1. OPERATING RESULTS

Revenues

For the year ended March 31, 2008, revenues of Kubota Corporation and subsidiaries (collectively, “the Company”) increased ¥27.1 billion (2.4%), to ¥1,154.6 billion ($11,546 million), from the prior year.

In the domestic market, revenues decreased ¥31.3 billion (5.2%), to ¥572.2 billion ($5,722 million), from the prior year. Revenues in Internal Combustion Engine & Machinery decreased due to lower sales of farm equipment and construction machinery affected by stagnant market conditions. Revenues in Pipes, Valves, and Industrial Castings increased due to a large increase in sales of industrial castings, while sales of ductile iron pipes and plastic pipes remained at the same level as in the prior year. Revenues in Environmental Engineering decreased, adversely affected by the discontinuation of a part of operations. Revenues in Other decreased due to drops in sales of condominiums and construction, while sales of vending machines expanded.

Revenues in overseas markets increased ¥58.4 billion (11.1%), to ¥582.3 billion ($5,823 million), from the prior year. In North America, sales of construction machinery and engines decreased in adverse market conditions, while sales of tractors remained at almost the same level as in the prior year. On the contrary, in Europe, sales of tractors, construction machinery, and engines all increased by large margins. In Asia outside Japan, sales of tractors continued to increase favorably in Thailand. As a result, the ratio of overseas revenues to consolidated revenues rose 3.9 percentage points, to 50.4% compared with the prior year, and overseas revenues exceeded domestic revenues for the first time ever.

Revenues by Industry Segment

1) Internal Combustion Engine and Machinery

Revenues in Internal Combustion Engine and Machinery were ¥793.7 billion ($7,937 million), 6.3% higher than in the prior year, and comprising 68.7% of consolidated revenues. Domestic revenues decreased 3.9%, to ¥248.3 billion ($2,483 million), and overseas revenues increased 11.6%, to ¥545.3 billion ($5,453 million). This segment comprises farm equipment, engines, and construction machinery.

Domestic revenues in Internal Combustion Engine and Machinery declined from those in the prior year, owing to a weak performance in the farm equipment business. The domestic farm equipment market continued to be lackluster during the fiscal year under review and experienced a substantial decline in demand. The Company was able to attain sales in its core tractor business at approximately the same level as in the prior year, in part through the introduction of new models, but sales of combines and other farm equipment declined. Demand for construction machinery was stagnant because of the adverse impact of the partial revision of Japan’s building standards law, and the Company’s revenues generated in this field declined slightly. On the other hand, sales of engines, mainly to manufacturers of construction and industrial machinery, showed steady expansion.

In overseas markets, sales of tractors, construction machinery, and engines all posted expansion. Sales of both tractors and construction machinery recorded another fiscal year of double-digit expansion. Also, sales of engines showed steady expansion. However, farm equipment, such as combine harvesters and rice transplanters, posted a decline from the prior year because of a drop in sales in China in reaction to strong sales in the prior year.

2) Pipes, Valves, and Industrial Castings

Revenues in Pipes, Valves, and Industrial Castings increased 3.8%, to ¥201.6 billion ($2,016 million), from the prior year, and comprising 17.5% of consolidated revenues. Domestic revenues increased 4.7%, to ¥171.0 billion ($1,710 million), and overseas revenues decreased 0.8%, to ¥30.6 billion ($306 million). This segment comprises pipes, valves, and industrial castings.

Demand for ductile iron pipes and plastic pipes, which are this segment's core products, was weak, but by increasing prices and adopting other measures, the Company was able to secure pipe sales at about the same level as in the prior year. On the other hand, sales of industrial castings showed favorable expansion over the prior year because of recovery in demand for tunnel-support materials (ductile tunnel segments) and a strong performance of reformer and cracking tubes for chemical plants.

In overseas markets, although sales of ductile iron pipes experienced a substantial decline, overall sales were about the same as in the prior year because of increases in sales of reformer and cracking tubes.

3) Environmental Engineering

Revenues in Environmental Engineering decreased 21.8%, to ¥70.9 billion ($709 million), from the prior year, and comprising 6.1% of consolidated revenues. Domestic revenues decreased 24.9%, to ¥64.9 billion ($649 million), and overseas revenues increased 43.6%, to ¥5.9 billion ($59 million). This segment consists of environmental control plants and pumps.

Environmental Engineering confronted challenging operating conditions again during the fiscal year under review as a result of the shrinkage in public-sector demand and declining sales prices. In addition, orders declined because of the Company's business contraction of the waste incinerating plant business and the public-sector recycling plant business and the suspension of a designated pre-approved supplier. As a consequence, revenues of this segment posted a marked decline.

4) Other

Revenues in Other decreased 7.7%, to ¥88.4 billion ($884 million), from the prior year, and comprising 7.7% of consolidated revenues. Domestic revenues decreased 7.7%, to ¥87.9 billion ($879 million), and overseas revenues increased 2.2%, to ¥0.5 billion ($5 million). This segment comprises vending machines, electronic-equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Following the sale of a part of the shares of subsidiary Kubota Maison, the Company ceased the reporting of revenues from condominium development and sales business in the second half of the fiscal year under review. Among other businesses in this segment, sales of vending machines rose because of a special factor, namely, the introduction of adult identification cards for cigarette vending machines, but revenues from construction, air-conditioning equipment, and septic tanks declined.

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

The cost of revenues increased 3.7% from the prior year, to ¥824.1 billion ($8,241 million). The cost of revenues as a ratio to consolidated revenues increased 0.9 percentage point, to 71.4%. The increase in the ratio was attributable to sharp rising material costs, including for scrap iron and synthetic resin.

Selling, general, and administrative (SG&A) expenses decreased 3.2% from the prior year, to ¥192.9 billion ($1,929 million). The ratio of SG&A expenses to revenues decreased 1.0 percentage point, to 16.7%. This decrease was mainly due to the decreased burden of asbestos-related expenses compared with the prior year.

Loss from disposal and impairment of businesses and fixed assets decreased 78.1% from the prior year, to ¥0.7 billion ($7 million), due to an absence of a restructuring expense of construction businesses recorded in the prior year.

Operating Income

Operating income increased ¥6.5 billion (5.0%), to ¥136.9 billion ($1,369 million), from the prior year, the highest level in the Company's history. By segment, operating income in Internal Combustion Engine and Machinery expanded due to the increase in revenues. Operating income in Pipes, Valves, and Industrial Castings decreased, owing to sharp price hike of raw materials. Operating income in Environmental Engineering remained in deficit due to a sales decrease and declining profit margins from intensifying competition.

Operating income in Other rose mainly due to increased sales of vending machines.

Operating income or loss in each industry segment (before the elimination of intersegment profits and corporate expenses) was as follows: Internal Combustion Engine and Machinery, operating income of ¥133.0 billion ($1,330 million), a 6.5% increase; Pipes, Valves, and Industrial Castings, operating income of ¥15.2 billion ($152 million), a 30.8% decrease; Environmental Engineering, operating loss of ¥5.0 billion ($50 million), as compared to an operating loss of ¥5.6 billion; and Other, operating income of ¥8.6 billion ($86 million), a 20.2% increase.

Other Income (Expenses)

Other expenses, net, was ¥14.3 billion ($143 million), as compared to ¥1.2 billion of income in the prior year. This substantial decrease was mainly due to increases in the foreign exchange loss and valuation losses on other investments. The valuation losses were caused by a stock market slump.

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

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥122.6 billion ($1,226 million), a decrease of ¥9.0 billion from the prior year.

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

Income taxes decreased 1.9% from the prior year, to ¥48.0 billion ($480 million). The effective tax rate was 39.2%.

Minority interests in earnings of subsidiaries increased ¥0.6 billion, to ¥6.8 billion ($68 million), which resulted from the favorable operating performances of overseas subsidiaries. Equity in net income of affiliated companies decreased ¥1.3 billion from the prior year, to ¥0.1 billion ($1 million), mainly due to a deterioration of the financial results of a house-related affiliated company, which was affected by the adverse impact of the partial revision of Japan's building standards law.

Income from Continuing Operations

Income from continuing operations decreased 12.7% from the prior year, to ¥67.8 billion ($678 million).

Income (Loss) from Discontinued Operations, Net of Taxes

Income from discontinued operations, net of taxes, was ¥0.2 billion ($2 million) in the year under review, compared with a ¥1.3 billion loss in the prior year.

Net Income

Due to the factors described above, net income decreased 11.0% from the prior year, to ¥68.0 billion ($680 million). Return on shareholders' equity decreased 1.7 percentage points, to 10.4%, from the prior year.

Income per ADS

Basic net income per ADS (five common shares) was ¥264 ($2.64), as compared to ¥295 in the prior year.

Dividends

The Company has decided to pay ¥40 per ADS as year-end cash dividends. Accordingly, including the interim dividend of ¥30 per ADS already paid, the total dividends declared for the entire fiscal year will be ¥70 per ADS, which will be ¥10 per ADS higher than in the prior year. This year-end dividend is to be paid after ordinary general meeting of shareholders in June 2008.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or raise dividends together with share buybacks and the cancellation of treasury stock. For reference's sake, the Company purchased 10.93 million shares outstanding (¥8.0 billion, $80 million) and retired 6.00 million shares of treasury stock (¥4.4 billion, $44 million) during the year under review.

Comprehensive Income

Comprehensive income was ¥13.0 billion ($130 million), ¥54.3 billion lower from the prior year. This decrease was mainly due to a decrease in unrealized gains on securities and recorded pension liability adjustment affected by the stock market slump.

2. LIQUIDITY AND CAPITAL RESOURCES

Finance and Liquidity Management

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

Annual interest rates of short-term borrowings ranged primarily from 0.50% to 5.59% at March 31, 2008. The weighted average interest rate on such short-term borrowings was 4.9%. As for long-term debt, interest rates were primarily fixed, and the weighted average interest rate on such long-term debt at March 31, 2008, was 4.2%. With regard to the maturity profile of these borrowings, please refer to "Tabular Disclosure of Contractual Obligations".

In North America, the Company maintains an accounts receivable securitization program of trade receivables and finance receivables. The Company may sell both trade and finance receivables through independent securitization trusts. Trade receivables and finance receivables sold under the securitization program are excluded from receivables in the accompanying consolidated balance sheets.

Regarding the lines of credit, the Company has established committed lines of credit totaling ¥20.0 billion ($200 million) with certain Japanese banks. However, the Company currently does not use these lines. In the United States, Europe, and Asia, the Company maintains adequate uncommitted lines of credit with financial institutions. The Company also maintains a CP program allowing for the issuance of CP of up to ¥100.0 billion ($1,000 million). There was no outstanding issue of CP as of the end of March 2008.

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

To maintain the strength of its balance sheet and help secure adequate funding resources, the Company carefully monitors its interest-bearing debt, excluding debt related to sale financing programs. The Company is providing sale financing programs to support machinery sales in North America, Japan, and Thailand. The Company believes an increase of debt related to sales financing programs is a result of business expansion. At the end of March 2008, the amount of interest-bearing debt was ¥363.0 billion ($3,630 million). Of the ¥363.0 billion, ¥323.0 billion ($3,230 million) was borrowings from financial institutions, and the remaining ¥40.0 billion ($400 million) consisted of corporate bonds.

The Company plans its capital expenditures considering future business demand and cash flows. The Company intends to fund the investment basically through cash obtained by operating activities, and to also utilize available borrowings from financial institutions. The Company's commitments for capital expenditures are not material.

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

The amount of working capital increased ¥62.8 billion, to ¥303.2 billion ($3,032 million), from the prior year-end. Additionally, the ratio of current assets to current liabilities increased 16.7 percentage points, to 158.4%, due primarily to decreases in notes and accounts payable, short-term borrowings and income taxes payable. 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 is 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 ratings are "A+" for long-term debt and "a-1" for short-term debt as of March 2008 and its outlook is positive. The Company's favorable credit ratings provide it access to capital markets and investors.

ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

Assets

Total assets at the end of March 2008 amounted to ¥1,464.3 billion ($14,643 million), a decrease of ¥38.3 billion (2.5%) from the end of the prior year.

Current assets were ¥822.6 billion ($8,226 million), an increase of ¥5.5 billion from the prior year-end. Current assets increased due to increases in short-term finance receivables and other current assets. Inventory turnover dropped 0.3 point, to 5.6 times. Investments and long-term finance receivables decreased ¥48.4 billion, to ¥350.5 billion ($3,505 million), because other investments decreased, owing to a decrease in the unrealized gain on securities. Property, plant, and equipment slightly increased ¥0.4 billion, to ¥238.1 billion ($2,381 million). Other assets increased ¥4.2 billion, to ¥53.1 billion ($531 million).

Liabilities

Total liabilities amounted to ¥772.9 billion ($7,729 million), a decrease of ¥33.9 billion (4.2%) from the end of the prior year.

Current liabilities were ¥519.5 billion ($5,195 million), a decrease of ¥57.2 billion from the prior year-end, due to decreases of trade notes and accounts payable, income taxes payable, short-term borrowings, and current portion of long-term debt. On the other hand, long-term liabilities increased ¥23.3 billion, to ¥253.5 billion ($2,535 million), due to increases in long-term debt and accrued retirement and pension costs affected by the stock market slump. However, other long-term liabilities decreased due to a decrease in long-term deferred tax liability, which was also affected by the stock market slump.

Minority Interests

Minority interests amounted to ¥43.2 billion ($432 million), an increase of ¥7.2 billion (19.9%) from the end of the prior year as a result of favorable performances of foreign subsidiaries.

Shareholders' Equity

Total shareholders' equity amounted to ¥648.1 billion ($6,481 million), a decrease of ¥11.5 billion (1.7%) from the end of the prior year.

Retained earnings increased ¥47.1 billion, to ¥423.9 billion ($4,239 million), from the prior year-end due to the recorded net income. On the other hand, accumulated other comprehensive income decreased mainly due to decreased unrealized gains on securities and recorded pension liability adjustment caused by the stock market slump. Treasury stock amounted to ¥3.8 billion ($38 million). The Company repurchased ¥8.0 billion ($80 million) of treasury stock and retired ¥4.4 billion ($44 million) during the year under review.

The shareholders’ equity ratio* was 44.3%, 0.4 percentage point higher than at the prior year-end. The debt-to-equity ratio** was 56.0%, 3.0 percentage points higher than at the prior year-end.

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

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

Off-Balance Sheet Arrangements

The Company utilizes accounts receivable securitization programs, which are important for the Company to broaden its funding sources and raise cost-effective funds. In the programs, the Company sells the trade accounts receivables to independent securitization trusts (the “Trusts”). At the time the receivables are sold to the Trusts, the receivables are removed from the consolidated balance sheets of the Company. The Company retains servicing responsibilities and subordinated interests. The purchaser has no recourse to the Company’s other assets for failure of debtors to pay when due. The Company’s interest in sold receivables is subordinate to the purchaser’s interest, and the Company serves as credit enhancements for the securities issued by the Trusts. The value of the Company’s interest in sold receivables is subject to credit, repayment, dilution, and interest rate risks on sold receivables. The Company is obligated to repurchase any receivable if the interest of the administrative agent is materially adversely affected by a breach of representation or warranty.

The Company provides guarantees to distributors, including affiliated companies, and customers for their borrowing from financial institutions. The Company would have to perform under these guarantees in the event of default on a payment within the guarantee periods. The maximum potential amount of undiscounted future payments of these financial guarantees as of March 31, 2008, was ¥2.6 billion ($26 million).

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 14 to the consolidated financial statements.

Tabular Disclosure of Contractual Obligations

The following summarizes contractual obligations at March 31, 2008.

	Millions of Yen				
		Payments Due by Period			
Year Ended March 31, 2008	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Short-term borrowings	¥113,087	¥113,087	¥ —	¥ —	¥ —
Capital lease obligations	6,471	3,484	2,713	245	29
Long-term debt	243,450	62,492	136,286	33,348	11,324
Deposits from customers	2,700	2,700	—	—	—
Operating lease obligations	1,563	826	495	167	75
Commitments for capital expenditures	3,756	3,756	—	—	—
Interest payments	17,333	7,884	7,806	1,321	322
Total	¥388,360	¥194,229	¥147,300	¥35,081	¥11,750

	Thousands of U.S. Dollars				
		Payments Due by Period			
Year Ended March 31, 2008	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Short-term borrowings	$1,130,870	$1,130,870	$ —	$ —	$ —
Capital lease obligations	64,710	34,840	27,130	2,450	290
Long-term debt	2,434,500	624,920	1,362,860	333,480	113,240
Deposits from customers	27,000	27,000	—	—	—
Operating lease obligations	15,630	8,260	4,950	1,670	750
Commitments for capital expenditures	37,560	37,560	—	—	—
Interest payments	173,330	78,840	78,060	13,210	3,220
Total	$3,883,600	$1,942,290	$1,473,000	$350,810	$117,500

The Company's contributions to pension plans for the year ending March 31, 2009 are expected to be ¥14,216 million ($142,160 thousand).

3. CASH FLOWS

Net cash provided by operating activities during the year under review was ¥90.1 billion ($901 million), a decrease of ¥6.7 billion from the prior year. Although the notes and accounts receivable decreased largely, total net cash provided by operating activities decreased from the prior year due to a large decrease in notes and accounts payable, a decrease in income taxes payable, and an increase in other current assets.

Net cash used in investing activities was ¥72.3 billion ($723 million), a decrease of ¥17.7 billion from the prior year. Although purchases of fixed assets were almost same level as in the prior year, total net cash used in investing activities decreased largely due to an increase in collection of finance receivables in the Internal Combustion Engine and Machinery segment.

Net cash used in financing activities was ¥11.7 billion ($117 million), a decrease of ¥5.2 billion from the prior year. Although the repayment of short-term borrowings and cash dividends increased, borrowing of long-term debt increased. Consequently, net cash used in investing activities slightly decreased.

As a result, including the effect of the exchange rate, cash and cash equivalents at the end of March 2008 were ¥88.8 billion ($888 million), an increase of ¥6.2 billion from the prior year.

4. CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these statements requires the uses of estimates and assumptions about future events. Accounting estimates and assumptions discussed in this section are those that the Company considers to be the most critical to an understanding of its financial statements.

Impairment of Assets

The application of impairment accounting requires the use of significant estimates and assumptions. Impairment testing for assets requires the allocation of cash flows to those assets and, if required, an estimate of fair value for the assets. The Company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable, and would not reflect unanticipated events and circumstances that may occur.

Pension Assumptions

The measurement of the Company's benefit obligation to its employees and the periodic benefit cost requires the use of certain assumptions, such as estimates of discount rates, expected return on plan assets, retirement rate, mortality rate, and rate of increase in points under the point-based benefit system. The most critical assumptions are the discount rate and the expected return on plan assets. In preparing the financial statements for the year ended March 31, 2008, the Company assumed a discount rate of 2.5% and an expected return on plan assets of 3.0%.

The Company immediately recognizes net 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, while the portion between 10% and 20% is amortized over the average participants' remaining service period. Accordingly, significant changes in assumptions or significant divergences of actual results from the assumptions may have a material effect on periodic benefit cost in the future periods.

Lower discount rate increases benefit obligations, which could affect the periodic benefit cost in the following years by an increase in service cost, a decrease in interest cost, and, if amortized, an increase in amortization cost through the amortization of actuarial loss. A decrease of 50 basis points in the discount rate increases the benefit obligations at March 31, 2008, by approximately ¥8.4 billion ($84 million). The lower rate of return on plan assets decreases the expected return amount in the next year. A decrease of 50 basis points in the expected rate of return on plan assets increases the periodic benefit cost for the year ending March 31, 2009, by approximately ¥0.5 billion ($5 million). On the other hand, the divergence between the expected and actual return on plan assets could affect the periodic benefit cost, if amortized, in the following years by an increase or decrease in amortization cost through the amortization of actuarial gain or loss.

Income Taxes

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes－an interpretation of FASB Statement No. 109," on April 1, 2007. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company uses a more likely than not threshold to the recognition and derecognition of tax positions. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income, and the feasibility of ongoing tax planning strategies. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

Loss Contingencies

The Company is currently facing asbestos-related issues, and is involved in some legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure on a regular basis. If the potential losses from these matters are considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability and may revise the estimates. Such revisions in the estimates of the potential liabilities could have a material impact on the Company's results of operations and financial position.

5. BUSINESS RISKS

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

Industrial and capital goods make up a substantial portion of the Company’s products. Accordingly, revenues of the Company may decrease due to declining demand resulting from declines in general economic conditions, including private-sector capital expenditures, construction investment, and domestic public investment. In addition, governmental agricultural policies may adversely 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 decrease due to declines in general economic conditions, including private consumption and residential construction investment in those regions.

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

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

If the prices of raw materials increase and the Company has difficulties in procuring adequate supplies of them, there may be a material adverse effect on the Company’s results of operations.

The Company purchases substantial raw materials and parts from outside suppliers. If the prices of raw materials substantially increase due to the supply and demand gap and changes in market conditions, and stay at high levels for a long time, they may deteriorate the Company’s profitability. Also, if the Company has difficulties in procuring adequate supplies of raw materials, there may be a material adverse effect on the Company’s results of operations due to difficulties in production and sales activities.

The risks associated with international operations may adversely affect revenues and profitability of the Company.

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. If such risks occurred, the Company may face difficulties in stable production and sales of products in overseas markets that may affect revenues and profitability of the Company or they may hinder growth of the Company in specific countries. The following risks are serious concerns for the Company:

- Unexpected changes in international, or in an individual country’s, tax regulations;
- unexpected legal or regulatory changes in a country;
- difficulties in retaining qualified personnel;
- underqualified technological skills or instability between management and employee unions in developing countries; and
- political instability in those countries.

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

If strategic alliances, mergers, and acquisitions may not generate successful results as planned, then the Company's profitability may deteriorate.

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's profitability may deteriorate.

If the Company is not able to successfully create new businesses or businesses complementary to the current ones, then there may be a negative impact on the Company's financial position.

As part of its structural renovation, the Company is attempting to cultivate new businesses or businesses that are complementary to the current ones. In general, there are numerous competitors, and competition is very harsh in those markets. 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, which may have a material adverse effect on the Company's results of operations and financial position.

As of March 31, 2008, the Company owns securities with a fair value of approximately ¥135.1 billion ($1,351 million). In general, most of these securities are equity securities. Accordingly, impairment losses may occur, depending on stock market fluctuations, which may have a material adverse effect on the Company's results of operations, and financial position.

The Company is subject to intensifying competitive pressures. Unless the Company surpasses other companies in each of its businesses, revenues and /or net income may decrease in the future.

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

If the Company's products and services are alleged to have serious defects, that may have a material effect on the Company's results of operations and financial position.

If the Company's products and services are alleged to have serious defects, the Company may have liability for significant damages, and there may be a material effect on the Company's results of operations and financial position. If such claims are asserted, the Company may lose the confidence of the public and suffer a reduction in its brand value, which may result in decreased revenues or demand for its products.

The Company may be required to incur considerable expenses in order to comply with various environmental laws and regulations. Such expenses may have a material effect on the Company's results of operations and financial position.

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 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 expenses in connection with environmental damage its activities may allegedly cause. Such expenses may have a material effect on the Company's results of operations and financial position.

Claims may arise that the Company's activities have caused environmental contamination, including the release of hazardous materials or air pollution, water pollution, and/or soil contamination. In such an event, the Company may elect or be required to implement costly corrective actions to resolve any issues associated with the release or presence of such hazardous materials or contamination and may face associated litigation. These factors may have a material effect on the Company's results of operations and financial position.

If the Company is required to incur significant expenses relevant to asbestos-related issues, then there may be a material adverse effect on the Company's results of operations, financial position, and its liquidity.

The Company previously manufactured products containing asbestos from 1954 to 2001. The Company may be required to incur various expenses, including payments to the individuals concerned or face lawsuits related to the asbestos-related health hazards of employees (including former employees) who engaged in the manufacturing of products containing asbestos, and residents who lived near the Company's factory at which these products were manufactured. If such expenses become significant or any lawsuits result in judgments unfavorable to the Company, there may be a material adverse effect on the Company's results of operations, financial position, and its liquidity.

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

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

If the Company was damaged by natural disasters, then the Company's operations may suffer great losses.

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

6. RESEARCH AND DEVELOPMENT

R&D expenses were ¥24.8 billion ($248 million), an increase of ¥1.9 billion from the prior year, and its ratio to revenues increased 0.12 percentage point, to 2.15%. R&D expenses were mainly spent on R&D activities of the Internal Combustion Engine and Machinery segment.

7. CAPITAL EXPENDITURES

Capital expenditures amounted to ¥35.2 billion ($352 million). Capital expenditures were spent on expanding production capacity, such as building a new factory in Thailand and expanding production in domestic factories, and rationalization investment. The amount of depreciation and amortization expense was ¥30.1 billion ($301 million), an increase of ¥5.0 billion from the prior year. The funds for these capital expenditures were mainly provided by internal operations.

8. 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, produced products containing asbestos. In April 2005, the Company was advised that some residents who lived near the former plant suffered from mesothelioma, a form of cancer that is said to be mainly caused by the aspiration of asbestos. The Company announced its intention in June 2005 to act seriously and faithfully concerning various issues of the health hazard of asbestos from the viewpoint of corporate social responsibility (CSR) as a company that had once manufactured products containing asbestos for a long time.

According to the Company's basic policy, the Company started the program of consolation payments to patients with mesothelioma who lived near the former plant and to the families of residents who died from mesothelioma. In April 2006, the Company decided to establish the relief payment system in place of the consolation payment system and make additional payment to the residents to whom consolation payment or condolence payment was paid or payable.

With regard to current and former employees of the Company who are suffering from, or have 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. Based on the New Asbestos Law, a Fund for the Relief of Patients Suffering from Asbestos-Related Diseases (the "Fund") was established, and the Fund, from which the relief aid is paid, is funded by the national government, municipal governments, and business entities. The payment of contribution to the Fund by each business entity commenced from the year ended March 31, 2008.

Contingencies Regarding Asbestos-Related Matters

The Company expenses the payments for the health hazard of asbestos based on the Company's policies and procedures. The amounts of these expenses during the year under review were approximately ¥1.1 billion ($11 million). The Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to asbestos issues. However, the Company believes asbestos-related issues contain potentially material risks for the Company's consolidated results of operations, financial position, and its liquidity.

9. OUTLOOK FOR THE NEXT FISCAL YEAR

Financial Outlook

The Company forecasts consolidated revenues for the year ending March 31, 2009, will decrease from the year under review. In the domestic market, revenues in Environmental Engineering are expected to be approximately at the same level as the year under review. However, revenues in Internal Combustion Engine and Machinery, Pipes, Valves, and Industrial Castings and Other are forecast to decrease. As a result, total domestic revenues are forecast to decrease from the year under review. In overseas markets, although revenues in Pipes, Valves, and Industrial Castings, and Environmental Engineering are expected to increase from the year under review, revenues in Internal Combustion Engine and Machinery are forecast to decrease. As a result, total overseas revenues are forecast to decrease from the year under review.

The Company forecasts operating income will decrease from the year under review, mainly due to appreciation of the yen and sharp price hikes of raw materials.

The Company expects that income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies and net income for the next fiscal year will decrease from the year under review due to a decrease in operating income.

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.