

Item 5. Operating and Financial Review and Prospects

A. Operating Results

(The fiscal year ended March 31, 2001 compared with the fiscal year ended March 31, 2000)

General Economic Conditions

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

Sales

Under the aforementioned general economic conditions, consolidated net sales of the Company in the year under review were ¥994.5 billion (\$8,020 million), a 0.7% increase from the previous fiscal year. Domestic sales decreased 0.2%, to ¥799.0 billion (\$6,443 million). On the other hand, overseas sales increased 4.6%, to ¥195.5 billion (\$1,577 million).

Sales by Industry Segment

Internal Combustion Engine and Machinery

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

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

In the overseas market, especially in North America, the main foreign market, the Company fortified the supply system for the spring season, in which the sales of agricultural machinery is best. The Company attempted to expand sales and improve profitability by shortening the "lead time" and reducing the distribution cost.

The new concept subcompact tractor series "BX" with 18 and 22 horse-power engines was received exceptionally well by consumers. In the U.S.A the Company was able to maintain a more than 40% market share of tractors with less than 40 horse-power engines, which is the mainstay of the tractor business within the Company. With the number of tractors sold in the U.S. market this year, the Company broke its previous record.

In Europe, due to steady business conditions and an equally good reception of the sub compact tractor series "BX", sales of tractors grew, especially in France, Germany, England, and certain southern European countries.

In Asian markets, under the influence of Chinese policy, which promotes the reduction of rice-paddy acreage, the sales of the combine-harvester declined.

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

original equipment manufacturers declined. The main reason was that manufacturers of generator units for leisure vehicles and refrigerator units for freight vehicles, reduced the production. However, sales of engines for lawn mowers grew favorably as a result of steady new housing starts and private consumption. In the EU market, overall sales held steady thanks to the good economic conditions.

(3)Sales of construction machinery increased compared with the previous fiscal year. In the domestic market, affected by the sluggish demand, sales of mini-excavators continued to decrease. However, due to the increase in the number of the consolidated companies, total sales increased. In EU countries, the market continued to grow due to good economic conditions. In North America, the U.S. economy started to show signs of an economic slowdown, but mini-excavators were still needed, and fortunately the Company was able to gain market share, resulting in increased sales.

Industrial Products and Engineering

Sales in Industrial Products and Engineering declined 3.4%, to ¥459.2 billion, compared with the previous fiscal year, accounting for 46.2% of consolidated sales. Domestic sales were down 3.4% to ¥444.9 billion, and overseas sales decreased 4.1%, to ¥14.3 billion.

(1)Sales in pipe and fluid systems engineering retreated 5.5%, to ¥251.0 billion. Domestic sales were down 5.8% to ¥245.2 billion, but overseas sales increased 10.1% to ¥5.8 billion. Due to lower demand from large local governments and stagnant investment from medium-sized and small local governments, sales of ductile iron pipe, the mainstay of this business segment decreased, centering on sales in the water supply market. Sales of unplasticized polyvinyl chloride (PVC) pipe decreased compared with the previous fiscal year, especially in the telecommunication-related products market. Sales of spiral-welded steel pipes were down, influenced by reductions in public investment, and deferred investment by electric power companies. Sales of pumps retreated due to decreased demand for large-sized orders from local governments. In addition, the Company had been excluded from public bidding due to the prior year violation of the Japanese Commercial Code. As of this filing date, in pump business, there are no longer adverse affects in sales by exclusion from public bidding imposed. Sales of valves also retreated, influenced by reductions in the public investment and exclusion from public bidding. Sales of Kubota Construction Co., Ltd. decreased due to regional governments beginning to curtail the number of public construction project, owing to their financial difficulties.

(2)Sales of industrial castings increased 1.4%, to ¥34.8 billion. Domestic sales were up 4.3%, to ¥27.2 billion, however, overseas sales were down 7.9%, to ¥7.6 billion. In the public works market, sales of ductile segments for tunnels decreased but sales of G-piles (stakes for preventing landslides) increased due to increased market competitiveness caused by the development of a new type of joint for these piles. Additionally, sales of sewage pipe increased, supported by favorable demand for the construction of condominiums. Sales of rolls for steel mills increased, thanks in part to the large amount of exports to Korea. In overseas markets, Kubota Metal Corporation, a Canadian subsidiary of the Company, recorded decreased sales, because of the economic slowdown in North America. Demand from the chemical industry has decreased, and the Company's European competitor gained market share under cover of the depreciation of the EURO.

(3)Sales in environmental control plant were down 7.0%, to ¥97.3 billion. Domestic sales were down 6.8%, to ¥97.0 billion. Overseas sales were down 47.3%, to ¥0.3 billion. Orders for sewage treatment plants, the mainstay within this business unit, declined due to reductions in public investment budgets. However, sales throughout the year increased slightly thanks to the satisfactory amount of orders in the former half of the year. Sales of landfill waste leachate treatment plants increased. Both orders and sales of advanced water purification plants declined due to lower demand. However, recovery of demand is expected from replacement of the water purification plants due to their deterioration and demand for our activated sludge system with submerged membrane for the elimination of Cryptosporidium. Both sales and orders of night-soil treatment plants declined, as in previous fiscal year. On the other hand, both sales and orders of refuse incineration plants and recycling plants increased. The increase was especially noted in the business of refuse incineration plants, where the

rotating-type surface melting furnace, which is an original Kubota product is highly acclaimed. Many regional governments have placed a priority on remodeling their refuse incineration plants, preparing for new regulations concerning dioxins in their waste gas, which led to many large orders. Total sales of this business increased, to ¥53.3 billion.

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

Building Materials and Housing

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

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

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

Operating Income

Consolidated operating income increased 48.1% from the previous fiscal year, from ¥29.2 billion (\$235 million) to ¥43.2 billion (\$348 million) , which as a percentage of net sales represents a 1.3 point rise, to 4.3 %. This increase was mainly due to decrease in the amount of loss from disposal of businesses and fixed assets.

Operating Income or Loss by Industry Segment (Before elimination of the intersegment profits and corporate expenses)

Operating income in Internal Combustion Engine and Machinery increased to ¥43.2 billion (\$348 million) from ¥36.8 billion (\$297 million). The Company implemented so-called Supply Chain Management to shorten lead-time in the production process, which lead to reduce inventory, while reducing the fixed cost. In addition, although the U.S. economy started to show signs of slowing, U.S. subsidiaries that sell mainly compact or utility tractors under 100hp recorded brisk sales and profits.

Operating income in Industrial Products and Engineering decreased to ¥ 24.5 billion (\$197 million) from ¥ 27.4 billion (\$221 million). In the business of industrial castings, the Company succeeded in reducing the operating cost by executing aggressive cost-cut such as reduction in personnel or eliminating unprofitable products, while sales of industrial castings increased thanks to technical edge such as new joint for G-piles. Although industrial castings recovered its profitability, operating income of both pipe & fluid systems engineering and environmental control plant declined owing to stagnant demand in Japan primarily by reduction in public spending, private capital investment and local governments' financial difficulties.

Operating loss in Building Materials and Housing decreased from ¥7.8 billion (\$ 63 million) to ¥6.6 billion (\$ 53 million). In the business of building materials, operating loss decreased, while in the business of housing, operating loss increased because the current year operating loss in housing business included ¥4.7 billion valuation loss on real estate inventories. Accordingly, excluding the valuation loss, the operating loss in Building Materials & Housing would have been ¥1.9 billion for the fiscal year ended March 31, 2001.

Cost of Sales

Consolidated cost of sales increased 0.5% compared with the previous fiscal year, to ¥742.5 billion (\$5,988 million). The cost of sales ratio slightly decreased 0.1 percentage points, to 74.7%. Although cost reduction was endeavored at every location, those reductions were largely offset by the valuation loss on real estate inventories of ¥4.7 billion (\$38 million).

Selling, General and Administrative Expenses

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

R&D Expenses

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

Other Income and Expenses

Other income increased ¥22.1 billion, to ¥16.2 billion (\$130 million). The primary reason for the increase was the current year gain on contribution of securities to the employee retirement benefit trust of ¥19.3 billion (\$155 million). Interest and dividend income increased by ¥1.4 billion (\$11.3 million) and interest expenses decreased by ¥1.9 billion (\$15.2 million).

Income before Income Taxes, Equity in Net Income of Affiliated Companies and Cumulative Effect of Accounting Change

Consolidated income before income taxes, equity in net income of affiliated companies and cumulative effect of an accounting change increased ¥36.1 billion, to ¥59.3 billion (\$479 million). This increase was mainly due to the gain on contribution of securities to the employee retirement benefit trust, ¥19.3 billion.

Income Taxes

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

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies declined by ¥1.7 billion (\$14 million) mainly because of a reduction in the number of affiliated companies. Sixteen affiliated companies became subsidiaries in the fiscal year ended March 31, 2001 as a result of increased ownership by the Company.

Cumulative Effect of Accounting Change

Prior to April 1, 2000, the Company amortized unrecognized actuarial gains and losses in excess of ten percent of the larger of the benefit obligation or plan assets over the average plan participants' remaining service period. From April 1, 2000, the Company changed its method of accounting to immediately recognize actuarial gains and losses in excess of twenty percent of the larger of the benefit obligation or plan assets, and amortize actuarial gains and losses between ten and twenty percent over the average participants' remaining service period. The Company believes that this accelerated recognition of the unrecognized gains or losses more appropriately records the pension liability at an amount closer to its economic liability. As a result of the change, net income for the year ended March 31, 2001, decreased by ¥19,610 million, including a charge for the cumulative effect on prior years of ¥21,559 million.

Net Income

Consolidated net income decreased ¥6.6 billion, to ¥9.8 billion (\$79 million). The ratio of net

income to net sales decreased 0.7 percentage points, to 1.0%. Pro forma income before cumulative effect of an accounting change assuming the accounting change was applied retroactively, was ¥31.4 billion (\$253 million).

Return on Stockholders' Equity

The return on stockholders' equity decreased 1.6 percentage points to 2.2%.

Earnings per Share

Basic net income per 20 common shares was ¥139, a ¥94 decrease from the previous fiscal year, and diluted net income per 20 common shares was ¥137, a ¥84 decrease from the previous fiscal year.

Dividend

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

(The fiscal year ended March 31, 2000 compared with the fiscal year ended March 31, 1999)

General Economic Conditions

During fiscal 2000, the Japanese economy remained sluggish overall as public investments and housing investments, supported by the government's comprehensive economic stimulus package, slowed down in the latter half of the fiscal year. Consumer spending also showed weakness due to the harsh employment environment and sluggish wage growth. However, there were some signs of recovery in private-sector capital investments in some industries, centering on IT-related industries. Overseas, the U.S. economy continued to grow smoothly while the European economies also showed steady expansion in general. However, the export environment for Japanese companies worsened due to the appreciation of the yen.

Sales

Under aforementioned conditions, consolidated net sales of Kubota increased 1.1% from the previous fiscal year, to ¥987.3 billion. Sales in Internal Combustion Engine and Machinery rose 4.3%, to ¥385.8 billion. On the other hand, sales in Industrial Products and Engineering decreased 2.8%, to ¥475.6 billion, while sales in Building Materials and Housing were up 7.4%, to ¥125.9 billion.

Sales by Industry Segment

Internal Combustion Engine and Machinery

Sales in Internal Combustion Engine and Machinery increased 4.3%, to ¥385.8 billion, making up 39.1% of net sales for fiscal 2000. Domestic sales advanced 4.8%, to ¥213.9 billion, and overseas sales were up 3.7%, to ¥171.9 billion.

(1) Domestic sales of farm equipment rose, the first increase in three years, reflecting a recovery in replacement demand. The environment for rice production remained clouded by such factors as sluggish rice prices. Nevertheless, the establishment of self-sufficiency food targets under the Basic Law on Food, Agriculture and Rural Areas, implemented in July 1999, is expected to prompt a full-fledged conversion to the planting of such agricultural crops as soybeans and wheat, for which Japan has a low rate of self-sufficiency. In addition, the important role in environmental protection played by agricultural areas in mountainous regions has begun to attract interest, and there is a growing movement to provide public support for agriculture to prevent the abandoning of agriculture in these regions. Against this background, Kubota further upgraded its lineup of affordably priced farm equipment and stimulated demand from farmers as it concentrated on activating the market. In tractors, Kubota introduced the

KINGWEL series tractors—the Company’s first full model change to its main class of tractors in nine years—which propelled an increase in tractor sales from the previous fiscal year. Within this series, models that provide a sense of affordability and feature upgraded cabin specifications were favorably acclaimed. Also earning high praise in the market were our small-sized rice transplanters with specifications adapted to operation in mountainous regions. There are expectations that rideable farm equipment will be introduced for use in extremely narrow and confined agricultural spaces in mountainous regions, where previously only walk-behind type equipment could be used. The Company introduced a series of farm equipment for mountainous areas, including a tractor, combine, and rice transplanter, thereby contributing to the development of new markets. The Company once again focused on strengthening its management structure through such measures as further reducing retail inventories. In addition to these measures, from the beginning of fiscal 2001 the Company commenced such new activities as significantly reorganizing its sales structure, as part of efforts to achieve a more-direct and faster response to the market.

In overseas markets, despite a harsh environment that included such factors as the sharp appreciation of the yen, sales of farm equipment increased slightly from the previous fiscal year. In the United States, the market for large-sized farm equipment remained sluggish, along with a slumping grain market. Nevertheless, the market for small- and medium-sized tractors—Kubota’s target market—expanded amid growth in new housing starts accompanying ongoing buoyant economic conditions. Under these conditions, competition intensified, as other companies took an aggressive approach to the market for small- and medium-sized tractors. Nevertheless, the reputation of Kubota tractors for outstanding mobility and superior maneuverability has been rising over the years, a factor enabling the Company to achieve higher tractor sales, particularly of mid-sized models, during fiscal 2000. Also, in the fiscal year under review, the Company developed a sub-compact tractor that represents a totally new concept in tractors. The development of this sub-compact tractor, which combines the strength and versatility of a compact utility tractor with the feel and functionality of a garden tractor, highlights Kubota’s determination to cultivate new demand in the market for small-sized tractors. The Company started to produce this tractor at a manufacturing base in the United States from the first unit, as the Company progresses with the manufacture of its products in appropriate locations close to its markets. In Europe, the Company posted healthy sales of farm equipment, supported by favorable economic conditions in each region. Kubota’s G18 with a “Glide Cut”, mower, which was introduced in fiscal 2000, has earned extensive acclaim for its revolutionary grass-catching system. In addition, the Company made progress in efforts launched in fiscal 1999 to attain greater market penetration for its farm equipment in southern Europe. In China, which is attracting attention as a new market, demand for combine harvesters has expanded steadily. Through its manufacturing and sales subsidiary in China, the Company is concentrating on the local manufacture and sales of models appropriate for this market.

(2)Sales of engines increased from the previous fiscal year. In Japan, weak sales of engines to manufacturers of construction and industrial machinery mirrored sluggishness in capital investment accompanying the long-term slump in the domestic economy. However, because of a recovery in sales of engines to farm equipment manufacturers, total domestic sales of engines increased slightly from the previous fiscal year. Overseas, the Company continued to post robust sales of industrial diesel engines, mainly for construction equipment and freezer units, in its principal markets of the United States and Europe, despite intensifying competition in these markets. The Company is enhancing its competitiveness a step ahead of its competitors by establishing an outstanding structure for responding to the tightening of exhaust emissions restrictions. In North America, the Company registered healthy sales of generators used in preparation for Y2K-related problems. In Asia, sales of horizontal diesel engines recovered in Thailand, a principal market for these engines, while a sharp recovery in sales of these engines in Indonesia was supported, in part, by robust exports.

(3)The Company recorded an increase in sales of construction machinery from the previous fiscal year. The domestic market environment is undergoing profound changes, due to continued sluggishness in replacement demand for machinery in the construction industry as well as the trend toward the use of rental equipment. Under these conditions, the Company enhanced its competitiveness by significantly reducing lead times and pruning total costs. The Company also worked to cultivate new customers

among rental companies, which are large users of construction machinery. Thanks to these efforts, the Company achieved an increase in domestic sales of construction machinery for the first time in three years. The Company also recorded higher overseas sales of construction machinery. Within Europe, a main market for construction machinery, the Company posted a rise in sales in such existing markets as the United Kingdom, Germany, and France, while making progress in cultivating new markets, mainly Italy. In the North American market, increased recognition of the utility of Kubota's mini excavators is buoying expectations of growth in sales of these excavators.

Industrial Products and Engineering

Sales in Industrial Products and Engineering declined 2.8%, to ¥475.6 billion, accounting for 48.2% of net sales. Domestic sales were down 1.5%, to ¥460.6 billion, and overseas sales decreased 31.6%, to ¥15 billion. Industrial Products and Engineering comprises pipe and fluid systems engineering, industrial castings, environmental control plant, and industrial machinery.

(1) Sales in pipe and fluid systems engineering retreated 2.1%, to ¥265.6 billion. Domestic sales decreased 0.4%, to ¥260.3 billion, and overseas sales were down 46.8%, to ¥5.3 billion.

Domestic sales of ductile iron pipe declined from the previous fiscal year, due to the impact of lower sales to large cities. Such high-functional products as earthquake-resistant pipe with elasticity and separation-resistant functions in the connecting segments, as well as pipe with epoxy powder resin-coated interiors, which had been enjoying steady growth in sales, are continuing to earn favorable acclaim for their outstanding capabilities. However, sales of these products as a percentage of total sales of ductile iron pipe declined slightly during the year under review, as users of this pipe placed emphasis on restraining their costs. Sales of ductile iron pipe in gas-related markets continued to decrease, but sales of ductile iron pipe for sewage systems and agricultural use expanded. During fiscal 2000, The Company established a new consulting company for water supply pipe systems, as part of a structure set up for engaging in a further comprehensive range of water supply-related businesses. Overseas, sales of ductile iron pipe decreased, as a result of intensifying competition.

Sales of unplasticized polyvinyl chloride (PVC) pipe decreased from the previous fiscal year. Sales in the principal construction facility market declined, along with sluggishness in housing starts. However, in electric power and information-related markets, the Company recorded an increase in sales of "information boxes," owing to the establishment of a telecommunications infrastructure based on the Ministry of Construction's Information Highway Vision. Information boxes use Rib Pipe, a high-strength PVC pipe with a wave-like surface. Because of its strength, Rib Pipe can be buried at shallow depths beneath roads, thereby reducing construction costs. Thus, there are also high expectations for increased sales of Rib Pipe for use in sewage systems.

Regarding other pipe, Kubota reported lower sales of spiral-welded steel pipe to its primary market, the public sector. On the other hand, sales of filament-winding pipe increased, especially for use in agricultural-related areas.

Kubota Construction Co., Ltd., which derives its sales from the installation of water supply and sewage systems, recorded higher sales from the previous year. Favorable sales from installing medium-diameter pipe for sewage systems with its minishield technology for—a field of particular strength—compensated for lower sales from the installation of water systems and a decline in overseas sales. With the aim of expanding its future business, Kubota Construction will strengthen its engineering business in the water supply and sewage systems sectors, while striving vigorously to enter the construction field.

Sales of pumps rose from the previous fiscal year, as higher domestic sales compensated for sluggish overseas sales. The Company recorded higher domestic sales of pumps, primarily in the market for sewage systems. These pump sales centered on pumps for sewage systems (and the prevention of floods from) rivers, which were supported by the implementation of the government's supplementary budget. In fluid systems, a peripheral business, sales of both unihole pumps and wastewater treatment facilities for farming communities edged down slightly from the previous fiscal year. Kubota's first commercial waste-plastics liquefaction plants for converting waste plastics into oil, one of the Company's new businesses, commenced operations during the fiscal year. The Company is also proceeding with efforts to carry out its waste-plastics liquefaction plant business with various regional organizations. Sales of valves contracted due mainly to sluggishness in the private sector, including the electric-power-related

market. The Company worked to expand sales by introducing a new soft-seal gate valves that responds to rising user emphasis on restraining costs.

(2)Sales in industrial castings were down 11.5%, to ¥34.3 billion. Domestic sales shrank 10.7 %, to ¥26 billion, and overseas sales decreased 13.9%, to ¥8.3 billion.

In civil engineering and construction markets, sales of ductile tunnel segments shrank slightly from the previous fiscal year, along with a slump in the number of new subway projects. Nevertheless, in view of an expected increase in demand for ductile tunnel segments used in underground tunnels for regulation ponds as a flood control countermeasure, The Company will continue to concentrate on its activities to expand sales in this sector. Sales of wastewater pipe and G-columns, cast-steel pipe for construction, deceased due to lackluster investment in construction. However, sales of G-piles, cast-steel pile for civil engineering, jumped sharply from the previous fiscal year, thanks to the implementation of the government's supplementary budget.

In the market for industrial castings for petrochemical plants, the Company posted higher sales of reformer tubes in North America, reflecting favorable economic conditions in that region. Sales of cast-steel products for steel plants were lower owing to a decrease in exports due to the appreciation of the yen as well as sluggish replacement demand in the domestic market. The Company posted lower sales of rolls for steel mills because of slumping domestic production of crude steel.

As part of companywide business reforms, the Company decided to close Tokai Plant in September 2000 and discontinue the business of ingot molds and castings produced at the plant. The Company plans to withdraw from this business.

(3)Sales in environmental control plant were down 1.3%, to ¥104.6 billion. Domestic sales retreated 1.5%, to ¥104 billion, and overseas sales increased 87.7%, to ¥0.6 billion.

In the field of water treatment, the Company posted growth in sales of its mainstay sewage treatment plants, amid stable demand supported by an expansion of government budgets. However, sales of advanced water purification plants declined as demand for these facilities in large cities has passed for the time being. Sales of facilities for treating wastewater at refuse landfill sites also trended downward. However, the Company expects to record increased sales of a system for decomposing dioxins contained in wastewater, along with the implementation of the new Law Concerning Special Measures against for Dioxins, which establishes respective environmental standards for air, water, and soil. Sales of night-soil treatment plants declined owing to a shrinking market for these facilities as government budgets have shifted their priority to dioxin-treatment-related facilities. The Company foresees a steady shift toward sludge recycling plants that not only treat night-soil but that can simultaneously treat the organic waste materials, including raw refuse. The Company will offer various new technologies in this field, including its bio-gas and compost technologies.

In the field of solid waste treatment, the Company recorded a sharp increase in orders for refuse incineration plants. However, sales of these plants retreated because of sluggish orders in the previous fiscal year. In the market for refuse incineration plants, gasification melting furnaces, a new incineration method, are entering the spotlight as an effective dioxin countermeasure. The Company will strive to establish a firm market position for its pyrolysis gasification melting furnaces by appealing the superiority of a system jointly developed with another company.

(4)Sales in industrial machinery fell 3.4%, to ¥71.1 billion. Domestic sales were down 1.9%, to ¥70.3 billion, and overseas sales declined 59.4%, to ¥0.8 billion.

Sales of vending machines were lower as demand turned sluggish after several years of robust growth. Sales of our mainstay vending machines for beverage manufacturers declined, and sales of cigarette vending machines contracted following a sharp rise in sales in the previous fiscal year. The downtrend in vending machine prices persisted along with intensifying competition, while the reorganization of beverage manufacturers, principal users of vending machines, progressed. A number of changes can be seen in the market environment, including rising demand for vending machines that serve as information terminals. The Company plans to fortify its market presence by engaging in business activities that maximize the Company's strengths.

Sales of industrial weighing and measuring systems decreased due to curtailments in private-sector capital investment.

Building Materials and Housing

Sales in Building Materials and Housing increased 7.4% from the previous fiscal year, to ¥125.9 billion, making up 12.7% of net sales. Kubota's sales were favorably influenced by an increase in new housing starts, resulting from policies aimed at promoting home purchases that included implementing tax reductions on housing loans.

(1) Sales of Kubota's Colorbest series of cement roofing materials increased amid a recovery in demand for housing. In the future, the Company will strive to expand sales of its cement roofing materials by drawing on its strengths and offering products with distinctive characteristics, including providing a 10-year quality guarantee against rainwater leakage on roofs in response to Japan's Housing Quality Assurance Act. At the same time, through such measures as cultivating new sales routes, the Company will work to expand sales of its roof-system fixed photovoltaic (PV) shingles, which have attracted attention from the perspective of environmental protection.

The Company posted growth in sales of cement siding materials, mainly of its high-value-added materials that feature highly attractive designs. Although price competition is intensifying, the Company is concentrating on expanding sales through the strength of its products, mainly midrange and top-of-the-line products, which are developed with the Company's emphasis on quality.

In Johkasou Systems (septic tanks), the industry is promoting a shift away from single-use Johkasou Systems that treat only night-soil toward dual-use systems that can also simultaneously treat wastewater from people's daily lives. The Company was one of the first companies to cease production of single-use Johkasou Systems and switch mainly to sales of dual-use systems. In fiscal 2000, Kubota's sales of Johkasou Systems declined slightly because the fiscal year corresponded with a transitional period for market penetration for dual-use systems. The Company anticipates accelerated growth in the market for dual-use Johkasou Systems and expects to record increased sales of these systems.

In line with its emphasis on "selectivity and concentration" of management resources as a measure for restructuring its housing business, the Company has evaluated the future prospects of its unit bathroom business from numerous perspectives. Based on this evaluation, the Company has determined that the outlook for expanding income in this sector was dim. Thus, the Company has decided to withdraw from the unit bathroom business by March 2001.

(2) Sales of prefabricated houses by Kubota House Co., Ltd., increased against a background of robust new housing starts. However, sales of condominiums dipped because of the absence of large-scale projects in this market. The outlook for the housing market remains difficult, and a large recovery in demand seems unlikely. Amid this environment, Kubota House will work to significantly enhance the efficiency of its marketing by implementing highly focused marketing strategies for each geographic region, which will include reallocating its model house exhibit sites. Kubota House will strive to expand sales further by upgrading its product lineup, centered on the industry's first houses with 20-year guarantees and 60-year inspections and such high-value-added products as the "She-be", that emphasize environmental harmony as a sales point, as well as expanding its product lineup to include energy-efficient products, using a new type of solar energy system.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased ¥9.4 billion, to ¥738.8 billion. The cost of sales ratio worsened 0.1 percentage point from the previous fiscal year, to 74.8%. On the other hand, selling, general and administrative (SG&A) expenses decreased 0.7%, to ¥212.8 billion, thanks to companywide efforts to reduce personnel and administrative costs under our urgent profit-increase measures. SG&A expenses as a percentage of net sales improved 0.3 percentage point, to 21.6%. R&D expenses in fiscal 2000 were down ¥3.6 billion from the previous fiscal year, to ¥33.1 billion. As a percentage of net sales, R&D expenses declined 0.4 percentage point, to 3.4%.

Operating Income

Operating income increased 8.7% from the previous fiscal year, to ¥35.7 billion, which as a percentage of net sales represents a 0.2 percentage point rise, to 3.6%.

Other Income and Expenses

Interest expense decreased ¥3.9 billion, to ¥10.0 billion, due to the reduction of interest-bearing debt. Interest and dividend income fell ¥3.0 billion, to ¥8.6 billion, mainly due to the securitization of finance receivables of a U.S. subsidiary. As a result, Kubota's net financial expense was ¥1.4 billion, an improvement of ¥0.8 billion from the previous fiscal year. Other - net, in fiscal 2000, worsened ¥12.8 billion, to net expense of ¥11.1 billion, due to such factors as the loss from disposition of businesses incurred by the discontinuation of the unit bathroom business, valuation losses of marketable securities, and foreign exchange losses.

Income before Income Taxes and Equity in Net Income(Loss) of Affiliated Companies

Consolidated income before income taxes and equity in net income (loss) of affiliated companies decreased 28.1%, to ¥23.2 billion, as other income (expenses) amounted to net expense of ¥12.5 billion compared with net expense of ¥0.5 billion in the previous fiscal year.

Income Taxes and Equity in Net Income (loss) of Affiliated Companies

The reduction in the effective tax rates resulted in income taxes for the fiscal year decreasing to ¥8.8 billion, and the equity in net income (loss) of affiliated companies improved.

The reduction in effective tax rates to 37.8%, from 48.9% in the previous fiscal year, partly reflects the reduction of corporate income tax rates in Japan as well as an evaluation of the realizability of deferred tax assets of subsidiaries. The equity in net income (loss) of affiliated companies amounted to net income of ¥2.0 billion, compared with a net loss of ¥1.4 billion in the previous fiscal year, due to the sharp recovery of profits in domestic sales companies related to farm equipment.

Net Income

Consolidated net income increased 8.8%, to ¥16.4 billion. The ratio of net income to net sales increased 0.2 %, to 1.7%. Diluted consolidated net income per 20 common shares amounted to ¥221, an increase from ¥203 in the previous fiscal year.

B. Liquidity and Capital Resources

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

Current financial strategies are "Reduction of interest-bearing debt" and "Reshaping the balance sheet." In order to reshape the balance sheet, the Company intends to take such measures as reduction of cash, cash equivalent and inventories, securitization of notes and accounts receivable, liquidation of idle real estates, and selling marketable securities. As for the reduction of interest-bearing debt, the Company plans to reduce its interest-bearing debt to ¥330.0 billion (\$2,661 million), by the end of March, 2002, down from its March 31, 2001 level of ¥372.2 billion (\$3,002 million).

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

As for reshaping the balance sheet, the necessary financing for IT related investment, M&A, and other investment, will be provided through reshaping the balance sheet and from operating activities.

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

Currently the Company has adequate financing resources. In the future, too, the Company will take

necessary measures to secure adequate financing resources. There are no current restrictions on the way in which the financing resources are used. 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 to June each year. However, the Company has adequate financing resources to fund its operations and investment throughout the year.

Assets, Liabilities and Stockholders' Equity

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

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

Investments decreased ¥86.3 billion, to ¥207.8 billion (\$1,676 million). This decrease was mainly caused by a decrease in net unrealized holding gains on securities ¥49.3 billion (\$398 million), and the contribution of securities valued at ¥33.1 billion (\$267 million) to the employees' retirement benefit trust.

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

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

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

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

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

Cash Flows

Cash and cash equivalents at fiscal year-end was the same amount as that of the previous fiscal year, ¥78.6 billion (\$634 million), which includes the positive effect of exchange rate changes on cash and cash equivalents of ¥0.6 billion (\$0.5 million).

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

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

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

C. Research and Development, Patents and Licenses, etc

Research and Development

The Company employs approximately 1,800 researchers and engineers for its research and

development activities, of whom approximately 1,200 are university graduates in science or engineering. The following table shows the Company's research and development expenses for the last three fiscal years.

	<u>Millions of yen</u>			<u>Thousands of</u>
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>U.S. dollars</u>
R&D Expenses	¥36,759	¥33,148	¥30,257	\$244,008
As a percentage of consolidated net sales	3.76%	3.36%	3.04 %	

The Company conducts its R&D activities within the following basic policies: to upgrade and improve the social infrastructure, to improve the living environment, to work toward an efficient industrial society, and to preserve and protect the global environment.

The R&D organization of the Company includes two laboratories, as well as R&D departments in each business division and subsidiary, which are responsible for fortifying each business.

The two R&D laboratories are responsible for developing the Company's long and mid-term new business opportunities. The Research & Development Center is in charge of applied research, and the Biotechnology Research Center is responsible for research focused on biotechnology and other fundamental research.

Examples of R&D activities in the Company's three business groups are as follows;

In Internal Combustion Engine and Machinery, the Company developed new diesel engines with low vibration, low noise and high power density, by bettering cooling efficiency and ameliorating crank cases with a built-in balancer. R&D expenses of this group were ¥14.9 billion.

In Industrial Products and Engineering, the Company developed manipulators for laying valves underground. These manipulators meet social needs of cost-cutting in public construction and have enabled the Company to increase market share. R&D expenses of this group were ¥8.1 billion.

In Building Materials and Housing, the Company invented an epoch-making method of producing roofing materials using a new combination of raw materials without asbestos. In addition, new roofing materials have greater endurance and a wider variety of colors. R&D expenses of this group were ¥2.5 billion.

The remaining ¥4.8 billion was spent on fundamental R&D activities.

Patents and Licenses

As of March 31, 2001, the Company held 7,004 Japanese patents and utility model registrations and 1,258 foreign patents and utility model registrations. A utility model registration is a right granted under the laws of Japan and 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. The Company grants licenses to others to use its technology including its patents, and also licenses technologies under patents of third parties. In fiscal 2001, royalty income and expenses under such licensing arrangements were ¥855 million (\$6,895 thousand) and ¥206 million (\$1,661 thousand), respectively.

D. Outlook for The Next Fiscal Year

General Conditions

With the growing concerns for a further deteriorating economy in Japan and sluggish private consumption, the prospects for the domestic economy remain very much unclear. The overseas economic

environment surrounding the Company, such as prospects for early recovery in the U.S. economy, will also remain unpredictable. Under those conditions, the Company will do its utmost to promote and carry out the Company's medium and long term management strategies to reform the Company's business structure to achieve the financial goals.

The Company formulated its new medium term management strategy to emerge from its currently static situation and surpass its all-time high in operating income of ¥62.7 billion, recorded in fiscal 1997, within the three-year period ending March 31, 2004. The strategy consists of three major components; reform of both business and profit structure, reform of business operating structure and financial strategies.

(i) Reform of business and profit structure

This includes objectives for strengthening profitability of current business, developing new business, and reforming business activities by aggressively taking advantage of IT. In order to bolster profitability, the Company focuses on further strengthening the competitiveness of its core businesses, which are already extremely competitive, but operate in markets that are not expected to grow significantly in the future. The Company also aggressively allocates resources toward its strategic businesses to enable these businesses to attain growth in line with expansion of their markets.

(ii) Reform of business operating structure

This includes building a more autonomous management structure or renewal of the corporate staff department. The Company will undertake an extensive review of authority and responsibility for Company headquarters and business divisions and build a structure under which each business division bears responsibility and has sufficient authority for agile decision making to carry out businesses, which lead to a more autonomous management structure by business division. And the Company will strengthen the strategic functions of its headquarters and progress with measures to raise the efficiency of its business operations.

(iii) Financial strategies

This part consists of reducing interest-bearing debt and reshaping the balance sheet. The Company aims to reduce interest-bearing debt to approximately ¥330 billion by the end of fiscal 2002.

The Company believes that implementation of the strategy and its related measures will allow the Company to achieve its goals and satisfy the expectations of stakeholders.

Looking ahead, the Company forecasts consolidated net sales for the year ending March 31, 2002 at ¥1 trillion, a 0.6% increase compared with this fiscal year. This forecast consists of net sales by business segments in Internal Combustion Engine & Machinery, Industrial Products & Engineering and Building Materials & Housing of ¥416.6 billion, ¥470.2 billion and ¥113.2 billion, respectively.

In Internal Combustion Engine and Machinery, the Company expects a decline in revenue of approximately ¥7.1 billion, or 1.7%, from the previous period, mainly because of sluggish Japanese economy and slowdown of U.S. economy. In Industrial Products and Engineering, the Company expects an increase in revenue of ¥11 billion, or 2.4% from the previous period, thanks mainly to the forecast that the environmental engineering division will recognize increased revenue because of high amounts of orders received in the year ended March 31, 2001. In Building Materials and Housing, the Company expects revenue to increase slightly by ¥1.6 billion, or 1.4%, from the previous period, under severe market conditions.

The Company also forecasts income before income taxes and equity in net income of affiliated companies of ¥48 billion, a 19.1% decrease compared with this fiscal year, because in the fiscal year ended March 31, 2001, a gain on contribution of securities to the employee retirement benefit trust was recognized. Additionally, the Company forecasts consolidated net income at ¥27 billion, a 175.7% increase compared with this fiscal year, because in the fiscal year ended March 31, 2001 the Company recognized cumulative effect of accounting change of ¥21.6 billion that reduced net income to ¥9.8 billion. (These forecasts anticipate an exchange rate of ¥112=US\$1.) As for capital expenditures, the Company plans to spend approximately ¥42 billion in the year ending March 31, 2002.

Contingencies

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. In December 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. Under Section 49 of the Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the 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.

New Statements of Financial Accounting Standards

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

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations", and SFAS No. 142 "Goodwill and Other Intangible Assets". These statements establish accounting standards for business combinations, goodwill, and intangible assets. SFAS No. 141 is effective for business combinations completed after June 30, 2001, and SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company does not believe that the adoption of these statements will have a significant impact on its financial statements.

Cautionary Statements with Respect to Forward Looking Statements

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.