1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Basis of Financial Statements

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

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

Translation into United States Dollars

The parent company and its domestic subsidiaries maintain their accounts in Japanese yen, the currency of the country in which they are incorporated and principally operate. The United States dollar amounts included herein represent a translation using the approximate exchange rate at March 31, 2006 of ¥117=US$1, solely for convenience of readers outside Japan. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into United States dollars.

Consolidation

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

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

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

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

Intercompany items have been eliminated in consolidation.

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

Revenue Recognition

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

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

Housing real estate sales are recorded when the title is legally transferred to the customer in accordance with the underlying contract and real estate laws and regulations.

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

Foreign Currency Translation

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

Securitization of Receivables

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

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

Allowance for Doubtful Receivables

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

Inventories

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

Investments

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

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

(Merger of Bank of Tokyo and Mitsubishi Bank)

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

If EITF 91-5 had been adopted, net income would have increased by ¥3,081 million for the year ended March 31, 1997, and decreased by ¥603 million for the year ended March 31, 2002. Net loss would have increased by ¥545 million for the year ended March 31, 2003. There would have been no impact on operating results for the years ended March 31, 2006, 2005, and 2004. Retained earnings would have decreased by ¥380 million ($3,248 thousand) at March 31, 2006, 2005, and 2004, with a corresponding increase in accumulated other comprehensive income. These amounts primarily reflect the unrecognized gain on the initial nonmonetary exchange in 1997 and subsequent losses on sales and impairment of the investment through 2003.

(Merger of UFJ Holdings and Mitsubishi Tokyo Financial Group)

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

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

Property, Plant, and Equipment

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

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

Income Taxes

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

Consideration Given by a Vendor to a Customer

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

Research and Development and Advertising

Research and development and advertising costs are expensed as incurred.

Shipping and Handling Costs

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

Expense from Relief Payment for Health Hazard of Asbestos

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

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

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

b. The amount of loss can be reasonably estimated.

(See Note 17. COMMITMENTS AND CONTINGENCIES.)

Net Income per Common Share

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

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

Derivative Financial Instruments

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

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

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

Impairment of Long-Lived Assets

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

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

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

Discontinued Operations

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

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

Cash Flow Information

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

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

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

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

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

Use of Estimates in the Preparation of the Financial Statements

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

New Accounting Standards

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

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

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

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

2. INVENTORIES

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

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

3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

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

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

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

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

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

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

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

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

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

4. OTHER INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

5. FINANCE RECEIVABLES

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

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

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

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

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

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

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

The above assets were pledged against the following liabilities:

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

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

8. RETIREMENT AND PENSION PLANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

10. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS

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

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

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

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

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

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

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

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

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

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

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

11. OTHER INCOME (EXPENSES), NET

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

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

12. INCOME TAXES

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

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

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

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

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

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

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

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse and/or the tax losses and credits are carried forward, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances at March 31, 2006.

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

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

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

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

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

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

13. NET INCOME (LOSS) PER COMMON SHARE

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

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

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

14. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

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

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

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

15. FINANCIAL INSTRUMENTS

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

Market Risk Management

Market Risk Exposures

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

Foreign Currency Exchange Risks

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

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

Foreign Exchange Forward Contracts and Currency Swaps

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

Interest Rate Risks

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

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

Interest Rate Swap Contracts

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

Cash Flow Hedges

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

Equity Price Risks

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

Fair Value of Financial Instruments

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

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

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

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

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

Concentration of Credit Risks

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

16. SUPPLEMENTAL EXPENSE INFORMATION

Selling, General, and Administrative Expenses

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

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

Loss from Disposal and Impairment of Businesses and Fixed Assets

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

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

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

17. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

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

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

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

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

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

Guarantees

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

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

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

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

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

Legal Proceedings

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

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

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

Matters Related to Health Hazard of Asbestos

(Background)

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

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

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

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

(Accounting for Asbestos-Related Expenses)

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

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

18. SECURITIZATION OF RECEIVABLES

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

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

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

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

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

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

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

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

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

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

19. DISCONTINUED OPERATIONS

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

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

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

20. SUBSEQUENT EVENTS

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

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