1. SALES AND EARNINGS

Sales

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

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

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

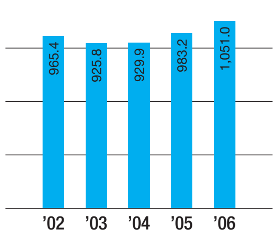
Operating Income

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

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

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

Net Sales
(Billions of Yen)



Cost of Sales

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

SG&A Expenses

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

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

Loss from Disposal and Impairment of Businesses and Fixed Assets

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

Other Income

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

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

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

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

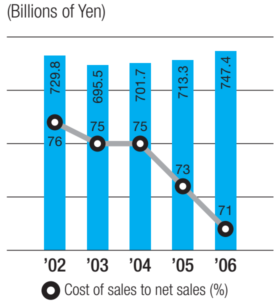
Income Taxes

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

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

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

Cost of Sales
(Billions of Yen)



Net Income from Continuing Operations

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

Income from Discontinued Operations, Net of Taxes

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

Net Income

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

Income per ADS

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

Dividends

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

Comprehensive Income

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

2. FINANCE AND LIQUIDITY MANAGEMENT

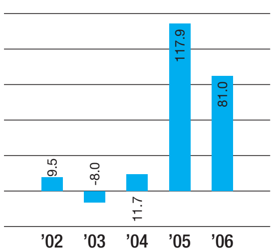
Finance and Liquidity Management

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

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

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

Net Income (Loss)
(Billions of Yen)



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

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

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

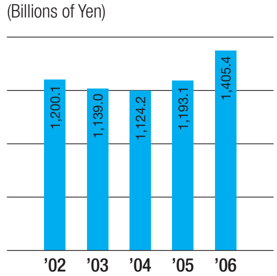
The amount of working capital increased ¥70.5 billion, to ¥241.8 billion ($2,067 million), from the prior year-end. Additionally, the ratio of current assets to current liabilities increased 12.8 percentage points, to 146.8%. The primary reason for this increase was a substantial decrease in the current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

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

Ratings

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

Total Assets
(Billions of Yen)



■ ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

Assets

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

Liabilities

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

Minority Interests

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

Shareholders' Equity

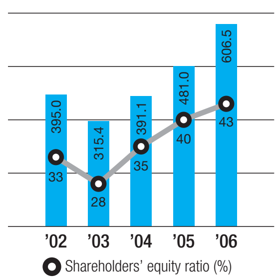
Total shareholders' equity increased ¥125.5 billion, to ¥606.5 billion ($5,184 million). Shareholders' equity substantially increased due to the recording of net income and an increase in accumulated other comprehensive income that mainly resulted from an increase in unrealized gains on securities and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

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

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

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

Total Shareholders' Equity
(Billions of Yen)



Contractual Obligations

The following summarizes contractual obligations at March 31, 2006.

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

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

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

3. CASH FLOWS

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

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

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

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

4. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Inventory Valuation

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

Impairment of Investments

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

Allowance for Doubtful Receivables

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

Deferred Tax Assets

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

Impairment of Long-Lived Assets

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

Retirement and Pension Plans

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

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

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

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

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

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

Revenue Recognition for Long-Term Contracts

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

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

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

5. BUSINESS RISKS

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

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

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

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

The Company is subject to the risks of international operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Damage by Natural Disasters

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

6. MARKET RISKS

Derivatives

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

Countermeasures for the Removal of Government Deposit Guarantees

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

7. RESEARCH AND DEVELOPMENT

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

8. CAPITAL EXPENDITURES

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

9. MATTERS RELATED TO THE HEALTH HAZARD OF ASBESTOS

Background

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

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

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

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

Contingencies Regarding Asbestos-Related Matters

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

10. OUTLOOK FOR THE NEXT FISCAL YEAR

Financial Outlook

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

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

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

Cautionary Statements with Respect to Forward-Looking Statements

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

■ SEGMENT INFORMATION

The following segment information for the years ended March 31, 2006 and 2005, which is required under the regulations of the Securities and Exchange Law of Japan, is not consistent with accounting principles generally accepted in the United States of America.

Industry Segments

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

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

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

Geographic Segments

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

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

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

Sales by Region

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

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