)
<b>Total recognized in accumulated other comprehensive income</b>	<b>¥ (14,733)</b>	<b>\$ (124,856)</b>

The estimated prior service benefit that will be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending March 31, 2008 amounts to ¥808 million (\$6,847 thousand).

The weighted-average discount rate used in calculating benefit obligations at March 31, 2007 and 2006 was 2.5%.

Weighted-average assumptions used in calculating net periodic benefit cost for the years ended March 31, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
Discount rate	2.5%	2.5%	2.5%
Expected return on plan assets	3.0	3.0	3.5
Rate of compensation increase		6.5	6.5

To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years, the current and expected components of plan assets, and anticipated market trends. 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 3.0% for the years ended March 31, 2007 and 2006, and 3.5% for the year ended March 31, 2005. An actual return on plan assets in the past 10 years was 3.4%, 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.

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The rate of compensation increase was not used in the calculation of benefit obligations at March 31, 2007 and 2006, and net periodic benefit cost for the year ended March 31, 2007 as a result of completion of introduction of the point-based benefits system. Under the system, the benefit obligations and the net periodic benefit cost are determined using cumulative points and not salaries. The benefit obligations at March 31, 2007 and 2006, and the net periodic benefit cost for the year ended March 31, 2007 were calculated on the basis of an annual increase in points of 7.1%.

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

	2007	2006
Equity securities	44.6%	48.7%
Debt securities	54.9	49.9
Other	0.5	1.4
	<b>100.0%</b>	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, 2008 are expected to be ¥13,562 million (\$114,932 thousand).

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

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 12,174	\$ 103,169
2009	12,521	106,110
2010	12,937	109,636
2011	12,817	108,619
2012	12,496	105,898
2013 - 2017	56,716	480,644

**9. SHAREHOLDERS' EQUITY**

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the Corporate Law), which reformed and replaced the Japanese Commercial Code with various revisions that are, for the most part, 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 Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the companies so stipulate. 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, capital surplus, and

retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

*(c) Treasury stock and treasury stock acquisition rights*

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

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

**Table of Contents****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 tests and 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 toward 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, 2007 and 2006 were as follows:

Years ended March 31	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	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	¥	¥	\$	\$	\$
Accounts receivable	9,244	679		26,260	537	135	78,339	5,754	
	¥ 9,244	¥ 679	¥	¥ 26,752	¥ 537	¥ 135	\$ 78,339	\$ 5,754	\$

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, 2007 and 2006. The total aggregated amounts subject to uncertainty were not material.

With respect to the inventories related to the long-term contracts, the aggregated amounts of manufacturing or production costs which exceeds the aggregated estimate costs of all in-process, the total aggregated amounts subject to uncertainty, and advances receipt offset with inventories were not material as of March 31, 2007 and 2006.

**11. OTHER INCOME (EXPENSES), NET**

Other net as shown in other income (expenses) for the years ended March 31, 2007, 2006, and 2005 consisted of the following:

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	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Loss from write-down of securities	¥ (524)	¥ (403)	¥ (423)	\$ (4,441)
Foreign exchange (loss) gain net	(442)	(1,952)	3,597	(3,746)
Other net	(2,190)	(437)	(1,339)	(18,559)
	¥ (3,156)	¥ (2,792)	¥ 1,835	\$ (26,746)

**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, 2007, 2006, and 2005 were comprised of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies:				
Domestic	¥ 80,208	¥ 102,857	¥ 123,792	\$ 679,729
Foreign	51,357	37,664	32,574	435,229
	¥ 131,565	¥ 140,521	¥ 156,366	\$ 1,114,958
Income taxes:				
Current				
Domestic	¥ 28,184	¥ 18,065	¥ 21,780	\$ 238,848
Foreign	19,824	16,368	12,711	168,000
	48,008	34,433	34,491	406,848
Deferred				
Domestic	3,415	24,522	14,503	28,940
Foreign	(2,462)	(2,888)	(878)	(20,864)
	953	21,634	13,625	8,076
Total	¥ 48,961	¥ 56,067	¥ 48,116	\$ 414,924

The approximate effects of temporary differences and tax loss and credit carryforwards that gave rise to deferred tax balances at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,540	¥ 1,950	\$ 13,051
Intercompany profits	12,340	11,462	104,576
Adjustment of investment securities	11,322	11,547	95,949
Write-downs of inventories and fixed assets	2,834	1,313	24,017
Accrued bonus	6,173	6,349	52,314
Retirement and pension costs	15,123	25,759	128,161
Tax loss and credit carryforwards	4,390	2,251	37,203
Other temporary differences	23,615	17,045	200,127
Subtotal	77,337	77,676	655,398
Less valuation allowance	(1,212)	(3,439)	(10,271)
	¥ 76,125	¥ 74,237	\$ 645,127

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Deferred tax liabilities:			
Adjustment of investment securities	¥ 66,015	¥ 74,913	\$ 559,449
Unremitted earnings of foreign subsidiaries and affiliates	9,511	6,845	80,602
Other temporary differences	9,354	4,734	79,271
	¥ 84,880	¥ 86,492	\$ 719,322

Net deferred tax balances at March 31, 2007 and 2006 were reflected in the accompanying consolidated balance sheets under the following line items:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars 2007
Other current assets	¥ 37,467	¥ 28,700	\$ 317,517
Other assets	4,046	4,088	34,288
Other current liabilities	(60)		(508)
Other long-term liabilities	(50,208)	(45,043)	(425,492)
Net deferred tax liabilities	¥ (8,755)	¥ (12,255)	\$ (74,195)



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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, 2007.

At March 31, 2007, the tax loss carryforwards in the aggregate amounted to approximately ¥11,000 million (\$93,220 thousand), which are available to offset future taxable income, and will expire in the period from 2008 through 2012.

The changes in the valuation allowance for the years ended March 31, 2007, 2006, and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Balance at beginning of year	¥ 3,439	¥ 3,824	¥ 22,913	\$ 29,144
Addition	548	508	2,466	4,644
Deduction	(2,775)	(893)	(21,555)	(23,517)
Balance at end of year	¥ 1,212	¥ 3,439	¥ 3,824	\$ 10,271

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2007 differed from the normal Japanese statutory tax rates as follows:

	2007	2006	2005
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%	40.6%
Increase (decrease) in taxes resulting from:			
Decrease in valuation allowance	(1.4)	(0.3)	(8.5)
Permanently nondeductible expenses	0.7	0.4	0.4
Nontaxable dividend income	(0.2)	(0.2)	(0.1)
Extra tax deduction on expenses for research and development	(1.9)	(1.2)	(1.3)
Other net	(0.6)	0.6	(0.3)

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	37.2%	39.9%	30.8%
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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, 2007, 2006, and 2005 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Basic net income (loss):				

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Income from continuing operations	¥ 77,743	¥ 81,149	¥ 107,132	\$ 658,839
Income (loss) from discontinued operations, net of taxes	(1,286)	(115)	10,769	(10,898)
Net income	¥ 76,457	¥ 81,034	¥ 117,901	\$ 647,941
Effect of dilutive convertible bonds	¥	¥ 55	¥ 188	\$
Diluted net income (loss):				
Income from continuing operations	¥ 77,743	¥ 81,204	¥ 107,320	\$ 658,839
Income (loss) from discontinued operations, net of taxes	(1,286)	(115)	10,769	(10,898)
Net income	¥ 76,457	¥ 81,089	¥ 118,089	\$ 647,941

	Number of Shares		
	(Thousands)		
	2007	2006	2005
Weighted average common shares outstanding	1,295,750	1,304,097	1,323,068
Effect of dilutive convertible bonds		10,831	36,910
Diluted common shares outstanding	1,295,750	1,314,928	1,359,978

**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, 2007, 2006, and 2005 are as follows:

	Millions of Yen 2007			Thousands of U.S. Dollars 2007		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
<b>Foreign currency translation adjustments:</b>						
Foreign currency translation adjustments arising during period	¥ 5,095	¥ (425)	¥ 4,670	\$ 43,178	\$ (3,602)	\$ 39,576
Reclassification adjustment for losses realized in net income						
	5,095	(425)	4,670	43,178	(3,602)	39,576
<b>Unrealized gains on securities:</b>						
Unrealized gains on securities arising during period	(22,114)	8,976	(13,138)	(187,407)	76,068	(111,339)
Reclassification adjustment for gains realized in net income	(789)	320	(469)	(6,686)	2,712	(3,974)
	(22,903)	9,296	(13,607)	(194,093)	78,780	(115,313)
<b>Unrealized losses on derivatives:</b>						
Unrealized losses on derivatives arising during period	(4,823)	1,924	(2,899)	(40,873)	16,305	(24,568)
Reclassification adjustments for losses realized in net income	4,469	(1,814)	2,655	37,873	(15,373)	22,500
	(354)	110	(244)	(3,000)	932	(2,068)
<b>Other comprehensive loss</b>	<b>¥ (18,162)</b>	<b>¥ 8,981</b>	<b>¥ (9,181)</b>	<b>\$ (153,915)</b>	<b>\$ 76,110</b>	<b>\$ (77,805)</b>

	Millions of Yen 2006		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
<b>Foreign currency translation adjustments:</b>			
Foreign currency translation adjustments arising during period	¥ 14,131	¥ (582)	¥ 13,549
Reclassification adjustment for losses realized in net income	21		21
	14,152	(582)	13,570
<b>Unrealized gains on securities:</b>			
Unrealized gains on securities arising during period	80,095	(32,524)	47,571
Reclassification adjustment for gains realized in net income	(4,300)	1,746	(2,554)
	75,795	(30,778)	45,017
<b>Unrealized losses on derivatives:</b>			
Unrealized losses on derivatives arising during period	(5,593)	2,289	(3,304)

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Reclassification adjustments for losses realized in net income	6,698	(2,719)	3,979
	1,105	(430)	675
<b>Other comprehensive income</b>	<b>¥ 91,052</b>	<b>¥ (31,790)</b>	<b>¥ 59,262</b>

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	Millions of Yen 2005		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
<b>Foreign currency translation adjustments:</b>			
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)
<b>Unrealized gains on securities:</b>			
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
<b>Minimum pension liability adjustment</b>	5,991	(2,499)	3,492
<b>Unrealized losses on derivatives:</b>			
Unrealized losses on derivatives arising during period	(1,429)	591	(838)
Reclassification adjustments for gains realized in net income	(456)	185	(271)
	(1,885)	776	(1,109)
<b>Other comprehensive income</b>	¥ 3,400	¥ (1,968)	¥ 1,432

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

	Millions of Yen				Accumulated Other Comprehensive Income
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustments	
Balance, April 1, 2006	¥ 657	¥ 86,033	¥ 79	¥	¥ 86,769
Current period change	4,670	(13,607)	(244)		(9,181)
Adjustment to initially apply SFAS No. 158, net of taxes				8,659	8,659
Balance, March 31, 2007	¥ 5,327	¥ 72,426	¥ (165)	¥ 8,659	¥ 86,247

	Thousands of U.S. Dollars				Accumulated Other Comprehensive Income
	Cumulative Translation Adjustments	Unrealized Gains on Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustments	
Balance, April 1, 2006	\$ 5,568	\$ 729,093	\$ 670	\$	\$ 735,331
Current period change	39,576	(115,313)	(2,068)		(77,805)
Adjustment to initially apply SFAS No. 158, net of taxes				73,381	73,381
Balance, March 31, 2007	\$ 45,144	\$ 613,780	\$ (1,398)	\$ 73,381	\$ 730,907

## 15. FINANCIAL INSTRUMENTS

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

### **Market Risk Management**

#### *Market Risk Exposures*

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

#### *Foreign Currency Exchange Risks*

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

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2007, which was translated into Japanese yen at the year-end currency exchange rate.

**Table of Contents****Foreign Exchange Forward Contracts and Currency Swaps**

Maturities, Years Ending March 31		Millions of		Thousands of	
		Yen	2008	U.S. Dollars	2008
Sell U.S. Dollar, buy Yen	Receive	¥	30,191	\$	255,856
	Pay		29,972		254,000
Sell Euro, buy Yen	Receive		9,988		84,644
	Pay		10,109		85,669
Sell Canada Dollar, buy Yen	Receive		409		3,466
	Pay		408		3,458
Sell U.S. Dollar, buy Canada Dollar	Receive		211		1,788
	Pay		214		1,814
Sell Sterling Pound, buy Yen	Receive		232		1,966
	Pay		232		1,966
Sell Baht, buy Yen	Receive		12,051		102,127
	Pay		13,977		118,449
Sell Baht, buy U.S. Dollar	Receive		2		17
	Pay		3		25
Sell Won, buy Yen	Receive		178		1,508
	Pay		176		1,492
Sell Australia Dollar, buy Yen	Receive		561		4,754
	Pay		570		4,831

**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, 2007, 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
2008	3.56%	3.66%	¥ 37,417	\$ 317,093
2009	3.85	3.92	28,710	243,305
2010	4.24	4.38	14,255	120,805
2011	3.52	4.27	900	7,627
2012	2.44	4.63	80	678
2013	2.44	4.63	13	110

**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 loss on derivatives included in accumulated other comprehensive income of ¥165 million (\$1,398 thousand) at March 31, 2007 will be reclassified into earnings within the next 12 months.

*Equity Price Risks*

The Company's 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, 2007 and 2006:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>						
Finance receivables net	¥ 267,829	¥ 248,744	¥ 203,625	¥ 193,578	\$ 2,269,738	\$ 2,108,000
<b>Financial liabilities:</b>						
Long-term debt	(214,957)	(210,777)	(196,021)	(190,718)	(1,821,670)	(1,786,246)
Derivative financial instruments recorded as (liabilities) assets:						
Foreign exchange instruments	(899)	(899)	(108)	(108)	(7,619)	(7,619)
Interest rate swaps and other instruments	33	33	163	163	280	280
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**

Trade notes and accounts receivable are composed largely of these to the dealers in the farm equipment market in North America. These accounts are sold through securitization to minimize credit risks. Most of the finance receivables are composed of these to the retail customers in the farm equipment market in North America. However, the Company considers that credit risks are limited since no single customer represents a significant concentration of credit risks.

**16. SUPPLEMENTAL EXPENSE INFORMATION****Research and Development Expenses, Advertising Costs, and Shipping and Handling Costs**

Amounts of certain costs and expenses for the years ended March 31, 2007, 2006, and 2005 were as follows:

	Millions of Yen			Thousands of
	2007	2006	2005	U.S. Dollars
				2007
Research and development expenses	¥ 22,925	¥ 22,731	¥ 21,963	\$ 194,280
Advertising costs	10,085	9,184	9,586	85,466
Shipping and handling costs	50,982	45,834	40,412	432,051
<b>Loss from Disposal and Impairment of Businesses and Fixed Assets</b>				

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2007 includes a loss from disposal of fixed assets of ¥1,172 million (\$9,932 thousand) and a loss from disposal and impairment of businesses of ¥1,446 million (\$12,254 thousand) resulting mainly from the liquidation of a company which operated a construction business.

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2006 includes a loss from impairment of fixed assets of ¥1,038 million and a loss from disposal and impairment of businesses of ¥3,648 million resulting mainly from a loss of ¥2,788 million related to the additional payments due to employment transfer to a subsidiary and an affiliated company.

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

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

Commitments for capital expenditures outstanding at March 31, 2007 approximated ¥3,819 million (\$32,364 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 U.S. Dollars
	2007	2006	2007
Machinery and equipment	¥ 12,148	¥ 10,000	\$ 102,949
Accumulated depreciation	(5,852)	(3,977)	(49,593)
Software	281		2,381
	¥ 6,577	¥ 6,023	\$ 55,737

Amortization expenses under capital leases for the years ended March 31, 2007, 2006, and 2005 were ¥3,677 million (\$31,161 thousand), ¥2,763 million, and ¥2,858 million, respectively.

Future minimum lease payments required under capital and noncancelable operating leases that have an initial or a remaining lease term in excess of one year as of March 31, 2007 were as follows:

Years Ending March 31,	Millions of Yen		Thousands of U.S. Dollars	
	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2008	¥ 3,329	¥ 682	\$ 28,212	\$ 5,780
2009	2,031	418	17,212	3,542
2010	1,049	262	8,890	2,220
2011	175	97	1,483	822
2012	89	81	754	687
2013 and thereafter	42	245	356	2,076
Total minimum lease payments	6,715	¥ 1,785	56,907	\$ 15,127
Less: amounts representing interest	(138)		(1,170)	
Present value of net minimum capital lease payments	¥ 6,577		\$ 55,737	

Capital lease obligations are included in the 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, 2007, 2006, and 2005 were ¥5,727 million (\$48,534 thousand), ¥6,009 million, and ¥7,029 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. The maximum potential amount of undiscounted future payments of these financial guarantees as of March 31, 2007 was ¥949 million (\$8,042 thousand).

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

The changes in the accrued product warranty cost for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars 2007
Balance at beginning of year	¥ 5,473	¥ 2,718	\$ 46,381
Addition	5,007	7,878	42,432
Utilization	(4,335)	(5,331)	(36,737)
Other	56	208	475
<b>Balance at end of year</b>	<b>¥ 6,201</b>	<b>¥ 5,473</b>	<b>\$ 52,551</b>

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, 2007. 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 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 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, and started the system. The new supporting system is 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 compensation which is not required by law but is made in accordance with the Company's internal policies.

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. The relief aid payments are contributed by the national government, municipal governments, and business entities. The contribution, which includes a special contribution by the companies which operated a business closely related to asbestos, to be made by business entities shall commence from the year ending March 31, 2008.

#### **(Accounting for Asbestos-Related Expenses)**

The Company expenses the payments for the health hazard of asbestos based on the Company's accounting policies and procedures. (See Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.) The expenses include payments to certain residents who lived near the Company's plant and current and former employees, and special contribution in accordance with the New Asbestos Law. The Company recorded expenses aggregating ¥4,035 million (\$34,195 thousand), ¥4,196 million, and ¥210 million during the years ended March 31, 2007, 2006, and 2005, respectively. These amounts are included in the selling, general, and administrative expenses. During the year ended March 31, 2007, the Company expensed the special contribution in accordance with the New Asbestos Law aggregating ¥735 million (\$6,229 thousand) which is expected to be paid during four years commencing on and after April 1, 2007. The Company accrues in those cases the conditions of loss contingencies provided under SFAS No. 5, "Accounting for Contingencies," are met. The amount accrued and included in recorded expenses were ¥1,359 million (\$11,517 thousand) and ¥3,726 million at March 31, 2007 and 2006, respectively. 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 ¥860 million (\$7,288 thousand) exists.

Since 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, the Company is not able to consider such condition in accounting for the amount accrued and included in recorded expenses. In May 2007, a certain resident filed the asbestos-related lawsuit against the Japanese government and the Company for the first time. The Company is not able to predict the outcome of the lawsuit, or predict the possibility of being filed in other lawsuits like this. Therefore, the Company

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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.

In August 2006, the Company also announced that the Company would support two research projects of medical research institutions for curing mesothelioma, and the Company donated ¥400 million (\$3,390 thousand) as a contribution for the year ended March 31, 2007. This contribution is also included in the selling, general, and administrative expenses, which is not included in asbestos-related expenses mentioned above.

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The Company sells trade and finance receivables to investors through bankruptcy-remote independent securitization trusts. (See Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.)

The Company recognized pretax losses resulting from the sales of trade receivables of ¥2,607 million (\$22,093 thousand), ¥931 million, and ¥832 million for the years ended March 31, 2007, 2006, and 2005, respectively.

The Company recognized pretax gains resulting from the sales of finance receivables of ¥211 million (\$1,788 thousand) and ¥479 million for the years ended March 31, 2007 and 2005, respectively, and recognized pretax losses resulting from the sales of finance receivables of ¥172 million for the year ended March 31, 2006.

The amounts of servicing assets or liabilities were not material as of March 31, 2007 and 2006.

The retained interests in sold receivables are subordinate to investors' interests and subsequently measured at fair value. The value of the retained interests is subject to credit, repayment, dilution, and interest rate risks on sold receivables. Due to the short-term nature of the Company's retained interest in sold receivables, its fair value approximated carrying value, net of an appropriate allowance. The amounts of credit losses and delinquencies were not material.

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

	2007	2006
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)	5.57%	5.48%
Finance receivables:		
Weighted-average life (months)	35.0	49.6
Expected credit losses (annual rate)	0.13%	0.08%
Discount rate (annual rate)	10.00%	11.00%

The following depicts the sensitivity of the fair value of retained interests in trade receivables and finance receivables at March 31, 2007 to adverse changes in the key economic assumptions of the current fair value of future cash flow:

	Thousands of	
	Millions of Yen	U.S. Dollars
Trade receivables:		
Fair value of retained interest	¥ 72,014	\$ 610,288
Expected net dilution (monthly rate)	0.78%	
Impact on fair value of 10% adverse change	333	2,822
Impact on fair value of 20% adverse change	665	5,636
Discount rate and fee (annual rate)	5.57%	
Impact on fair value of 10% adverse change	34	288
Impact on fair value of 20% adverse change	67	568

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

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

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	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Trade receivables:				
Proceeds from collections reinvested in revolving-period securitizations	<b>¥ 165,633</b>	¥ 163,671	¥ 108,109	<b>\$ 1,403,669</b>
Servicing fees received	<b>338</b>	275	270	<b>2,864</b>
Finance receivables:				
Servicing fees received	<b>576</b>	219	210	<b>4,881</b>
Cash flows received on retained interests in securitizations	<b>1,489</b>	598	359	<b>12,619</b>



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During the year ended March 31, 2005, the Company sold Nishinihon Kubota Kaihatsu Co., Ltd., a subsidiary reported in the Other Segment which operated a golf course and had reported consecutive losses, since it was very unlikely that Nishinihon Kubota Kaihatsu Co., Ltd. would be able to improve its earnings in the future.

During the year ended March 31, 2007, Kubota Retex Corp., a subsidiary reported in the Environmental Engineering Segment, decided to liquidate itself and withdraw from industrial waste treatment market since there were no prospects of getting in operation as a business.

Operating results of the discontinued operations for the years ended March 31, 2007, 2006, and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Kubota Retex Corp.	Nishinihon Kubota Kaihatsu Co., Ltd.	Total	Total
<b>Year ended March 31, 2007:</b>				
Revenues	¥ 267	¥	¥ 267	\$ 2,263
Loss from discontinued operations before income taxes	¥ (2,818)	¥	¥ (2,818)	\$ (23,881)
Gain from disposal of business				
Income taxes	1,532		1,532	12,983
Loss from discontinued operations	¥ (1,286)	¥	¥ (1,286)	\$ (10,898)
<b>Year ended March 31, 2006:</b>				
Revenues	¥ 615	¥	¥ 615	
Loss from discontinued operations before income taxes	¥ (115)	¥	¥ (115)	
Gain from disposal of business				
Income taxes				
Loss from discontinued operations	¥ (115)	¥	¥ (115)	
<b>Year ended March 31, 2005:</b>				
Revenues	¥ 348	¥	¥ 348	
Loss from discontinued operations before income taxes	¥ (331)	¥	¥ (331)	
Gain from disposal of business			5,526	5,526
Income taxes			5,574	5,574
Income (loss) from discontinued operations	¥ (331)	¥	11,100	¥ 10,769

**20. SUBSEQUENT EVENTS**

On May 11, 2007, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2007 of ¥7 per common share (¥35 per 5 common shares) or a total of ¥9,043 million (\$76,636 thousand).

On June 22, 2007, the Company's Board of Directors approved the purchase of up to 10,000,000 shares, or up to ¥11,000 million (\$93,220 thousand) of the parent company's outstanding common stock on and after June 25, 2007 through September 27, 2007.



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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Kubota Corporation and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15 (f) under the Securities Exchange Act of 1934, for the Company. Management evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2007.

Management's assessment of the Company's internal control over financial reporting as of March 31, 2007 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report.

Dated: June 22, 2007

/s/ Daisuke Hatakake  
Daisuke Hatakake  
President and Representative Director  
(Principal Executive Officer)

/s/ Hirokazu Nara  
Hirokazu Nara  
Managing Director  
(Principal Financial Officer)

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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, 2007 and 2006, 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, 2007, 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. 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 non-monetary 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 22, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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 22, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Kubota Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2007 of the Company and our report dated June 22, 2007 expressed a qualified opinion on those financial statements because of the omission of segment and other information required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information and because of not properly recording a nonmonetary security exchange transaction.

/s/ Deloitte Touche Tohmatsu

Osaka, Japan

June 22, 2007