Operating and Financial Review and Prospects

1. Operating Results

Overview

Organization

The Company is one of Japan's leading manufacturers of a comprehensive range of machinery and products including farm equipment, pipes for water supply and sewage systems, environmental control plants, and industrial castings. The Company also provides retail finance and finance leases, which primarily finance sales of equipment by dealers, for the purpose of enhancing sales of equipment to individual customers.

The Company's reporting segments consist of "Farm & Industrial Machinery", "Water & Environment Systems", "Social Infrastructure" and "Other".

The Company generates revenues and cash primarily from the sales of products to dealers, affiliated companies and trading companies or direct sales of products to end users.

For more than a century since its founding, the Company has continued to help improve people's quality of life and the development of society through its products and services. Currently, the Company is focusing on prioritizing the allocation of its resources, emphasizing agility in its operations, and strengthening consolidated operations. Through these measures, the Company intends to improve its ability to respond with flexibility to the changing times, to achieve high enterprise value.

Business environment

(Japan: The domestic market)

In Japan, the overall economic environment remained sluggish and the agricultural market recorded a slight decrease even with additional governmental subsidies.

According to a report of JFMMA (Japan Farm Machinery Manufacturer's Association), the shipment amount of agricultural machinery in 2009 for the domestic market decreased by 0.5% from the prior year.

Budgets for public works projects have been gradually decreasing due to the growing budget deficits in the Japanese national and local governments. For example, the budget of the Japanese Government for the water supply decreased by 5.0% and budget for the sewage system also decreased by 4.9% from the prior year.

(North America)

The U.S. economy was in serious recession and business conditions remained severe throughout the year. Demand for tractors and construction machinery marked a sizable drop reflecting slumping housing starts and home sales.

According to a 2009 report by AEM (Association of Equipment Manufacturers), industry retail sales units of tractors under 40hp (horse power) decreased by 19.8% and industry retail sales units of tractors from 40 to 100hp decreased by 28.4% from the prior year.

In Canada, demand for agricultural machinery and construction machinery decreased. As for tractors, industry retail sales units of tractors in Canada in 2009 decreased 20.0% from the prior year according to the AEM report.

(Europe)

The economy in Europe entered into a steep recession in the first half of 2009 and the European Union recorded negative GDP growth of -4.2 % in 2009, as compared to the positive growth of 0.7 % in the prior year. Although the EU economy returned to positive growth in the latter half of 2009, the growth was at a sluggish pace.

Demand for construction machinery and engines for industrial use, which is highly sensitive to economic conditions, drastically decreased in Europe. Demand for tractors also declined substantially. However, the degree of decrease in demand for tractors was much milder than those of construction machinery and engines.

(Asia outside Japan)

The Company believes that development of economy and industrialization as well as an increase in farmers' income in a country are important factors for the progress of agricultural mechanization.

GDP per capita in Thailand exceeded US$ 3,000 several years ago, and demand for agricultural machinery has been rapidly increasing since then due to a decrease of labor force in rural area resulting from economic development and migration of the population from the agriculture sector to other industrial sectors.

In China, government subsidies to enhance agricultural mechanization are increasing each year. The subsidy in 2009 increased more than threefold, to Rmb13 billion from the prior year. As for rice farming, the Chinese government establishes target ratios of agricultural mechanization, and these policies are helping to grow demand for agricultural machinery over the long term.

<u>Revenues</u>

For the year ended March 31, 2010, revenues of the Company decreased ¥176.8 billion（16.0%), to ¥930.6 billion, from the prior year.

In the domestic market, revenues decreased ¥47.5 billion (8.7 %), to ¥501.7 billion from the prior year. Revenues in Farm & Industrial Machinery decreased mainly due to depressed sales of engines and construction machinery, while sales of tractors and farm machinery increased. Revenues in Water & Environment Systems decreased due to a decrease in sales of pipe-related products such as ductile iron pipes and plastic pipes, and a decrease in sales of environment-related products. Revenues in Social Infrastructure and Other also decreased.

Revenues in overseas markets decreased ¥129.3 billion (23.2 %), to ¥429.0 billion from the prior year. In Farm & Industrial Machinery, revenues in Asia outside Japan favorably increased centering on combine harvesters and rice transplanters. However, revenues in North America and Europe decreased due to a decrease in sales of tractors, engines and construction machinery. Accordingly, total revenues in Farm & Industrial Machinery substantially decreased. On the other hand, revenues in Water & Environment Systems largely increased due to increased sales of ductile iron pipes and pumps. Revenues in Social Infrastructure decreased mainly due to a decrease in sales of industrial castings, and revenues in Other decreased. The ratio of overseas revenues to consolidated revenues was 46.1 %, 4.3 percentage points lower than the prior year.

The Company estimates that the unfavorable impact of foreign currency fluctuations on the Company's overseas revenues for the year under review was approximately ¥54.7 billion. The average exchange rates of the yen against the U.S. dollar were ¥94 and ¥103 for the fiscal year ended March 31, 2010 and 2009, respectively, and the average exchange rates of the yen against the Euro were ¥130 and ¥152 for the fiscal year ended March 31, 2010 and 2009, respectively. These currency fluctuations mainly influence revenues in the Farm & Industrial Machinery segment, as the overseas revenues of this segment account for most of the Company's overseas revenues.

Cost of Revenues, SG&A Expenses, and Other Operating Expenses

The cost of revenues significantly decreased 15.9 % from the prior year, to ¥681.4 billion in conjunction with substantial decline of sales. However, the cost of revenues as a ratio to consolidated revenues was 73.2%, the same level as the prior year due to company-wide cost reduction activities and the benefit of price declines of raw materials. The Company estimates that it was positively impacted by approximately ¥20.0 billion from such price declines of raw materials.

Selling, general, and administrative (SG&A) expenses decreased 7.3 % from the prior year, to ¥179.4 billion. However, the ratio of SG&A expenses to revenues increased 1.8 percentage points, to 19.3% due to an increase in pension costs and lower revenues of the fiscal year under review.

Other operating expenses decreased ¥0.8 billion from the prior year, to ¥0.2 billion.

Operating Income

Operating income decreased ¥33.1 billion (32.2 %), to ¥69.7 billion from the prior year. Operating income in Farm & Industrial Machinery decreased substantially due to declining revenues in North America and Europe, and the appreciation of the yen. On the other hand, operating income in Water & Environment Systems increased sharply due to price declines of raw materials and absence of recorded losses related to the Anti-Monopoly Law in the prior year. Operating income in Social Infrastructure decreased largely as a result of decreased capital spending, while operating income in Other increased.

Operating income in each reporting segment (before the elimination of intersegment profits and adjustments) was as follows: Farm & Industrial Machinery, operating income of ¥60.5 billion, a 41.7% decrease; Water & Environment Systems, operating income of ¥19.7 billion, a 531.9 % increase; Social Infrastructure, operating income of ¥2.7 billion, a 66.3 % decrease; and Other, operating income of ¥2.6 billion, a 45.1 % increase.

Other income

Other income, net, was ¥3.8 billion, as compared to other expenses, net of ¥19.6 billion in the prior year. This improvement was mainly due to a turn from a foreign exchange loss into a foreign exchange gain and a decrease in valuation losses on other investments. The Company recorded a foreign exchange gain-net of ¥2.9 billion, as compared to a foreign exchange loss-net of ¥11.5 billion in the prior year. Foreign exchange gains or losses generally arise from the revaluation of foreign currency-denominated assets such as notes and accounts receivables at the balance sheet date; the difference between carrying value and settlement value of foreign currency-denominated assets; and valuation on foreign exchange forward contracts and options. U.S. dollar, Euro and Baht-denominated assets accounted for a large portion of foreign exchange gains or losses. The valuation losses on other investments decreased ¥8.5 billion, to ¥0.1 billion from the prior year due to a recovery of the stock market.

Income from Continuing Operations before Income Taxes and Equity in Net Income of Affiliated Companies

Income from Continuing Operations before income taxes and equity in net income of affiliated companies decreased ¥9.8 billion, to ¥73.5 billion from the prior year due to a decrease in operating income.

Income Taxes, Equity in Net Income of Affiliated Companies, and Net Income

Income Taxes decreased 9.6% from the prior year, to ¥26.0 billion, primarily as a result of the decline in Income from Continuing Operations before Income Taxes and Equity in Net Income of Affiliated Companies. The effective tax rate was 35.4%, the similar level as 34.5% of the prior year. Equity in net income of affiliated companies was ¥0.4 billion, an increase of ¥0.2 billion from the prior year. As a result, net income decreased 12.5% from the prior year, to ¥47.9 billion.

Net Income attributable to the noncontrolling interests

Net income attributable to the noncontrolling interests decreased 16.3% from the prior year, to ¥5.6 billion due to lower profits of consolidated subsidiaries.

Net Income attributable to Kubota Corporation

Due to the factors described above, net income attributable to Kubota Corporation decreased 11.9% from the prior year, to ¥42.3 billion. Return on shareholders' equity decreased 0.8 percentage points, to 7.0%, from the prior year.

Net Income attributable to Kubota Corporation per ADS

Basic net income attributable to Kubota Corporation per ADS (five common shares) was ¥166, as compared to ¥188 in the prior year.

Dividends

The Company paid ¥25 per ADS as a year-end cash dividend. Accordingly, including the interim dividend of ¥35 per ADS paid by the Company, the total dividend for the year ended March 31, 2010 was ¥60 per ADS, which was ¥10 per ADS less than the prior year.

Comprehensive Income

Comprehensive Income was ¥70.8 billion, as compared to comprehensive loss of ¥45.3 billion in the prior year. This improvement was mainly due to a favorable effect of foreign currency translation adjustments and a turn from unrealized losses on securities into unrealized gains on securities, which resulted from improvement in the stock market.

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.

1) Allowance for doubtful receivables

The evaluation of the collectability of the Company's notes and accounts receivable, finance receivables, and non-current receivables requires the use of certain estimates. Such estimates require consideration of historical loss expense adjusted for current conditions, and judgments about the probable effects of relevant observable data including present economic conditions such as financial health of specific customers and collateral values. Sharp changes in the economy or a significant change in the economic health of a particular customer could result in actual receivable losses that are materially different from the estimated reserve.

2) Impairment of Long-Lived Assets

The application of impairment accounting requires the use of significant estimates and assumptions. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of asset group with their estimated undiscounted future cash flows. This review is primarily performed using estimates of future cash flows by product category. If the carrying value of the asset group is considered impaired, an impairment loss is recorded for the amount by which the carrying value of the asset group exceeds its fair value. The fair value is determined using the present value of estimated net cash flows. This approach uses significant estimates and assumptions, which are inherently uncertain and unpredictable and would not reflect unanticipated events and circumstances that may occur.

3) 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, and mortality rate. 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 (approximately 15 years). 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.

The Company recorded an actuarial loss of ¥9.6 billion, which contained the immediate recognition amount of net actuarial losses in excess of 20% of the projected benefit obligation, as a component of net periodic benefit cost for the year ended March 31, 2010. This actuarial loss was derived from significant decline on fair value of plan assets during the years ended March 31, 2009 and March 31, 2008 due to financial crisis.

In preparing the financial statements, the Company assumed the discount rate used in calculating benefit obligation of 2.4% at March 31, 2010, and 2.5% at March 31, 2009, respectively. A 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. Each 50 basis point increase or decrease in the discount rate will have an estimated increase or decrease of ¥8.2 billion on the benefit obligations at March 31, 2010.

The Company assumed an expected return on plan assets of 2.5% for the years ended March 31, 2010 and 2009, and 3.0% for the year ended March 31, 2008, respectively. The Company lowered the expected return on plan assets to 2.5% for the year ended March 31, 2009 in consideration of the revision of the portfolio of pension plan assets by increasing the portion of debt securities in order to stabilize the return on plan assets, which increased the periodic benefit cost for the year ended March 31, 2009 by approximately ¥0.5 billion.

The lower rate of return on plan assets decreases the expected return amount in the next year. Each 50 basis point increase or decrease in the expected rate of return on plan assets will have an estimated increase or decrease of ¥0.5 billion on the periodic benefit cost for the year ending March 31, 2011.

4) Income Taxes

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.

During the year ended March 31, 2008, the tax authorities in the United States and Japan reached an agreement on a bilateral Advance Pricing Agreement ("APA"), which covered the periods through the year ended March 31, 2010, as to certain intercompany transactions between related parties in the United States and Japan. The Company estimated the unrecognized tax benefits for an additional tax payment to Japanese tax authority of ¥6.5 billion and a tax refund from the United States tax authority of ¥4.7 billion at March 31, 2009. In accordance with the expiration of the APA, the Company accrued a tax payment of ¥4.5 billion in income taxes payable with a recognition of a tax refund of ¥2.8 billion in other current assets at March 31, 2010. This difference between estimates and actual results did not have a material effect on the Company's consolidated results of operations or financial position for the year ended March 31, 2010 since the tax refund decreased in proportion to the decrease of additional tax payment.

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.

5) Revenue recognition for long-term contracts

The Company uses the percentage of completion method to recognize revenue from long-term contracts primarily in construction works with the Japanese national government and local governments. The percentage of completion method requires the use of estimates and assumptions to measure total contracts, remaining costs to completion, and total contract revenues. The Company continually reviews the estimates and assumptions. Any revisions in revenue, cost, and profit estimates or in measurements of the extent of progress toward completion are accounted for in the consolidated statements of income for the fiscal year in which those revisions have been made.

6) Loss Contingencies

The Company is currently facing asbestos-related issues, and is a party to certain 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. The Company considers the progress of legal proceedings, recent similar court cases, and other relevant factors in order to assess whether the conditions of loss contingencies are met. 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. Subsequent revisions in the estimates of the potential liabilities could have a material impact on the Company’s results of operations and financial position in the period they are made.

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, establishing committed lines of credit, and the issuance of bonds and commercial paper (CP) in the capital markets.

The weighted average interest rate on such short-term borrowings at March 31, 2010, was 1.5% (U.S. dollar 0.8%, Thai Baht 1.7%, others 1.7%). As for long-term debt, both fixed and floating rates were included in the interest rates, and the weighted average interest rate on such long-term debt at March 31, 2010, was 1.8% (Japanese yen 1.2%, U.S. dollar 2.0%, others 3.4%). With regard to the maturity profile of these borrowings, please refer to "Tabular Disclosure of Contractual Obligations"

After the worsening of the sub-prime loan problem and shockwaves from the Lehman Brothers' collapse in the United States, the world financial market had been in turmoil and unstable for a certain period. Even in such period, the Company was able to raise enough funds for business operations and has not encountered financing problems.

Regarding the lines of credit, the Company has established committed lines of credit totaling ¥20.0 billion with certain Japanese banks. However, the Company currently does not use these lines. The Company also maintains a CP program allowing for the issuance of CP of up to ¥100.0 billion. There was no outstanding issue of CP as of the end of March 2010.

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 retail financing programs to support machinery sales in Japan, North America and Thailand. At the end of March 2010, the amount of interest-bearing debt increased ¥2.0 billion, to ¥403.1 billion. Of the ¥403.1 billion, ¥343.5 billion was borrowings from financial institutions, and the remaining ¥59.6 billion 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 provided by operating activities, and to also utilize available borrowings from financial institutions. The Company's commitments for capital expenditures are not material. The Company has underfunded pension liabilities of ¥40.2 billion, which relate primarily to the parent company, as of the end of March, 2010. The Company's contributions to pension plans for the year ending March 31, 2011 are expected to be ¥14.3 billion.

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. The Company uses net cash provided by operating activities for these dividends and repurchases.

The amount of working capital increased ¥58.6 billion, to ¥380.6 billion, from the prior year-end. Additionally, the ratio of current assets to current liabilities increased 21.4 percentage points, to 186.5%, due primarily to an increase in cash and cash equivalent, and a decrease in short-term borrowings. 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. Currently, the Company believes the working capital is sufficient for the Company's present requirements.

All things considered, the Company believes that it can support its current and anticipated capital and operating requirements 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.

There are restrictive covenants related to its borrowings including clauses of negative pledges, rating triggers and minimum net worth. The financial covenants are as follows: the rating trigger covenant states that the Company shall keep or be higher than the "BBB－" rating by Rating and Investment Information, Inc. (R&I) and the minimum net worth covenant states that the Company shall keep the amount of total equity of more than ¥405.0 billion on the consolidated financial statement and more than ¥287.0 billion on the separate financial statement of a parent company. The Company is in compliance with those restrictive covenants at March 31, 2010.

Ratings

The Company has obtained a credit rating from 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 2010 and its outlook is positive. The Company's favorable credit ratings provide it access to capital markets and investors.

Assets, Liabilities, and Equity

1) Assets

Total assets at the end of March 2010 amounted to ¥1,409.0 billion, an increase of ¥23.2 billion (1.7%) from the end of the prior year. Current assets were ¥820.8 billion, an increase of ¥4.5 billion from the prior year-end. Cash and cash equivalent increased, while inventories and notes and accounts receivable decreased due to reduced purchasing to lower their inventory levels and lower revenues of the fiscal year under review. Inventory turnover dropped 0.6 point, to 4.9 times.

Investments and long-term finance receivables were ¥321.7 billion, an increase of ¥41.8 billion from the prior year-end. Long-term finance receivables increased along with business expansion in Thailand, and other investment increased due to the recovery of the stock market. Other assets decreased ¥18.3 billion to ¥45.6 billion mainly due to a decrease of long-term deferred tax assets.

2) Liabilities

Total liabilities amounted to ¥737.4 billion, a decrease of ¥32.2 billion (4.2%) from the end of the prior year.

Current liabilities were ¥440.2 billion a decrease of ¥54.1 billion from the prior year-end mainly due to a decrease in short-term borrowings and a decrease in accounts payable due to decreased production.

On the other hand, long-term liabilities increased ¥22.0 billion, to ¥297.2 billion, long-term debt largely increased due to issuance of corporate bond by overseas subsidiaries, while accrued retirement and pension costs decreased.

3) Equity

Total equity amounted to ¥671.6 billion, an increase of ¥55.4 billion (9.0 %) from the end of the prior year.

Retained earnings increased steadily due to net income, and accumulated other comprehensive income improved due mainly to an increase in unrealized gains on securities affected by upturn in stock prices. The shareholders' equity ratio* was 44.5 %, 2.8 percentage points higher than the prior year end. The debt-to-equity ratio** was 64.4%, 5.0 percentage points lower than at the prior year-end.

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

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

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 13 to the consolidated financial statements.

Off-balance Sheet Arrangements

The Company previously utilized accounts receivable securitization programs, which were important for the Company to broaden its funding sources and raise cost-effective funds. However, in the United States, financing by securitization of trade receivables was quite difficult in the year ended March 31, 2009 because of turmoil in the U.S. financial markets. Under this situation, the Company terminated all securitization programs during the year ended March 31, 2009 and the Company has not resumed the programs. As a result, the Company has no sold receivables at March 31, 2010.

The Company provides guarantees to distributors, including affiliated companies, and customers for their borrowings 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, 2010 was ¥6.0 billion.

Tabular Disclosure of Contractual Obligations

The following summarizes contractual obligations at March 31, 2010.

	Millions of yen				
		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Short-term borrowings	¥88,333	¥88,333	¥ —	¥ —	¥ —
Capital lease obligations	5,986	3,123	2,690	150	23
Long-term debt	308,779	68,309	185,184	42,451	12,835
Deposits from customers	2,545	2,545	—	—	—
Operating lease obligations	3,508	1,088	1,422	817	181
Commitments for capital expenditures	1,616	1,616	—	—	—
Contributions to defined pension plans	14,300	14,300	—	—	—
Interest payments	20,041	9,284	9,144	1,406	207
Total	¥445,108	¥188,598	¥198,440	¥44,824	¥13,246

Long-term debt represents unsecured bonds and loans principally from banks and insurance companies. Payments due by periods for interest payments are calculated using the contract rate of each borrowing or debt and derivative financial instruments at March 31, 2010.

The Company expects benefit payments to the participants of the defined benefit pension plans and the severance indemnity plans as disclosed in Notes 8, "RETIREMENT AND PENSION PLANS—Expected Cash Flows" on page 48. While the Company will contribute to its defined benefit pension plans in the future periods to meet future benefit payments, its contributions to defined pension plans beyond the next fiscal year are not included in the table because they are not currently determinable.

The Company recorded liabilities for unrecognized tax benefits of ¥200 million at March 31, 2010, which are not included in the above tables because it is unable to make reasonable estimates of the period of settlements.

3. Cash Flows

Net cash provided by operating activities during the year under review was ¥119.1 billion, and cash inflow increased ¥141.6 billion from the prior year. Cash inflow in the prior year substantially decreased due to discontinued sales of trade receivable in North America. Cash inflow in the year under review largely increased due to a decrease in inventories and notes and accounts receivables in addition to the absence of the effect of the above-mentioned discontinuation of sales of trade receivables.

Net cash used in investing activities was ¥43.4 billion, a decrease of ¥30.6 billion from the prior year. Cash outflow decreased substantially due to a decrease in purchases of fixed assets, increases in proceeds from sales and redemption of investments and slowdown of increase in finance receivables.

Net cash used in financing activities was ¥34.7 billion, and cash inflow decreased ¥119.5 billion from the prior year. In the prior year, the Company increased fund raisings by interest bearing debt as a result of discontinuing sales of trade receivables. Cash inflow largely decreased due to the absence of substantial fund raising in the current year.

Including the effect of exchange rate, cash and cash equivalents at the end of March 2010 were ¥111.4 billion, an increase of ¥41.9 billion from the prior year.

Over the past three years, the amount of net cash provided by operating activities was ¥186.6 billion in aggregate and net increases in borrowings were ¥111.6 billion in aggregate. Additionally, during the same period, proceeds from sales of property, plant, and equipment and proceeds from sales of investments were ¥14.1 billion in total. The aggregate amount of these cash flows was used chiefly to fund increases in finance receivables, which exceeded collections of finance receivables by ¥101.7 billion, purchase of fixed assets of ¥95.3 billion, payment of dividends to stockholders of ¥53.8 billion and repurchase of common stock for ¥13.5 billion. Cash and cash equivalents increased an aggregate of ¥28.8 billion during the same period.

4. Capital Investments

Capital expenditures in fiscal 2010, 2009 and 2008 amounted to ¥26,038 million, ¥33,337 million, and ¥35,163 million, respectively. The funding requirements for these capital expenditures were mainly provided by internal operations, and partially provided by external debt financing.

5. Research and Development

The following table shows the Company's research and development expenses for the last three fiscal years.

	Millions of yen		
	2010	2009	2008
R&D Expenses	¥25,241	¥26,290	¥24,784
As a percentage of consolidated revenues	2.7%	2.4%	2.1%

The R&D activities are conducted principally in R&D departments in each business division and subsidiary. In its business divisions and subsidiaries, there are 29 R&D departments. Each department promotes the R&D activities fortifying each business.

Total R&D expenses of four reporting segments, which are Farm & Industrial Machinery, Water & Environment Systems, Social Infrastructure, and Other segment, were ¥19.0 billion, ¥3.9 billion, ¥1.6 billion, and ¥0.8 billion, respectively.

6. Risk Factors

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.

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

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.

<u>If the prices of raw materials increase or the Company has difficulties in procuring adequate supplies of them, there may be a material adverse effect on the Company's results of operations.</u>

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.

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

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.

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

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.

Stock market fluctuations may have a material adverse effect on the Company's results of operations and financial position.

Stock market declines may cause impairment losses on the Company's investments in marketable securities or cause an increase in actuarial loss of the Company's retirement and pension plans as a result of a decline in the fair value of pension plan assets, 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 performs better than 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 performs better than 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, such allegations may have a material adverse 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 adverse effect on the Company's results of operations, 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 adverse 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 adverse 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 adverse 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 adverse 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 liquidity.

The Company previously manufactured products containing asbestos from 1954 to 2001. If the Company is required to incur additional expenses, including payments to the individuals concerned or expenses arising from litigations related to the asbestos-related health hazards and such expenses become significant, they may result in a material adverse effect on the Company's results of operations, financial position and 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, 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, any of which could have a material adverse effect on the Company's results of operations and financial position.

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

Japan is a country with frequent earthquakes. If a strong earthquake or related tidal wave occurs, the Company's manufacturing, logistics, and sales activities may be adversely affected, and may lose revenues and profits depending on the severity of the earthquake or tidal wave. Japan is also hit by typhoons very frequently. If 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.

7. Matters Related to the health hazard of Asbestos

Background

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

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

After the Company established its internal policies and procedures of relief payment system, the Company has received claims for relief payments from 216 residents and paid or accrued relief payments to 196 of those residents after carefully reviewing those claims as of March 31, 2010.

With regard to the procedures for making claims to the Company for relief payments, the Company has asked the residents or the bereaved family of the residents who lived close to its former plant to communicate with the Company through Amagasaki Occupational Safety and Health Center with the documents requested by the Company.

With regard to current and former employees of the Company who are suffering from or have died of asbestos-related disease, in accordance with the Company's internal policies, the Company shall pay compensation which is not required by law. Upon certification of medical treatment compensation from the Workers' Accident Compensation Insurance for asbestos-related diseases, the compensation for asbestos-related disease shall be paid. In case an employee dies during medical treatment and are certified for compensation from the Workers' Accident Compensation Insurance for bereaved families, the compensation for asbestos-related disease for the bereaved family shall also be paid. In addition, the Company shall provide other financial aids, such as medical expenses during medical treatment which are incurred by the diseased employees or salary payments during the period of their absence from work. The cumulative number of current and former employees who are eligible for compensation in accordance with the Company's internal policies that are not required by law is 160 as of the end of March 2008, 162 as of the end of March 2009, and 170 as of the end of March 2010.

In August 2006, the Company announced that the Company would provide a total donation of ¥1.2 billion to Hyogo College of Medicine made over 10 years and a ¥0.5 billion to Osaka Medical Center for Cancer and Cardiovascular Diseases over five years. And the Company donated ¥200 million as a contribution for the year ended March 31, 2010.

As a result of the asbestos issue becoming an object of public concern, the Japanese government established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases ("New Asbestos Law") in March 2006. This law was enacted for the purpose of promptly providing relief to people suffering from asbestos-related diseases who are not eligible for relief by compensation from the Insurance in accordance with the Workers' Accident Compensation Insurance Law. The relief aid payments are contributed by the national government, municipal governments, and business entities. The contribution includes a special contribution by companies which operated a business closely related to asbestos, and was made by business entities commencing from the year ended March 31, 2008. During the year ended March 31, 2007, the Company accounted for ¥735 million of the special contribution as a lump sum expense, which is imposed based on the New Asbestos Law during the four-year period commencing on April 1, 2007.

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 expenses include payments to certain residents who lived near the Company's plant and current and former employees, and a special contribution in accordance with the New Asbestos Law. The amount of these expenses during the year ended March 31, 2010 was approximately ¥503 million. Of the ¥503 million, ¥360 million represented expenses relating to the payment for the residents who lived near the Company's plant under the relief payment system established in April 2006. The Company has no basis or information to estimate the number of residents and current and former employees that are going to apply for payments.

Although the Company is currently a defendant in litigations relating to asbestos, the ultimate outcome of these litigations is also unpredictable with certainty due to inherent uncertainties in litigation.

Accordingly, 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.

8. Outlook for the Next Fiscal Year

The Company forecasts consolidated revenues for the year ending March 31, 2011 will increase from the year under review. Domestic revenues are forecast to increase due to an increase in revenues in Farm & Industrial Machinery and Social Infrastructure resulting from an improving general economic conditions and private capital spending, while revenues in Water & Environment Systems and Other are forecast to be the same level as the year under review due to a continuing sluggish public investments. Overseas revenues are forecast to increase substantially due to an increase in revenues in Farm & Industrial Machinery, in which revenues in Asia outside Japan will continue to grow favorably and revenues in North America and Europe are also expected to increase due to a gradual economic upturn.

The Company forecasts operating income will increase from the year under review, mainly due to an increase in revenues.

The Company expects income before income taxes and equity in net income of affiliated companies and net income attributable to Kubota Corporation for the next fiscal year will increase from the year under review.

Cautionary Statements with Respect to Forward-Looking Statements

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