

KUBOTA CORP  
Form 20-F  
September 18, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 20-F**

**.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended March 31, 2008**

**OR**

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**OR**

**..**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 1-07294

**KABUSHIKI KAISHA KUBOTA**

(Exact name of registrant as specified in its charter)

**KUBOTA CORPORATION**

(Translation of registrant's name into English)

**JAPAN**

(Jurisdiction of incorporation or organization)

**2-47, Shikitsuhashi 1-Chome, Naniwa-Ku, Osaka, JAPAN**

(Address of principal executive offices)

**Junichi Adachi, +81-6-6648-2645, +81-6-6648-2632, 2-47, Shikitsuhashi 1-Chome, Naniwa-Ku, Osaka, JAPAN**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

|                            |  |
|----------------------------|--|
| <b>Title of each class</b> | <b>Name of each exchange</b>                                 |
| <b>Common Stock*</b>       | <b>on which registered</b><br><b>New York Stock Exchange</b> |

\* Not for trading, but only in connection with the listing of American Depositary Receipts pursuant to the requirement of the New York Stock Exchange.  
 American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing five shares of the registrant's common stock.

**Securities registered or to be registered pursuant to Section 12(g) of the Act**

None

(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

| <b>Title of Class</b>      | <b>Outstanding as of</b>                     |   |
|----------------------------|--|---|
|                            | <b>March 31, 2008</b><br><b>(Tokyo Time)</b> | <b>March 31, 2008</b><br><b>(New York Time)</b> |
| Common stock               | 1,280,603,507 shares                         |   |
| American Depositary Shares |  | 6,044,210 ADS                                   |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If it is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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All information contained in this Report is as of or for the 12 months ended March 31, 2008 unless otherwise specified.

Unless otherwise specified, Japanese yen amounts in this Report have been translated for convenience into United States dollars at the rate of ¥100= US\$1, the approximate rate of exchange on March 31, 2008, the date of the most recent balance sheet herein.

As used herein, Kubota and the Company refer to Kubota Corporation and its subsidiaries unless the context otherwise indicates.

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on September 3, 2008 was ¥108.18 = US\$1.

The segment information that is disclosed in this Report, with respect to the Company's consolidated financial statements included herein, which is required under the regulations of the Financial Instruments and Exchange Law of Japan, is not consistent with accounting principles generally accepted in the United States of America.

<Cautionary Statement with Respect to Forward-Looking Statements>

Certain sections of this annual report on Form 20-F contain forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects", "anticipates", "believes", "scheduled", "estimates", variations of these words and similar expressions are intended to identify forward-looking statements which include but are not limited to projections of revenues, earnings, segment performance, cash flows and so forth. 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.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

The information required by this item, in addition to those provided below, appears on page F-1 of the attached Consolidated Financial Statements.

**A. Selected Financial Data**

|                               | Years ended March 31 |           |           |           |           | Thousands of |
|-------------------------------|----------------------|-----------|-----------|-----------|-----------|--------------|
|                               | Million of Yen       |           |           |           |           | U.S. dollar  |
|                               | 2004                 | 2005      | 2006      | 2007      | 2008      | 2008         |
| Capital stock                 | 78,156               | 78,156    | 84,070    | 84,070    | 84,070    | 840,700      |
| Capital expenditures          | 21,396               | 26,097    | 33,805    | 44,715    | 35,163    | 351,630      |
| Depreciation and amortization | 27,755               | 25,808    | 25,821    | 27,097    | 30,565    | 305,650      |
| R & D expenses                | 23,261               | 21,963    | 22,731    | 22,925    | 24,784    | 247,840      |
| Number of shares outstanding  | 1,340,197            | 1,300,413 | 1,299,488 | 1,291,513 | 1,280,604 |              |

|   | Years ended March 31 |        |        |        |        |
|---|----------------------|--------|--------|--------|--------|
|   | 2004                 | 2005   | 2006   | 2007   | 2008   |
| Cash dividends declared per depository share: |                      |        |        |        |        |
| Interim (in yen)                              |                      | 15     | 15     | 20     | 25     |
| (in U.S. dollars)                             |                      | 0.138  | 0.136  | 0.165  | 0.217  |
| Year-end (in yen)                             |                      | 15     | 25     | 30     | 35     |
| (in U.S. dollars)                             |                      | 0.138  | 0.233  | 0.258  | 0.282  |
| Exchange rates (yen amounts per U.S. dollar): |                      |        |        |        |        |
| Year-end                                      |                      | 104.18 | 107.22 | 117.48 | 117.56 |
| Average                                       |                      | 112.75 | 107.28 | 113.67 | 116.55 |
| High  |                      | 120.55 | 114.30 | 120.93 | 121.81 |
| Low   |                      | 104.18 | 102.26 | 104.41 | 110.07 |

| 2008       | Mar.   | Apr.   | May.   | Jun.   | Jul.   | Aug.   |
|------------|--------|--------|--------|--------|--------|--------|
| High       | 103.99 | 104.56 | 105.52 | 108.29 | 108.19 | 110.48 |
| Low        | 96.88  | 100.87 | 103.01 | 104.41 | 104.64 | 107.59 |
| Period-end | 99.85  | 104.53 | 105.46 | 106.17 | 108.10 | 108.69 |

Notes to Selected Financial Data:

- Cash dividends in U.S. dollars are computed based on the exchange rates at each respective payment date.
- Exchange rates are the noon buying rates for cable transfers between the yen and the U.S. dollar in New York City as certified for customs purposes by the Federal Reserve Bank of New York. The rate on September 3, 2008 was 108.18 = US\$1.





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### B. Capitalization and Indebtedness

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. 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.

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.

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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 do 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.

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If the Company's products and services are alleged to have serious defects, such allegations 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.

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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, 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 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 occur, 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. 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.

In each business segment mentioned below, Kubota is subject to risks inherent to those businesses and markets.

### **Internal Combustion Engine and Machinery Segment**

In the business of farm equipment, national agricultural policies which provide subsidies with emphasis on large-scale farmers and intends to make efficient use of agricultural resources such as farming land, agricultural machinery and facilities, may lead farmers to refrain from purchasing new equipment.

In order to compete with other companies, the Company must maintain marketing channels, develop new products that reflect consumers' exact demands, and intensify appropriate after-sales services. In addition, substantial personnel and financing resources are required.

At the same time, the Company is also subject to severe competition in overseas markets including the United States. The pressures of reducing prices or shortening lead times are making business conditions more difficult. Consequently, the Company must take all possible steps to overcome the handicap of exporting products from Japan.

Specifically, it is very important for the Company to promote its retail sales by offering appropriate incentives to its dealers, and to introduce innovative products that address consumers' needs, in advance of its competitors. The Company must continue to promote these operations and to compete with its competitors in overseas markets in order to develop the business. Otherwise, the decrease in revenues may have a material effect on the Company's consolidated results of operations and financial position.

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### Pipes, Valves, and Industrial Castings Segment

The business of Pipes and Valves is basically dependent on public sector investments. Therefore, sales and profitability of this segment may be adversely affected by reductions in public investments by national or local governments.

In the business of ductile iron pipes and industrial casting, because of the relatively severe working environment, including the need to handle molten pig iron and steel scraps, it might be difficult to hire and retain qualified new employees. If the Company fails to hire and retain qualified employees, to transfer the manufacturing skills to next- generation, to automate these processes, the Company may face difficulties in continuing its business.

In addition, increasing environmental restrictions on such items as noise, air pollution or bad smells caused by factories may require additional investments to cope with such restrictions and may reduce profitability as a result of an increase in production costs.

Certain of the Company's competitors are located in China or India where personnel costs are extremely low compared with Japan. Accordingly, the Company must continue to reduce production costs. As for export of its products, negative factors such as stronger yen, increased competition in international competitive bidding, increasing cost of freight and insurance, may impair profitability of exportation. Exports of ductile iron pipes, steel castings, and valves are concentrated to the Middle East. If conflicts erupt in this area, the rescission of contracts and bad debts may occur.

Reductions in private capital expenditure or residential construction investment may adversely impact the business, financial condition or results of the Company.

The Company may face difficulties in procuring adequate major raw materials. Especially, the difficulties may arise in obtaining such raw materials as coke, magnesium, molybdenum and manganese, of which China is the largest producer and exporter, due to export restrictions that may be imposed by Chinese government when the Chinese domestic demand for these materials increases substantially. Other raw materials such as steel scraps may also become difficult to obtain sufficiently due to significant increase in the demand from abroad.

### Environmental Engineering Segment

In the business of Environmental Engineering, a large portion of the demand depends on public sector investments. If the Company is unable to manage adverse developments such as a decrease in demand due to a reduction in public investments, intensifying competition owing to an increase in competitors, or the need to maintain high quality R&D personnel to develop new technologies, the Company's financial condition or results may be adversely affected. Furthermore, demands on product specification vary from customer to customer, which raise product cost.

The Company is aggressively working to shift its business model. Specifically, by developing its positions in the private sector and overseas markets, the Company is promoting a shift from the plant engineering business to the sales and installation of machinery and equipment. If the Company fails to produce and market new products or establish new dealer networks, the Company will not be able to shift its business model, and the Company's financial condition or results may be adversely affected.

### Other Segment

Other segment consists of primarily vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipments services. While the Company encounters market competition for these products, declining general economic conditions, including reduction in private capital expenditures, construction investment and public investment may also adversely affect the business and financial results of this segment.

**Table of Contents****Item 4. Information on the Company****A. History and Development of the Company**

KUBOTA CORPORATION (KABUSHIKI KAISHA KUBOTA), the ultimate parent company of the Kubota group, was founded in 1890 by Gonshiro Kubota and incorporated in 1930 under the Commercial Code of Japan. In 1949, stocks of the Company were listed on Tokyo Stock Exchange and Osaka Securities Exchange. In 1976, stocks of the Company were also listed on New York Stock Exchange. Today, Kubota is a manufacturer of farm equipment, and producer of pipes, principally ductile iron pipes, and related equipment for water supply and other utilities. In addition, the Company manufactures and sells other items; engines, construction machinery, industrial castings, industrial machinery, environmental control plants.

The Company's registered office is located at 2-47, Shikitsuhashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan, telephone +81-6-6648-2111.

The Company's production network primarily comprises 20 plants in Japan and 8 plants in overseas countries. Kubota also has 12 sales subsidiaries in overseas countries.

**Principal Capital Expenditures and Divestitures**

Capital expenditures in fiscal 2008, 2007 and 2006 amounted to ¥35,163 million (\$351,630 thousand), ¥44,715 million, and ¥33,805 million, respectively. The funding requirements for these capital expenditures were mainly provided by internal operations, and partially provided by external debt financing.

The principal capital expenditures in progress as of March 31, 2008, 2007 and 2006 were as follows:

**As of March 2008**

| <b>Location</b>      | <b>Industry segment included</b> | <b>Content</b>   | <b>Estimated amount of expenditures<br/>Total amount of expenditures<br/>(¥ billion)</b> | <b>Schedule<br/>Commenced</b> |
|----------------------|----------------------------------|--|--|-------------------------------|
| Suzhou (China)       | Internal Combustion              | Building of new production facility for agricultural equipment in China                            | ¥1.7   | Oct. 2005                     |
|                      | Engine and Machinery             |  |  |                               |
| Chon Buri (Thailand) | Internal Combustion              | Building of new production facility for tractors in Thailand                                       | ¥6.2   | Jul. 2007                     |
|                      | Engine and Machinery             |  |  |                               |
| Sakai (Osaka)        | Internal Combustion              | Production facilities for vertical diesel engines to increase production and developing new models | ¥7.3   | Jan. 2006                     |
| Okajima (Osaka)      | Engine and Machinery             |  |  |                               |
| Tsukuba (Ibaraki)    |                                  |  |  |                               |
| Hirakata (Osaka)     | Internal Combustion              | Restructuring of production system for construction machinery                                      | ¥1.6   | Jun. 2006                     |
|                      | Engine and Machinery             |  |  |                               |

**As of March 2007**

**Estimated amount of expenditures**      **Schedule**

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|                   |                      |  | Total amount of<br>expenditures<br>(¥ billion) | Commenced |
|-------------------|----------------------|--|--|-----------|
| Suzhou (China)    | Internal Combustion  | Building of new production facility for agricultural equipment in China                            | ¥1.7   | Oct. 2005 |
|                   | Engine and Machinery |  |  |           |
| Sakai (Osaka)     | Internal Combustion  | Production facilities for vertical diesel engines to increase production and developing new models | ¥7.7   | Jan. 2006 |
| Okajima (Osaka)   | Engine and Machinery |  |  |           |
| Tsukuba (Ibaraki) |                      |  |  |           |
| Hirakata (Osaka)  | Internal Combustion  | Restructuring of production system for construction machinery                                      | ¥1.7   | Jun. 2006 |
|                   | Engine and Machinery |  |  |           |



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As of March 2006

| Location                     | Industry segment included | Content  | Estimated amount of expenditures<br>Total amount of expenditures<br>(¥ billion) | Schedule<br>Commenced |
|------------------------------|---------------------------|--|---|-----------------------|
| Suzhou (China)               | Internal Combustion       | Building of new production facility for agricultural equipment in China                            | ¥1.7  | Oct. 2005             |
|                              | Engine and Machinery      |  |   |                       |
| Sakai (Osaka)                | Internal Combustion       | Production facilities for vertical diesel engines to increase production and developing new models | ¥8.0  | Jan. 2006             |
| Okajima (Osaka)              | Engine and Machinery      |  |   |                       |
| Tsukuba (Ibaraki)            |                           |  |   |                       |
| Tsukuba (Ibaraki)            | Internal Combustion       | Addition to a building of a factory  | ¥3.4  | Jan. 2006             |
|                              | Engine and Machinery      |  |   |                       |
| Jackson<br>(Georgia, U.S.A.) | Internal Combustion       | Restructuring of production system   | ¥1.6  | Oct. 2005             |
|                              | Engine and Machinery      |  |   |                       |

**B. Business Overview**

The Company classifies its products for revenue reporting purposes into the following 4 industry segments: Internal Combustion Engine and Machinery (which includes farm equipment, engines and construction machinery); Pipes, Valves, and Industrial Castings (which includes pipes, valves, and industrial castings); Environmental Engineering (which includes environmental engineering and pumps); and Other.

**Revenues by Industry Segment**

For the year ended March 31, 2008

|  | Millions of yen<br>2008 |              | Thousands of<br>U.S. dollars<br>2008 |
|--|-------------------------|--------------|--------------------------------------|
|  | ¥                       | %            | \$                                   |
| Internal Combustion Engine and Machinery | 793,654                 | 68.7         | 7,936,540                            |
| Pipes, Valves, and Industrial Castings   | 201,599                 | 17.5         | 2,015,990                            |
| Environmental Engineering                | 70,878                  | 6.1          | 708,780                              |
| Other                                    | 88,443                  | 7.7          | 884,430                              |
| <b>Total</b>                             | <b>1,154,574</b>        | <b>100.0</b> | <b>11,545,740</b>                    |

For the years ended March 31, 2007 and 2006

|  | Millions of yen |      |         |      |
|--|-----------------|------|---------|------|
|  | 2007            |      | 2006    |      |
|  | ¥               | %    | ¥       | %    |
| Internal Combustion Engine and Machinery | 746,808         | 66.3 | 674,087 | 63.3 |

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|  |           |       |           |       |
|--|-----------|-------|-----------|-------|
| Pipes, Valves, and Industrial Castings | 194,224   | 17.2  | 189,708   | 17.8  |
| Environmental Engineering              | 90,613    | 8.0   | 109,864   | 10.3  |
| Other                                  | 95,811    | 8.5   | 92,077    | 8.6   |
| Total                                  | 1,127,456 | 100.0 | 1,065,736 | 100.0 |

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### Operation of Each Segment

#### Internal Combustion Engine and Machinery

Internal Combustion Engine and Machinery includes farm equipment, engines and construction machinery. Kubota is Japan's leading manufacturer of farm equipment and small engines for agricultural use. This market in Japan is dominated by 4 major manufacturers, and the Company possesses a substantially larger share than the second ranked company. Main products include tractors ranging from 10.5 to 125 horsepower, combine harvesters, rice transplanters, power tillers and reaper binders. The Company also manufactures and sells a line of construction machinery including mini-excavators and wheel loaders as well as engines for various industrial uses. Overseas revenues of this segment accounted for 68.7% of the total revenues of this segment in fiscal 2008.

Domestic sales of farm equipment, engines and construction machinery are made through wholesale-retail dealers, wholesalers and the National Federation of Agricultural Cooperative Associations. Overseas revenues are made through trading companies, local distributors and the Company's overseas subsidiaries and affiliates.

The products in this segment are manufactured at 6 domestic plants, and the Company has manufacturing subsidiaries in the United States, Germany, China, Thailand, and Indonesia.

#### Pipes, Valves, and Industrial Castings

Pipes, Valves, and Industrial Castings is comprised of various kinds of pipes, valves, and industrial castings. Pipes and Valves consists of ductile iron pipes, spiral welded steel pipes, plastic pipes and fittings, and various valves. Most of these products are to municipalities and public utilities for use principally in water supply and sewage systems along with industrial water supply. These products are also used for gas supply, telecommunication and irrigation systems.

Industrial castings include various iron and steel castings. Iron castings encompass rolls for the steel industry, machinery parts, and soil pipes and fittings. Steel castings include heat-resistant steel pipes and products for petrochemical plants, thermal treatment in-core products for ironmaking plants, steel pipe columns for construction, and steel pipe piles to prevent landslides.

The products in this segment are manufactured at 11 plants in Japan, and the Company has a manufacturing subsidiary in Canada, and minority equity interest in an overseas manufacturing company.

#### Environmental Engineering

This segment develops and markets environmental control plants, pumps and related engineering. As for water treatment, the Company supplies water and sewage treatment plants, submerged membrane systems and biogas production systems. Regarding solid waste treatment, the Company supplies pulverizing facilities. This segment manufactures and supplies various pumps for waterworks, sewage facilities, irrigation system, rainwater drainage and power supplies.

At present, large portion of the revenues in this segment are to municipalities focusing on domestic environmental engineering market, which is competitive with many engineering companies. There are 2 manufacturing plants in Japan and no overseas plants.

#### Other

This segment encompasses all the other businesses that don't belong to the aforementioned 3 segments. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipment and services.

The products in this segment are manufactured mainly at 4 plants in Japan, and the Company has a manufacturing subsidiary in Indonesia.

**Table of Contents**Revenues by Region

|               | Millions of yen |             |             | Thousands of<br>U.S. dollars |
|---------------|-----------------|-------------|-------------|------------------------------|
|               | 2008            | 2007        | 2006        | 2008                         |
| Japan         | ¥ 572,236       | ¥ 603,502   | ¥ 632,128   | \$ 5,722,360                 |
| Overseas:     |                 |             |             |                              |
| North America | 329,495         | 323,092     | 284,586     | 3,294,950                    |
| Europe        | 125,388         | 97,151      | 77,531      | 1,253,880                    |
| Other Areas   | 127,455         | 103,711     | 71,491      | 1,274,550                    |
| Subtotal      | 582,338         | 523,954     | 433,608     | 5,823,380                    |
| Total         | ¥ 1,154,574     | ¥ 1,127,456 | ¥ 1,065,736 | \$ 11,545,740                |

Revenues in Japan in fiscal 2008, 2007, and 2006 amounted to ¥572,236 million (\$5,722,360 thousand), ¥603,502 million and ¥632,128 million, respectively. Revenues in North America in fiscal 2008, 2007, and 2006 amounted to ¥329,495 million (\$3,294,950 thousand), ¥323,092 million and ¥284,586 million, respectively. Revenues in Europe in fiscal 2008, 2007, and 2006 amounted to ¥125,388 million (\$1,253,880 thousand), ¥97,151 million and ¥77,531 million, respectively. Revenues in Other areas in fiscal 2008, 2007, and 2006 amounted to ¥127,455 million (\$1,274,550 thousand), ¥103,711 million and ¥71,491 million, respectively.

The segment previously classified as Other Areas was separately reported into Europe and Other Areas for the fiscal year ended March 31, 2008. Figures for the year ended March 31, 2007 and 2006 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2008.

Overseas Activities

The Company's overseas revenues (which represent revenues to unaffiliated customers outside Japan) in fiscal 2008, 2007, and 2006 amounted to ¥582,338 million (\$5,823,380 thousand), ¥523,954 million and ¥433,608 million, respectively. The ratios of such overseas revenues to consolidated revenues in 2008, 2007, and 2006 were 50.4%, 46.5% and 40.7%, respectively. The revenues of the Company's subsidiaries outside Japan in fiscal 2008, 2007, and 2006 amounted to ¥547,197 million (\$5,471,970 thousand), ¥489,575 million and ¥405,357 million, respectively. Its ratio to consolidated revenues in fiscal 2008, 2007, and 2006 were 47.4%, 43.4% and 38.0%, respectively.

The Company has manufacturing subsidiaries in the U.S.A., Canada, Germany, China, Indonesia and Thailand, and manufacturing affiliates in China. International sales subsidiaries are located in the U.S.A., Canada, France, the U.K., Germany, Spain, Australia, China and South Korea. In addition, liaison offices are located in Torrance (California: U.S.A.), Flowery Branch (Georgia: U.S.A.), Argenteuil (France), Dubai (U.A.E.), Suzhou (China), Bangkok (Thailand), Selangor (Malaysia), Cairo (Egypt), Delhi (India), Singapore (Singapore), and Quezon City (The Philippines).

Seasonality of the Company's Businesses

In such businesses as ductile iron pipes, valves, environmental engineering, and pumps, which rely upon national government or municipalities for most of their sales, there is a tendency that sales in the second half of the fiscal year are much larger than those in the first half. Because the fiscal years of the national government or municipalities generally end in March, execution of public budgets in the second half is liable to be much larger than in the first half of the fiscal year.

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### Raw Materials and Source of Supply

The Company purchases raw materials or parts from numerous sources. The major materials purchased are steel scrap, polyvinyl chloride resin, rolled steel coils, non-ferrous metals and alloys and pig iron. Some of the purchase prices of the major materials such as steel scrap fluctuate significantly by supply and demand conditions of the market. The Company has historically had no difficulty in obtaining adequate supplies of all of its raw materials requirements.

### Marketing Channels

Domestic sales of farm equipment, engines and construction machinery are made through wholesale-retail dealers, wholesalers and the National Federation of Agricultural Cooperative Associations. Overseas sales of those products are made through trading companies, local distributors and the Company's overseas subsidiaries and affiliates.

A large portion of pipes, valves, environmental control plants, and a portion of industrial castings are sold to public-sector markets in Japan directly by the Company, as well as through dealers.

On the other hand, domestic sales of industrial machinery and part of industrial castings are made to private-sector markets through dealers and trading companies, directly to the end-users or, in the case of vending machines, to manufacturers of beverages or other products sold in vending machines. Overseas sales of those products are made directly by the Company or through trading companies, local distributors and the Company's overseas subsidiaries and an affiliate.

### Dependent Contract, License, Patent and Manufacturing Process

The Company has many contracts. Some of them, for example, are for technical cooperation with other manufacturers, or for financing from banks. These are relatively important to the Company, but the Company relies on no specific contracts.

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2008, the Company held 4,810 Japanese patent and utility model registrations, and 991 foreign patent and utility model registrations. A utility model registration is a right granted under Japanese law and in certain other countries to inventions of lesser originality than those which qualify for patents. Although patent rights are important to Kubota, the Company does not consider that the expiration of any single patent or group of related patents would materially affect the conduct of Kubota's business. Kubota grants others licenses to use its technology including its patents, and obtains licenses under patents from third parties for technological assistance on a royalty basis. In fiscal 2008, royalty income and expenses were ¥800 million (\$8,000 thousand) and ¥96 million (\$960 thousand), respectively, under such licensing arrangements.

### Competition

The Company is the leading manufacturer of farm equipment in Japan. There are 3 other major Japanese manufacturers of farm equipment and engines for agricultural use, all of which offer a complete line of machinery and engines in competition with the Company. In overseas markets, the Company experiences strong competition from Japanese and foreign companies in the sale of farm equipment and engines.

In Japan, there are 2 other major manufacturers of ductile iron pipes, 3 other major manufacturers of spiral welded steel pipes and 2 other major manufacturers of plastic pipes according to internal research. In export markets for ductile iron pipes, the Company faces strong competition with foreign manufacturers. The Company also encounters strong competition with Japanese and foreign companies in all of its product lines.

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### **Governmental Regulations**

Businesses of the Company tend to be affected by the regulations or restrictions in the countries where the Company or its subsidiaries operate. Those are, for example, regulations concerning emission, safety, noise and vibration, investments, tariffs, anti-monopoly, intellectual property, foreign exchange, and environment.

The followings are some of the regulations which have important influences on the Company's business.

#### 1) Emissions Regulations for Off-road Diesel Engines

In 1995, the California Air Resources Board in the United States enforced an emissions regulation for off-road engines (below 19 kW in power) for the first time in the world. The Company attained this standard in the early stage and moved ahead of other competitors toward compliance with emissions regulations that were enacted at various parts of the world thereafter. Subsequently, the Environment Protection Agency in the United States introduced Tier 1 standards in 1994, which were phased in for engines at and above 37kW in power between 1996 and 2000. In 1998, EPA additionally adopted Tier 1 standards for engines below 37kW, which were phased in between 1999 and 2000, and more stringent Tier 2 and Tier 3 standards. Tier 2 standards were phased in between 2001 and 2006 for all engine sizes, and Tier 3 standards for engines between 37 and 560 kW were phased in between 2006 and 2008. More Stringent Tier 4 took effect beginning in 2008 and will be phased through 2015.

In Japan, the Ministry of Land, Infrastructure, Transport and Tourism (the Ministry of Construction at that time) launched Stage 1 low emission construction machineries designation scheme in 1991 and decided to use low emission construction machinery in the Ministry's directly controlled projects starting in 1996. Stage 2 standard was announced in 1997, and the Ministry began to accept applications for designations under Stage 2 standard from 2001. In 2003, the similar leveled regulation began to apply to Onroad Special Motor Vehicles driven by diesel fuel such as agricultural and construction machinery. This 2003 regulation was set to be equivalent with the Tier 2 regulation of EPA's. Later in 2006, the regulation for diesel special motor vehicles was tightened to the level of the second phase (equivalent with EPA Tier 3). In April 2006, the Act for the Regulations, etc. of Exhaust Gas from Off-road Special Motor Vehicles (Off-road Act), intended for motor vehicles that do not run on public roads such as construction machinery, went into effect, which was timed to coincide with the announcement of the Stage 3 of the low emission construction machinery designation scheme. Consequently, the scope of application of this regulation broadened.

In Europe, Stage 1 emission of gaseous and particulate pollutants from internal combustion engines to be installed in non-road mobile machinery were put into effect under EU Directive 97/68/EC in 1999. The more stringent Stage 2 and Stage 3 standards were applied in 2001 and 2006, respectively.

Kubota has completed the development of the engines that satisfy the current regulations in Japan, the United States and Europe, and the Company's R&D for new engines equipped with new technology is under way to cope with future Tier 4 regulations.

#### 2) Safety Regulations

There are a variety of regulations concerning safety, and every country or region has its own regulations. ROPS (rollover protective structures), which are designed to protect operators of tractor and construction machinery from injuries caused by vehicle overturns or rollovers, are required to have the necessary specified bearing capacity based on the type of the machine installed and the deflection-related performance requirements. FOPS (falling object protective structures), which are designed to protect equipment operators from injuries caused by objects falling from above, are required to comply with specified strength requirements specified based on how they are actually used. Those regulations differ in measurement methods or criteria, and major ones in the world are Japanese Industrial Standards (JIS), European Norm (EN), and Occupational Safety and Health Administration (OSHA). In particular, the EN on safety regulations is a legal obligation.

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## 3) Regulations on Noise and Vibration

The Directive 86/662/EEC, which specifies the noise control standards for non-road equipment such as hydraulic shovels, excavation drills, bulldozers, loaders, and excavation loaders, issued in December 1986. The Directive was revised in June 1995 into 95/27EC, which became effective in 1997. The Noise Emissions in the Environment by Equipment for Use Outdoors Directive, 2000/14/EC, became effective in January 2002 replacing 95/27/EC. 2000/14/EC regulates noise emitted to surrounding areas from 57 types of equipment for use in outdoors, such as lawn mowers and construction equipment. Manufacturers are obliged to demonstrate that their products generate noise within the specified range of noise and comply with the requirements of such Directive by attaching a label (guaranteed noise label) before shipping those products to the market (they are also required to attach the CE mark). The noise level regulations in the primary stage were applied during the period from January 3, 2002 to January 2, 2006. The noise value limit was further reduced in January 3, 2006 by the more stringent regulation 2005/88/EC.

In Japan, the Regulations on Designation of Low-noise and Low-vibration Construction Machinery were announced in October 1997 to mitigate noise and vibration from construction work, protect the living environment around the work site, and ensure smooth implementation of construction work. The Regulations stipulated type designations of low-noise construction machines and low-vibration construction machines to promote diffusion of environmentally friendly construction machines. Construction machines that satisfy the noise and emission requirements specified by the Regulations are allowed to attach the low-noise construction equipment label. The Company's mini backhoes of not more than 55 hp, which are required to comply with the noise limit of 99 dB in order to qualify for the level, are all qualified to attach the label. Although compliance with the Regulations is not a legal obligation and no punishment is imposed for violation of the noise criteria of the Regulations, there are cases where use of noncompliant machines is not permitted at work sites for projects under direct management of the Ministry of Land, Infrastructure, Transport and Tourism.

**C. Organization Structure**

As of March 31, 2008, the group of Kubota Corporation consists of Kubota Corporation, 115 subsidiaries and 26 affiliates. Kubota Corporation plays a leading role in the group. The Company's significant subsidiaries are as follows:

| Country of Incorporation or Residence | Name  | Percentage ownership (%) |
|---------------------------------------|---|--------------------------|
| Japan                                 | Kubota Construction Co., Ltd.               | 100.0                    |
|                                       | Kubota Credit Co., Ltd.                     | 72.8                     |
|                                       | Kubota Environmental Service Co., Ltd.      | 100.0                    |
|                                       | Kubota-C.I. Co., Ltd.                       | 70.0                     |
| U.S.A.                                | Kubota Tractor Corporation                  | 90.0                     |
|                                       | Kubota Credit Corporation, U.S.A.           | 100.0                    |
|                                       | Kubota Manufacturing of America Corporation | 100.0                    |
|                                       | Kubota Engine America Corporation           | 90.0                     |
| Canada                                | Kubota Metal Corporation                    | 100.0                    |
| Germany                               | Kubota Baumaschinen GmbH                    | 100.0                    |
| France                                | Kubota Europe S.A.S.                        | 73.8                     |

**Table of Contents****D. Property, Plant and Equipment**

The following table sets forth information with respect to Kubota's principal manufacturing facilities:

| Location      | Land area<br>(Square meters) |        | Floor space<br>(Square meters) |        | Principal products   |
|---------------|------------------------------|--------|--------------------------------|--------|--|
|               | Owned                        | Leased | Owned                          | Leased |  |
| <b>Japan</b>  |                              |        |                                |        |  |
| Amagasaki     | 462,785                      | 36,466 | 164,425                        | 122    | Ductile iron pipes, Rolls for steel mills                  |
| (Hyogo)       |                              |        |                                |        |  |
| Funabashi     | 559,372                      | 20,546 | 142,920                        | 6,618  | Ductile iron pipes, Spiral welded steel pipes              |
| (Chiba)       |                              |        |                                |        |  |
| Okajima       | 88,393                       | 825    | 56,888                         |        | Cast iron products   |
| (Osaka)       |                              |        |                                |        |  |
| Sakai         | 421,342                      | 11,616 | 147,032                        | 26,386 | Farm equipment, Diesel engines                             |
| (Osaka)       |                              |        |                                |        |  |
| Utsunomiya    | 145,598                      |        | 69,997                         | 4,951  | Farm equipment   |
| (Tochigi)     |                              |        |                                |        |  |
| Tsukuba       | 334,518                      | 28,210 | 152,080                        | 22,360 | Farm equipment, Diesel engines                             |
| (Ibaraki)     |                              |        |                                |        |  |
| Sakai         | 159,956                      |        | 49,046                         | 1,206  | Diesel engines   |
| (Osaka)       |                              |        |                                |        |  |
| Hirakata      | 306,102                      |        | 143,899                        | 10,832 | Construction machinery, Cast steel products, Pumps, Valves |
| (Osaka)       |                              |        |                                |        |  |
| Konan         | 177,556                      |        | 51,606                         |        | Septic tanks   |
| (Shiga)       |                              |        |                                |        |  |
| Yao           | 38,102                       |        | 27,469                         |        | Electronic machinery, Pulverizing equipment                |
| (Osaka)       |                              |        |                                |        |  |
| Ryugasaki     | 84,795                       |        | 30,820                         |        | Vending machines   |
| (Ibaraki)     |                              |        |                                |        |  |
| <b>U.S.A.</b> |                              |        |                                |        |  |
| Jackson       | 611,000                      |        | 57,282                         |        | Lawn and garden tractors                                   |
| (Georgia)     |                              |        |                                |        |  |
| Jefferson     | 356,000                      |        | 37,400                         |        | Implements for tractors                                    |
| (Georgia)     |                              |        |                                |        |  |

The Company considers its principal manufacturing facilities to be well maintained and suitable for the purpose for which they are employed and believes that its plant capacity is adequate for its current and near-term needs.



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In addition, the Company owns 2,444,914 square meters of land (321,009 square meters of floor space) in Japan, used for the head office, branches, business offices and research facilities, and leases 3,030 square meters of land (34,477 square meters of floor space) used for sales offices, warehousing, employee housing and other purposes.

The Company plans its capital expenditures considering future business demand and cash flows. As of March 2008, the Company has planned to invest approximately ¥45.5 billion (\$455 million) in the fiscal year ending March 31, 2009. 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.

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Principal plans for new construction, expansion, reforming, and disposition as of March 31, 2008 are as follows:

**New Construction**

| Location             | Industry segment included | Content   | Estimated amount of expenditures (Billions of yen) |                     | Schedule  |                 |
|----------------------|---------------------------|---|--|---------------------|-----------|-----------------|
|                      |                           |   | Total amount of expenditures                       | Amount already paid | Commenced | To be completed |
| Suzhou (China)       | Internal Combustion       | Building of new production facility for agricultural equipment in China | ¥ 1.7  | ¥ 1.7               | Oct. 2005 | Mar. 2009       |
|                      | Engine and Machinery      |   |  |                     |           |                 |
| Chon Buri (Thailand) | Internal Combustion       | Building of new production facility for tractors in Thailand            | ¥ 6.2  | ¥ 2.7               | Jul. 2007 | Dec. 2008       |
|                      | Engine and Machinery      |   |  |                     |           |                 |

**Expansion**

| Location          | Industry segment included | Content  | Estimated amount of expenditures (Billions of yen) |                     | Schedule  |                 |
|-------------------|---------------------------|--|--|---------------------|-----------|-----------------|
|                   |                           |  | Total amount of expenditures                       | Amount already paid | Commenced | To be completed |
| Sakai (Osaka)     | Internal Combustion       | Production facilities for vertical diesel engines to increase production and developing new models | ¥ 7.3  | ¥ 7.1               | Jan. 2006 | Aug. 2008       |
| Okajima (Osaka)   | Engine and Machinery      |  |  |                     |           |                 |
| Tsukuba (Ibaraki) |                           |  |  |                     |           |                 |
| Hirakata (Osaka)  | Internal Combustion       | Restructuring of production system for construction machinery                                      | ¥ 1.6  | ¥ 1.6               | Jun. 2006 | Apr. 2008       |
|                   | Engine and Machinery      |  |  |                     |           |                 |

**Reforming**

No material reforming is planned.

**Disposition**

No material disposition is planned.

**Item 4A. Unresolved Staff Comments**

The Company is a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. There are no written comments provided by the staff of the Securities and Exchange Commission regarding the Company's periodic reports under that Act as of the date of the filing of this Form 20-F with the Commission.



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### **Item 5. Operating and Financial Review and Prospects**

#### **A. 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 credit services, which primarily finance sales of equipment by dealers, for the purpose of enhancing sales of equipment to individual customers.

The Company's business segments consist of Internal Combustion Engine and Machinery, Pipes, Valves, and Industrial Castings, Environmental Engineering 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 April 2007, Japan's subsidy system for farmers was changed. This subsidy system was a part of a new governmental agricultural policy, which was introduced in 2005 and which was said to have substantial impact on Japanese farmers and farm management namely Basic Plan for Food, Agriculture and Rural Areas. Before and after the change of the subsidy system, the Japanese agricultural machinery market stagnated because some of farmers hesitated to invest in agricultural machinery. According to report of JFMMA (Japan Farm Machinery Manufacturer's Association), the shipment amount of agricultural machinery in 2007 for the domestic market decreased by 10.6% from the prior year.

Japan's building standards law was revised in June 2006 and such revision of the law took effect in June 2007 to implement the stricter safety checks on buildings and plants to be constructed. Soon after the enforcement of the law, there were many problems with the review procedures on requests for construction permits. Although it was a temporary phenomenon, these problems caused stagnation in Japanese construction and related markets and adversely affected the construction machinery market from second half in 2007.

Budgets for public works projects have been gradually decreasing due to the growing budget deficits in government and local government. For example, the budget of the Japanese Government for the water supply decreased by 7.4% and budget for the sewage system also decreased by 5.5% from the prior year.

(North America)

In the United States, demand for construction machinery substantially decreased due to stagnation in the housing market. Moreover, demand for compact tractors and mowers was adversely affected by worsening sub-prime loan problem and a serious drought in the southeast. According to a 2007 report by AEM (Association of Equipment Manufacturers), industry retail sales units of tractors under 40hp (horse power) decreased by 5.4% and industry retail sales units of tractors from 40 to 100hp increased by 3.7% from the prior year.

In Canada, the economy grew steadily including the agricultural machinery and construction machinery market. As for tractors, industry retail sales units of tractors in Canada in 2007 increased 10.3% from the prior year according to the AEM report.

(Europe)

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The economy in Europe has been favorable in recent years. The growth rate of the GDP of 27 countries of the European Union was 2.9% and 3.1% in 2007 and 2006, respectively. Demand for construction machinery was brisk and total demand for construction machinery in the under 6 ton category in 2007 increased substantially from 2006. Demand for compact tractors and mowers, mainly used by professional and governmental users, was also robust in 2007.

(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 reached US\$3,720 in 2007, and demand for agricultural machinery has been rapidly increasing due to economic development and out migration of the population from the agriculture sector to other industrial sectors.

In China, government subsidies to enhance agricultural mechanization are increasing each year. As for rice farming, the Chinese government establishes target ratios of agricultural mechanization, and these political policies is helping to grow demand for agricultural machinery over the long term.

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*(The fiscal year ended March 31, 2008 compared with the fiscal year ended March 31, 2007)*

**Revenues**

For the year ended March 31, 2008, revenues of 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 which were 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, as they were adversely affected by the contraction 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 other hand, other revenues including finance income increased largely. 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.

The Company estimates that favorable impact of foreign currency fluctuation on the Company's overseas revenues for the year under review was approximately ¥30.2 billion. The Company recognizes that the average rates of yen against the U.S. dollar were ¥118 and ¥116 in 2007 and 2006, respectively, and the average rates of yen against the Euro were ¥161 and ¥146 in 2007 and 2006, respectively. These currency fluctuations mainly influence revenues in the Internal Combustion Engine and Machinery segment.

**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 sales of farm equipment and engines decreased ¥9.3 billion (4.1%) from 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 maintain 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. On the other hand, sales of engines, mainly to manufacturers of construction and industrial machinery, showed steady expansion. Domestic sales of construction machinery decreased ¥0.6 billion (2.1%) from the prior year. 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.

In overseas markets, sales of farm equipment and engines increased ¥43.2 billion (10.4%) and sales of construction machinery increased ¥13.6 billion (18.5%) from the prior year. Sales of both tractors and construction machinery recorded large increases. 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 following strong sales in the prior year.

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### 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.

In the domestic market, sales of pipes and valves increased ¥1.5 billion (1.0%) and sales of industrial castings increased ¥6.2 billion (30.8%) from the prior year. 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 the strong performance of reformer and cracking tubes for chemical plants.

In overseas markets, sales of pipes and valves decreased ¥4.9 billion (41.7%) and sales of industrial castings increased ¥4.7 billion (24.8%) from the prior year. 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 again confronted challenging operating conditions 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 businesses.

Following the sale of a portion of the shares of subsidiary Kubota Maison, the Company ceased the reporting of revenues from its condominium development and sales business in the second half of the fiscal year under review; such revenues decreased ¥6.2 billion. Among other businesses in this segment, sales of vending machines rose because of the introduction of adult identification cards for cigarette vending machines, but revenues from construction, air-conditioning equipment, and septic tanks declined.

For reference, segment information of the Company is presented in accordance with accounting principles generally accepted in Japan, which differs in certain respects from U.S. GAAP.

Current Japanese GAAP adopts an industry approach which is similar to past Statement of Financial Accounting Standards (SFAS) No. 14 Financial Reporting for segments of a Business Enterprise. The industry approach is based on conditions such as the kind nature of products, production method and similarity of market. On the other hand, current SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information adopts a management approach. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance.

**Table of Contents****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 sharply rising material costs, including those for scrap iron and synthetic resin. The Company estimates that it was negatively impacted by approximately ¥12.0 billion (\$120 million) from such sharply rising material costs consisting of approximately ¥3.0 billion in Internal Combustion Engine and Machinery from the increase in prices of thin and thick steel sheets, castings and resin parts and approximately ¥9.0 billion in Pipes, Valves, and Industrial Castings from the increase in prices of scrap iron, synthetic resin and various nonferrous metals. Depreciation increased ¥5.0 billion from the prior year, to ¥30.1 billion, mainly due to the increase of production capacities of Internal Combustion Engine and Machinery.

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 level of asbestos-related expenses, which amounted to ¥1.1 billion (\$11 million) compared with ¥4.0 billion in 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 the 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 and the positive effect of a weaker yen, which were partially offset by price increases of raw materials and an increase in depreciation expenses. Operating income in Pipes, Valves, and Industrial Castings decreased, owing to a sharp price hike of raw materials. Environmental Engineering continued to have an operating loss due to decrease in sales 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 other 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 Company recorded foreign exchange loss-net of ¥9.0 billion. Foreign exchange loss-net relates primarily to the settlement of trade accounts and the valuation on foreign currency denominated assets such as trade notes and receivables. In order to hedge the risks of changes in foreign currency exchange rates, the Company utilizes foreign exchange forward contracts and foreign currency option contracts. The Company partly reduced foreign exchange risk, but could not offset the risk completely. The valuation losses on other investment, which amounted to ¥6.7 billion, were caused by a stock market slump in Japan and mainly recorded on the shares of Mitsubishi UFJ Financial Group and that of Hankyu Hanshin Holdings, Inc. However, these losses were partly offset by an increase in interest and dividend income.

**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, Kubota Matsushitadenko Exterior Works Ltd., which was affected by the adverse impact of the partial revision of Japan's building standards law.





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### 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 paid ¥40 per ADS as year-end cash dividends. Accordingly, including the interim dividend of ¥30 per ADS paid by the Company, the total dividends for the year ended March 31, 2008 were ¥70 per ADS, which was ¥10 per ADS higher than the prior year.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or to provide increased dividends combined with share buy-backs and the cancellation of treasury stock. For reference, 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 than the prior year. This decrease was mainly due to an increase in unrealized losses on securities and recorded pension liability adjustment for the recognition of the underfunded status of the defined benefit plan, which were affected by the stock market slump.

*(The fiscal year ended March 31, 2007 compared with the fiscal year ended March 31, 2006)*

### Revenues

For the year ended March 31, 2007, revenues of the Company increased ¥61.7 billion (5.8%), to ¥1,127.5 billion from the prior year.

In the domestic market, revenues decreased ¥28.6 billion (4.5%), to ¥603.5 billion. Revenues in Internal Combustion Engine and Machinery decreased due to lower sales of core farm equipment even though sales of construction machinery and engines increased steadily. Revenues in Pipes, Valves, and Industrial Castings also declined slightly owing to a decrease in sales of industrial castings, while sales of ductile iron pipes and plastic pipes stayed at the same level as in the prior year. Revenues in Environmental Engineering decreased substantially due mainly to severe market conditions. On the contrary, revenues in Other increased chiefly due to sales expansion of vending machines.

On the other hand, revenues in overseas markets increased ¥90.3 billion (20.8%), to ¥524.0 billion from the prior year. In North America, sales of newly introduced mid-size tractors expanded substantially and sales of construction machinery and engines also increased. In Europe, sales of tractors, construction machinery, and engines all increased. In Asia outside Japan, a large increase in sales of farm equipment for rice farming continued. As a consequence, the ratio of overseas revenues to consolidated revenues rose 5.8 percentage points, to 46.5%.

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### **Revenues by industry segment**

#### **1) Internal Combustion Engine and Machinery**

Revenues in Internal Combustion Engine and Machinery were ¥746.8 billion, 10.8% higher than the prior year, comprising 66.3% of consolidated revenues. Domestic revenues decreased 4.1%, to ¥258.3 billion, and overseas revenues increased 20.7%, to ¥488.5 billion. This segment comprises farm equipment, engines, and construction machinery.

In the domestic market, sales of farm equipment declined because of lackluster market conditions. In the domestic market for farm equipment, new government agricultural policies have been introduced, and the implementation of these measures is resulting in structural changes within the agricultural sector, leading to a postponement of equipment purchases, principally among medium-sized farms. Within this market environment, to revitalize the operations, the Company implemented sales expansion policies carefully tailored to various customer groups and was able to increase its market share; however, these efforts did not compensate for the market slump. On the other hand, sales of construction machinery rose significantly due to steady demand for construction machinery, the introduction of new models, and the expansion of sales to major machinery rental companies. In addition, sales of engines, mainly to manufacturers of construction and industrial machinery, showed steady expansion.

In overseas markets, sales of tractors, the Company's core product, expanded steadily. In the United States, sales of mid-size tractors showed marked expansion accompanying the introduction of new models, while sales of small-sized tractors weakened along with the slowdown in housing starts. In Europe, sales of tractors showed strong expansion as the Company introduced new products and implemented an active marketing program. Moreover, in Asia outside Japan, sales of tractors sustained a high rate of growth in Thailand, where demand for tractors is expanding rapidly.

Sales of construction machinery reported steady expansion in Europe, the principal overseas market of construction machinery, due to rising demand coupled with the introduction of new products. Sales of construction machinery in North America also increased. In addition, sales of engines in Europe and the United States grew steadily, and sales of combine harvesters in China increased rapidly.

#### **2) Pipes, Valves, and Industrial Castings**

Revenues in Pipes, Valves, and Industrial Castings were ¥194.2 billion, 2.4% higher than the prior year, comprising 17.2% of consolidated revenues. Domestic revenues decreased 2.2%, to ¥163.4 billion, and overseas revenues increased 36.7%, to ¥30.8 billion. This segment comprises pipes, valves, and industrial castings.

In the domestic market, demand for ductile iron pipes and plastic pipes was lackluster, but the Company was able to slightly increase sales of plastic pipes by raising prices, while sales of ductile iron pipes declined marginally. Sales of industrial castings expanded, mainly to the private sector, such as the steel and energy industries, but sales of products to the public sector fell sharply.

In overseas markets, exports of ductile iron pipes to the Middle East were robust, and sales of industrial castings continued to increase substantially, owing to high levels of private-sector capital expenditures.

#### **3) Environmental Engineering**

Revenues in Environmental Engineering were ¥90.6 billion, 17.5% lower than the prior year, comprising 8.0% of consolidated revenues. Domestic revenues decreased 17.6%, to ¥86.5 billion, and overseas revenues decreased 16.8%, to ¥4.1 billion. This segment comprises environmental control plants and pumps.

In the domestic market, the operating environment continued to be extremely challenging because of the decline in public-sector demand and the drop in sales prices due to more intense competition. In addition, suspension of designated pre-approved suppliers due to compliance issues had a major negative impact. As a result, the Water & Sewage Engineering Division and Pumps Division, suffered substantial decline in revenues. Overseas revenues also declined due to a decrease in sales of pumps, which is the main export product in this segment.

#### **4) Other**

Revenues in Other were ¥95.8 billion, 4.1% higher than the prior year, comprising 8.5% of consolidated revenues. Domestic revenues increased 4.9%, to ¥95.3 billion, and overseas revenues decreased 60.0%, to ¥0.5 billion. This segment comprises vending machines, electronically

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equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Sales of construction fell sharply because of the Company's realignment measures, including discontinuance of receiving orders from the public sector as an original contractor. Sales of vending machines, condominiums, and air-conditioning equipment increased favorably, while sales of electronically equipped machinery and septic tanks declined.

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

The cost of revenues increased 5.4% from the prior year, to ¥794.7 billion. The cost of revenues as a percentage of consolidated revenues decreased 0.2 percentage point, to 70.5%. The decrease in the ratio was attributable to ongoing activities for cost reductions and controls as well as the increased efficiency of the manufacturing process.

Selling, general, and administrative (SG&A) expenses increased 7.2% from the prior year, to ¥199.4 billion. The ratio of SG&A expenses to revenues increased 0.2 percentage point, to 17.7%. This increase was mainly due to increases in overseas subsidiaries' SG&A expenses resulting from sales expansion.

Loss from disposal and impairment of businesses and fixed assets decreased 34.9 % from the prior year, to ¥3.1 billion. This loss arose chiefly from the restructuring of construction businesses.

### Operating Income

Operating income climbed ¥9.3 billion (7.7%), to ¥130.3 billion from the prior year, the highest level in the Company's history. By segment, operating income in Internal Combustion Engine and Machinery expanded substantially, supported by the increase in revenues and the positive effect of the weakening of the yen. Pipes, Valves, and Industrial Castings also reported a gain in operating income owing to continued cost cutting, including reductions in fixed expenses, and higher revenues in overseas markets. Environmental Engineering, however, posted a substantial decline in profitability and reported an operating loss accompanying the decline in sales prices. Operating income in Other, however, showed steady expansion, as a result of increased sales of vending machines and other products.

Operating income or loss in each industry segment (before elimination of intersegment profits and corporate expenses) was as follows: Internal Combustion Engine and Machinery, operating income of ¥124.9 billion, a 12.9% increase; Pipes, Valves, and Industrial Castings, operating income of ¥22.0 billion, a 14.3% increase; Environmental Engineering, operating loss of ¥5.6 billion, as compared to operating income of ¥4.3 billion; and Other, operating income of ¥7.1 billion, a 226.9% increase.

### Other Income

Other income, net, was ¥1.2 billion, a decrease of ¥18.2 billion from the prior year. The reason for this substantial decrease was the absence of a gain of ¥15.9 billion from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings, Inc., in the prior year.

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

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥131.6 billion, 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 12.7% from the prior year, to ¥49.0 billion. The effective tax rate was 37.2%.

Minority interests in earnings of subsidiaries increased ¥1.3 billion, to ¥6.2 billion. Equity in net income of affiliated companies decreased ¥0.3 billion from the prior year, to ¥1.4 billion. The increase in minority interests in earnings of subsidiaries resulted from the favorable operating performances of overseas subsidiaries.

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### **Income from Continuing Operations**

Income from continuing operations was ¥77.7 billion, compared with ¥81.1 billion in the prior year.

### **Loss from Discontinued Operations, Net of Taxes**

Loss from discontinued operations, net of taxes, was ¥1.3 billion in the year under review and ¥0.1 billion in the prior year. This loss resulted from the withdrawal from the industrial-waste disposal business and the liquidation of a subsidiary engaged in that business.

### **Net Income**

Due to the factors described above, net income decreased ¥4.6 billion, to ¥76.5 billion. Return on shareholders' equity decreased 2.8 percentage points, to 12.1%, from the prior year.

### **Income per ADS**

Basic net income per ADS (five common shares) was ¥295, as compared to ¥311 in the prior year.

### **Dividends**

The Company paid ¥35 per ADS as year-end cash dividends. Accordingly, including the interim dividend of ¥ 25 per ADS paid by the Company, the total dividends for the year ended March 31, 2007 were ¥60 per ADS, which was ¥10 per ADS higher than the prior year.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or to provide increased dividends combined with share buy-backs and the cancellation of treasury stock. For reference, the Company purchased 7.98 million shares outstanding (¥8.5 billion) and retired 7.95 million shares of treasury stock (¥8.5 billion) during the year ended March 31, 2007.

### **Comprehensive Income**

Comprehensive income was ¥67.3 billion, ¥73.0 billion lower than the prior year. This decrease was mainly due to a decrease in unrealized gains on securities.

### **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) 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.

#### 2) Allowance for doubtful receivables

The evaluation of the collectability of the Company's notes and accounts receivable, finance receivables, non-current receivables, and interest in sold receivables requires the use of certain estimates. Such estimates require consideration of historical loss expense adjusted for current conditions, and judgments about the provable effects of relevant observable data including present economic conditions such as financial health of specific customers and collateral values. Sharpe 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.



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### 3) 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 the contract modification has been completed.

### 4) 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.

### 5) 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.

### 6) 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. 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.





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### New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value and expands disclosures about fair value measurements that are required or permitted under other accounting pronouncements. This statement is effective in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of SFAS No. 115. This statement offers an irrevocable option to report selected financial assets and liabilities at fair value, with changes in fair value recorded in earnings. This statement is effective in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's consolidated results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. An amendment of ARB No. 51. SFAS No. 141 (revised 2007) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statements of income. These statements are effective in fiscal years beginning after December 15, 2008. The Company is currently calculating the impact of applying the statements on the consolidated financial statements.

### B. 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 Item 5.F *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.

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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. The Company uses 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. 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 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.

### 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. This decrease was attributable to decreases in net income, trade notes and accounts payable and income taxes payable, and an increase in other current assets, which were partially offset by a decrease in the notes and accounts receivable. As for changes in assets and liabilities, a substantial decrease in revenues in Environmental Engineering had an impact on related items, such as notes and accounts receivable and trade notes and accounts payable, because most of the revenues in Environmental Engineering are recorded at the end of the fiscal year under normal conditions.

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 at almost the same level as in the prior year, there was a large decrease in total net cash used in investing activities due to an increase in the 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. An increase in borrowing of long-term debt exceeded increases in the repayment of short-term borrowings and cash dividends. Consequently, net cash used in financing activities decreased slightly.

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.

The Company has consistently generated positive cash flows from operating activities over the long term. Over the past three years, the amount of net cash provided by operating activities was ¥274.8 billion in aggregate and net increases in borrowings were ¥37.5 billion in aggregate. Additionally, during the same period, proceeds from sales of property, plant, and equipment and proceeds from sales of investments were ¥21.0 billion in total, while sales of finance receivables were ¥11.8 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 ¥164.2 billion, purchase of fixed assets of ¥95.7 billion, payment of dividends to stockholders of ¥42.8 billion and repurchase of common stock for ¥31.4 billion. In addition, cash and cash equivalents increased ¥14.2 billion in total during the same period.

### 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.



**Table of Contents****Assets, Liabilities, and Shareholders' Equity****1) 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). Other investments decreased owing to an increase in the unrealized losses on securities. Property, plant, and equipment slightly increased ¥0.4 billion, to ¥238.1 billion (\$2,381 million). Other assets, including long-term trade account receivables, increased ¥4.2 billion, to ¥53.1 billion (\$531 million).

**2) 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 which were affected by the stock market slump. However, other long-term liabilities decreased due to a decrease in long-term deferred tax liability, which was related to an increase in the unrealized losses on securities affected by the stock market slump.

**3) 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, such as Kubota Tractor Corporation, Kubota Europe S.A.S., and The Siam Kubota Industry Co., Ltd.

**4) 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 increased in unrealized losses 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

**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.



**Table of Contents****C. Research and Development, Patents and Licenses, etc****Research and Development**

The Company conducts its research and development activities with approximately 1,300 researchers and engineers. The following table shows the Company's research and development expenses for the last 3 fiscal years.

|  | Millions of yen |          |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|----------|------------------------------|
|  | 2006            | 2007     | 2008     | 2008                         |
| R&D Expenses                             | ¥ 22,731        | ¥ 22,925 | ¥ 24,784 | \$ 247,840                   |
| As a percentage of consolidated revenues | 2.1%            | 2.0%     | 2.1%     |                              |

The R&D activities are conducted principally in R&D departments in each business division and subsidiary. In our business divisions and subsidiaries, there are 34 R&D departments. Each department promotes the R&D activities fortifying each business.

Total R&D expenses of 4 industrial segments, which are Internal Combustion Engine and Machinery, Pipes, Valves, and Industrial Castings, Environmental Engineering, and Other segment, were ¥18.6 billion, ¥2.0 billion, ¥1.9 billion, and ¥2.3 billion, respectively.

**Patent and License**

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2008, the Company held 4,810 Japanese patent and utility model registrations, and 991 foreign patent and utility model registrations. A utility model registration is a right granted under Japanese law and in certain other countries to inventions of lesser originality than those, which qualify for patents. Although patent rights are important to Kubota, the Company does not consider that the expiration of any single patent or group of related patents would materially affect the conduct of Kubota's business. Kubota grants licenses to others to use its technology including its patents, and obtains licenses under patents from third parties for technological assistance on a royalty basis. In fiscal 2008, royalty income and expenses were ¥800 million (\$8,000 thousand) and ¥96 million (\$960 thousand), respectively, under such licensing arrangements.

**D. Trend Information****Outlook for the Next Fiscal Year**

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 at approximately the same level as the year under review. However, revenues in Internal Combustion Engine and Machinery, Pipes, Valves, and Industrial Castings and Other are all forecasted 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 forecasted 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 an appreciation of the yen and sharp increases in prices for 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.

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### Contingencies

#### Legal proceedings

In May 1998, the Company was investigated by the Fair Trade Commission of Japan (the FTCJ ) for an alleged violation of the Law Concerning Prohibition of Private Monopoly and Preservation of Fair Trade (the Anti-Monopoly Law ) relating to participation in fixing the shares of ductile iron straight pipe orders in Japan. The Company received a cease and desist recommendation from the FTCJ in March 1999, which was accepted by the Company in April 1999.

The FTCJ also brought a criminal accusation alleging violation of the Anti-Monopoly Law against the Company and 3 of its employees, who were indicted in the Tokyo High Court in March 1999. On February 24, 2000, the Company was fined ¥130 million, and the 3 employees were given 6-10 months prison sentences, suspended for 2 years.

In the meanwhile, the Company received a surcharge order of ¥7,072 million from the FTCJ. The Company has challenged this order and filed a petition for the initiation of hearing procedures that were started in March 2000. Under Section 49 of the then Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the then Anti-Monopoly Law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2, and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter. An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. The Company is not able to estimate the likelihood of such unfavorable outcome. Although the hearing procedures were completed on November 9, 2007, the Company has not received a copy of the preliminary decision to be served by the hearing examiner as of the date of this Form 20-F.

#### 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 174 residents and paid or accrued relief payments to 152 of those residents after carefully reviewing those claims as of March 31, 2008.

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 132 as of the end of March 2006, 152 as of the end of March 2007, and 160 as of the end of March 2008.



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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 5 years. And the Company donated ¥200 million (\$2,000 thousand) as a contribution for the year ended March 31, 2008.

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As a result of the asbestos issue becoming an object of public concern, the Japanese government newly established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases ( New Asbestos Law ) in March 2006. This law was enacted for the purpose of promptly providing relief to people suffering from asbestos-related diseases who are not eligible for relief by compensation from the 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 is to be 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 (\$7,350 thousand) 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.

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### **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 ended March 31, 2008 were approximately ¥1,090 million (\$10,900 thousand). Of the ¥1,090 million (\$10,900 thousand), ¥769 million (\$7,690 thousand) represented expenses related to the payment for the relief payment system established in April 2006. 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.

### **Subsequent events**

On May 13, 2008, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2008 of ¥8 per common share (¥40 per 5 common shares) or a total of ¥10,248 million (\$102,480 thousand). On June 20, 2008, the Company's Board of Directors approved the purchase of up to 10,000,000 shares, or up to ¥10,000 million (\$100,000 thousand) of the parent company's outstanding common stock on and after June 23, 2008 through September 24, 2008.

### **E. 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 provides 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).

**Table of Contents****F. Tabular Disclosure of Contractual Obligations**

The following summarizes contractual obligations at March 31, 2008.

|                                      | Millions of yen        |                     |                  |                 |                      |
|--------------------------------------|------------------------|---------------------|------------------|-----------------|----------------------|
|                                      | Payments due by period |                     |                  |                 |                      |
|                                      | Total                  | Less than<br>1 year | 1-3 years        | 3-5 years       | More than<br>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                  |
| <b>Total</b>                         | <b>¥ 388,360</b>       | <b>¥ 194,229</b>    | <b>¥ 147,300</b> | <b>¥ 35,081</b> | <b>¥ 11,750</b>      |

|                                      | Thousands of U.S. dollars |                     |                     |                   |                      |
|--------------------------------------|---------------------------|---------------------|---------------------|-------------------|----------------------|
|                                      | Payments due by period    |                     |                     |                   |                      |
|                                      | Total                     | Less than<br>1 year | 1-3 years           | 3-5 years         | More than<br>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                |
| <b>Total</b>                         | <b>\$ 3,883,600</b>       | <b>\$ 1,942,290</b> | <b>\$ 1,473,000</b> | <b>\$ 350,810</b> | <b>\$ 117,500</b>    |

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

Payments due by periods for interest payments are calculated using the contract rate of each borrowing or debt at March 31, 2008.

Liabilities for unrecognized tax benefits of ¥6,950 million (\$70 million) at March 31, 2008 are excluded from the table. Liabilities for unrecognized tax benefits are due mainly to a bilateral Advance Pricing Agreement (APA), and it is reasonably possible that the amount of unrecognized tax benefits may significantly increase or decrease within the next 12 months depending on the business results of the U.S. subsidiaries in the future periods.

**G. Safe Harbor**

Projected results of operations and other future forecasts contained in this annual report are the estimates of the Company based on information available to the Company as of this published date. Therefore, those projections include certain potential risks and uncertainties. Accordingly, the users of this information are requested to note that the actual results could differ materially from those future projections. Major factors that could influence the ultimate outcome include the economic condition surrounding the Company, foreign exchange rates, agricultural policy in Japan, the trend of public investment and private capital expenditure in Japan, the price-competitive pressure in the market, the ability for the Company to manufacture or innovate products which will be accepted in the market. Finally the users of this information should note that the factors that could influence the ultimate outcome of the Company's activities are not limited to the above.



**Table of Contents****Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management**

The following sets forth the information about the Company's Directors, executive officers and Corporate Auditors as of the date of filing of this Report, together with their respective dates of birth and positions. The term of office of all Directors will expire at the conclusion of the ordinary general meeting of shareholders which will be held in 2009.

| Name  | Number of                      |   | Current Positions and Brief Occupational History   |
|---|--------------------------------|---|--|
|   | Owned as of                    | Company Shares  |  |
| (Birthday)<br>Daisuke Hatakake<br><br>(June 29, 1941) | June 20, 2008<br>59,000 Shares | (including responsibilities in other companies)<br>President and Representative Director of Kubota Corporation  | <p>April 2003: President and Representative Director of Kubota Corporation (to present)</p> <p>June 2002: General Manager of Corporate Compliance Headquarters</p> <p>June 2001: Managing Director of Kubota Corporation, in charge of Corporate Planning &amp; Control Dept., Finance &amp; Accounting Dept., Corporate Information Systems Planning Dept. (assistant)</p> <p>August 2000: In charge of PV Business Planning &amp; Promotion Dept.</p> <p>June 2000: In charge of Compliance Auditing Dept., Business Alliance Dept. (assistant), Corporate Information Systems Planning Dept. (assistant), General Manager of Corporate Planning &amp; Control Dept.</p> <p>June 1999: Director of Kubota Corporation</p> <p>December 1998: General Manager of Corporate Planning &amp; Control Dept.</p> <p>April 1964: Joined Kubota Corporation</p> |
| Moriya Hayashi<br><br>(May 7, 1944)                   | 34,000 Shares                  | Executive Vice President and Representative Director of Kubota Corporation, General Manager of Farm & Industrial Machinery Consolidated Division, General Manager of International Operations Headquarters in Farm & Industrial Machinery Consolidated Division | <p>April 2006: Executive Vice President and Representative Director of Kubota Corporation (to present)</p> <p>April 2004: General Manager of Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>April 2004: Executive Managing Director of Kubota Corporation</p> <p>April 2003: Managing Director of Kubota Corporation, General Manager of Tractor Division</p> <p>January 2002: General Manager of International Operations Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>October 2001: Deputy General Manager of Tractor Division</p> <p>June 2001: Director of Kubota Corporation</p> <p>June 1999: President of Kubota Tractor Corporation</p> <p>April 1969: Joined Kubota Corporation</p>   |

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|                  |               |  |
|------------------|---------------|--|
| Toshihiro Fukuda | 55,000 Shares | Executive Vice President and Director of Kubota Corporation, In charge of Corporate Staff Section<br><br>(October 12, 1945)  |
|                  |               | <p>April 2008: Executive Vice President and Director of Kubota Corporation (to present)</p> <p>April 2007: In charge of Corporate Staff Section (to present)</p> <p>April 2006: In charge of Secretary &amp; Public Relations Dept.</p> <p>April 2005: Executive Managing Director of Kubota Corporation, In charge of CSR Planning &amp; Coordination Dept., General Manager of Corporate Compliance Headquarters</p> <p>April 2004: Managing Director of Kubota Corporation, in charge of Corporate Compliance Headquarters, Environmental Protection Dept., General Affairs Dept.</p> <p>April 2003: General Manager of Farm Machinery Division</p> <p>March 2003: In charge of Related Products Division</p> <p>June 2002: Director of Kubota Corporation</p> <p>October 2001: Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division and General Manager of Sales Coordination Dept. in Farm &amp; Industrial Machinery Consolidated Division</p> <p>April 1969: Joined Kubota Corporation</p>   |
| Yasuo Masumoto   | 23,000 Shares | Executive Vice President and Director of Kubota Corporation, In charge of Tokyo Head Office, General Manager of Water, Environment & Infrastructure Consolidated Division, General Manager of Tokyo Head Office<br><br>(April 21, 1947)  |
|                  |               | <p>April 2008: Executive Vice President and Director of Kubota Corporation (to present)</p> <p>April 2007: In charge of Tokyo Head Office, General Manager of Water, Environment &amp; Infrastructure Consolidated Division, and General Manager of Tokyo Head Office (to present)</p> <p>General Manager of Production Control Headquarters in Water, Environment &amp; Infrastructure Consolidated Division, General Manager of Coordination Dept. in Water, Environment &amp; Infrastructure Consolidated Division</p> <p>April, 2006: Executive Managing Director of Kubota Corporation</p> <p>April 2005: Deputy General Manager of Industrial &amp; Material Systems Consolidated Division</p> <p>January 2005: In charge of Quality Assurance &amp; Manufacturing Promotion Dept.</p> <p>June 2004: General Manager of Purchasing Dept. in Industrial &amp; Material Systems Consolidated Division</p> <p>April 2004: Managing Director of Kubota Corporation, In charge of Manufacturing Planning &amp; Promotion Dept.</p> <p>April 2003: General Manager of Production Control Headquarters in Industrial &amp; Material Systems Consolidated Division</p> <p>June 2002: Director of Kubota Corporation</p> <p>October 2001: General Manager of Farm Machinery Division</p> <p>April 1971: Joined Kubota Corporation</p> |

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|  |               |  |
|--|---------------|--|
| Eisaku Shinohara<br>(August 25, 1947)    | 22,000 Shares | Executive Managing Director of Kubota Corporation, General Manager of R & D Headquarters in Farm & Industrial Machinery Consolidated Division, In charge of Research & Development Planning & Promotion Dept. and Environmental Equipment R&D Center   |
|  |               | <p>April 2008: Executive Managing Director of Kubota Corporation (to present)</p> <p>April 2007: In charge of Environmental Equipment R&amp;D Center (to present)</p> <p>April 2005: In charge of Research &amp; Development Planning &amp; Promotion Dept. (to present),</p> <p>Managing Director of Kubota Corporation</p> <p>April 2004: General Manager of R &amp; D Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>June 2003: Director of Kubota Corporation</p> <p>October 2001: Deputy General Manager of R&amp;D Headquarters in Farm &amp; Industrial Machinery Consolidated Division, General Manager of Vehicle Technology Generalization Dept. in Tractor Division</p> <p>April 1974: Joined Kubota Corporation</p>                                   |
| Yoshihiko Tabata<br>(March 23, 1946)     | 21,000 Shares | Managing Director of Kubota Corporation, General Manager of Engine Division  |
|  |               | <p>October 2006: General Manager of Planning &amp; Sales Promotion Dept. in Engine Division</p> <p>April 2006: Managing Director of Kubota Corporation (to present)</p> <p>June 2004: Director of Kubota Corporation</p> <p>October 2003: General Manager of Engine Division (to present)</p> <p>May 1998: President of Kubota Engine America Corporation</p> <p>December 1976: Joined Kubota Corporation</p>  |
| Kazunobu Ueta<br>(January 1, 1947)       | 22,000 Shares | Managing Director of Kubota Corporation, General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division  |
|  |               | <p>April 2006: Managing Director of Kubota Corporation (to present)</p> <p>April 2005: In charge of Farm Facilities Division</p> <p>April 2005: General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>June 2004: Director of Kubota Corporation, In charge of Related Products Division</p> <p>April 2004: In charge of Related Products Division (assistant), Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division, General Manager of Sales Control Dept. in Farm &amp; Industrial Machinery Consolidated Division</p> <p>April 2000: Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division</p> <p>April 1969: Joined Kubota Corporation</p> |
| Morimitsu Katayama<br>(January 17, 1948) | 30,000 Shares | Managing Director of Kubota Corporation, General Manager of Manufacturing Headquarters in Farm & Industrial Machinery Consolidated Division, General Manager of Sakai Plant, In charge of Quality Assurance & Manufacturing Promotion Dept.  |
|  |               | <p>April 2007: Managing Director of Kubota Corporation, and In charge of Quality Assurance &amp; Manufacturing Promotion Dept. (to present)</p> <p>January 2005: In charge of Quality Assurance &amp; Manufacturing Promotion Dept. (assistant)</p> <p>June 2004: Director of Kubota Corporation, In charge of Manufacturing Planning &amp; Promotion Dept. (assistant)</p> <p>April 2004: General Manager of Manufacturing Headquarters in Farm &amp; Industrial Machinery Consolidated Division and General Manager of Sakai Plant (to present)</p> <p>April 2003: General Manager of Sakai Plant</p> <p>April 1963: Joined Kubota Corporation</p>   |





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|   |                      |   |
|---|----------------------|---|
| <p>Nobuyuki Toshikuni<br/><br/>(January 30, 1951)</p> | <p>15,000 Shares</p> | <p>Managing Director of Kubota Corporation, General Manager of Tractor Division</p> <p>April 2007: Managing Director of Kubota Corporation (to present)<br/>         June 2004: Director of Kubota Corporation<br/>         April 2004: General Manager of Tractor Division (to present)<br/>         October 2001: President of Kubota Tractor Corporation<br/>         April 1973: Joined Kubota Corporation</p>  |
| <p>Hirokazu Nara<br/><br/>(October 2, 1948)</p>       | <p>19,000 Shares</p> | <p>Managing Director of Kubota Corporation, In charge of Corporate Staff Section (assistant), In charge of Corporate Planning &amp; Control Dept. and Finance &amp; Accounting Dept.</p> <p>April 2007: Managing Director of Kubota Corporation, and In charge of Corporate Staff Section (assistant) (to present)<br/>         October 2005: In charge of Corporate Planning &amp; Control Dept. (to present)<br/>         June 2005: In charge of Finance &amp; Accounting Dept. (to present)<br/>         June 2005: Director of Kubota Corporation, in charge of Air Condition Equipment Division, Septic Tanks Division, Housing &amp; Building Materials Business Coordination Dept., PV Business Planning &amp; Promotion Dept., General Manager of Corporate Planning &amp; Control Dept.<br/>         April 2005: In charge of Air Condition Equipment Division (assistant), Septic Tanks Division (assistant), Housing &amp; Building Materials Business Coordination Dept. (assistant), PV Business Planning &amp; Promotion Dept. (assistant), Finance &amp; Accounting Dept. (assistant) and General Manager of Corporate Planning &amp; Control Dept.<br/>         April 2003: General Manager of Corporate Planning &amp; Control Dept.<br/>         April 1971: Joined Kubota Corporation</p> |
| <p>Masayoshi Kitaoka<br/><br/>(December 11, 1949)</p> | <p>11,000 Shares</p> | <p>Managing Director of Kubota Corporation, In charge of Health &amp; Safety Planning &amp; Promotion Dept., General Manager of Head Office, General Manager of Personnel Dept.</p> <p>April 2008: Managing Director of Kubota Corporation, and General Manager of Personnel Dept. (to present)<br/>         April 2007: In charge of Health &amp; Safety Planning &amp; Promotion Dept and General Manager of Head Office (to present)</p> <p>In charge of Personnel Dept.<br/>         June 2005: Director of Kubota Corporation<br/>         April 2004: General Manager of Farm Machinery Division<br/>         August 2003: General Manager of Electronic Equipped Machinery Division<br/>         December 2002: General Manager of Electronic Equipped Machinery Division and General Manager of FA Sales Dept in Electronic Equipped Machinery Division<br/>         April 1973: Joined Kubota Corporation</p>  |
| <p>Tetsuji Tomita<br/><br/>(March 6, 1950)</p>        | <p>11,000 Shares</p> | <p>Managing Director of Kubota Corporation, President of Kubota Tractor Corporation</p> <p>April 2008: Managing Director of Kubota Corporation (to present)<br/>         June 2005: Director of Kubota Corporation<br/>         April 2004: President of Kubota Tractor Corporation (to present)<br/>         January 2003: President of Kubota Europe S.A.S.<br/>         April 1973: Joined Kubota Corporation</p>  |



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|  |                      |  |
|--|----------------------|--|
| <p>Masatoshi Kimata</p> <p>(June 22, 1951)</p> | <p>21,000 Shares</p> | <p>Managing Director of Kubota Corporation, Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division</p> <p>April 2008: Managing Director of Kubota Corporation (to present)</p> <p>April 2007: Deputy General Manager of Sales Headquarters in Farm &amp; Industrial Machinery Consolidated Division (to present)</p> <p>June 2005: Director of Kubota Corporation</p> <p>October 2001: General Manager of Tsukuba Plant</p> <p>April 1977: Joined Kubota Corporation</p>  |
| <p>Nobuyo Shioji</p> <p>(April 11, 1949)</p>   | <p>7,000 Shares</p>  | <p>Managing Director of Kubota Corporation, General Manager of Construction Machinery Division</p> <p>April 2008: Managing Director of Kubota Corporation (to present)</p> <p>June 2006: Director of Kubota Corporation</p> <p>April 2005: General Manager of Construction Machinery Division (to present)</p> <p>April 2004: General Manager of Construction Machinery Division and General Manager of Planning &amp; Sales Promotion Dept. in Construction Machinery Division</p> <p>April 2003: Deputy General Manager of Construction Machinery Division and General Manager of Planning &amp; Sales Promotion Dept. in Construction Machinery Division</p> <p>April 1973: Joined Kubota Corporation</p> |
| <p>Takeshi Torigoe</p> <p>(April 8, 1950)</p>  | <p>16,000 Shares</p> | <p>Director of Kubota Corporation, General Manager of Steel Castings Division</p> <p>June 2006: Director of Kubota Corporation (to present)</p> <p>April 2005: General Manager of Steel Castings Division (to present)</p> <p>January 2004: General Manager of Steel Castings Manufacturing Dept. in Hirakata Plant</p> <p>January 2001: President of Kubota Metal Corporation</p> <p>April 1976: Joined Kubota Corporation</p>  |
| <p>Satoru Sakamoto</p> <p>(July 18, 1952)</p>  | <p>8,000 Shares</p>  | <p>Director of Kubota Corporation, General Manager of Air Condition Equipment Division, President of Kubota Air Conditioner, Ltd.</p> <p>June 2006: Director of Kubota Corporation (to present)</p> <p>April 2006: General Manager of Air Condition Equipment Division and President of Kubota Air Conditioner, Ltd. (to present)</p> <p>October 2005: Deputy General Manager of Air Condition Equipment Division and Director of Kubota Air Conditioner, Ltd.</p> <p>April 2003: General Manager of Planning Dept. in Ductile Iron Pipe Division</p> <p>June 2001: General Manager of Corporate Planning &amp; Control Dept.</p> <p>April 1976: Joined Kubota Corporation</p>                               |
| <p>Hideki Iwabu</p> <p>(October 21, 1952)</p>  | <p>12,000 Shares</p> | <p>Director of Kubota Corporation, General Manager of Water &amp; Sewage Engineering Division</p> <p>August 2006: General Manager of Planning Dept. in Water &amp; Sewage Engineering Division</p> <p>June 2006: Director of Kubota Corporation (to present)</p> <p>April 2006: General Manager of Water &amp; Sewage Engineering Division (to present)</p> <p>April 2004: General Manager of Sewage Engineering Dept. II in Water &amp; Sewage Engineering Division</p> <p>June 2001: General Manager of Water &amp; Sewage Engineering Dept. in Water &amp; Sewage Engineering Division</p>  |

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April 1975:      Joined Kubota Corporation

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|   |               |   |
|---|---------------|---|
| Takashi Yoshii<br><br>(October 7, 1951) | 19,000 Shares | Director of Kubota Corporation, President of Kubota Manufacturing of America Corporation<br><br>June 2007: Director of Kubota Corporation (to present)<br>October 2005: President of Kubota Manufacturing of America Corporation (to present)<br>April 2005: General Manager of R&D Administration Dept. and General Manager of Prototype Engineering Dept. in Farm & Industrial Machinery Consolidated Division<br>May 2003: General Manager of R&D Administration Dept. in Farm & Industrial Machinery Consolidated Division<br>April 1974: Joined Kubota Corporation   |
| Kohkichi Uji<br><br>(February 16, 1952) | 5,000 Shares  | Director of Kubota Corporation, General Manager of Ductile Iron Pipe Division<br><br>June 2007: Director of Kubota Corporation, and General Manager of Ductile Iron Pipe Division (to present)<br>April 2007: General Manager of Ductile Iron Pipe Division and General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division and Director of Tops Water Co., Ltd.<br>June 2006: General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division and Director of Tops Water Co., Ltd.<br>October 2003: General Manager of Business Planning & Marketing Dept. in Ductile Iron Pipe Division<br>April 2003: General Manager of Sales Administration Dept. in Ductile Iron Pipe Division<br>April 1974: Joined Kubota Corporation |
| Toshihiro Kubo<br><br>(April 5, 1953)   | 10,000 Shares | Director of Kubota Corporation, General Manager of Production Control Headquarters in Water, Environment & Infrastructure Consolidated Division, General Manager of Coordination Dept. in Water, Environment & Infrastructure Consolidated Division<br><br>June 2007: Director of Kubota Corporation, General Manager of Production Control Headquarters in Water, Environment & Infrastructure Consolidated Division, and General Manager of Coordination Dept. in Water, Environment & Infrastructure Consolidated Division (to present)<br>October 2005: General Manager of Planning Dept. in Ductile Iron Pipe Division<br>April 2003: General Manager of R&D Dept. in Ductile Iron Pipe Division<br>April 1979: Joined Kubota Corporation                              |
| Kenshiro Ogawa<br><br>(July 23, 1953)   | 20,000 Shares | Director of Kubota Corporation, General Manager of Tsukuba Plant and General Manager of Production Engineering Center of Emission in Manufacturing Headquarters in Farm & Industrial Machinery Consolidated Division<br><br>June 2007: Director of Kubota Corporation (to present)<br>April 2007: General Manager of Tsukuba Plant and General Manager of Production Engineering Center of Emission in Manufacturing Headquarters in Farm & Industrial Machinery Consolidated Division (to present)<br>April 2003: General Manager of Engine Manufacturing Dept. in Sakai Plant and Rinkai Engine Manufacturing Dept. in Sakai Plant<br>April 1979: Joined Kubota Corporation   |

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|  |               |   |
|--|---------------|---|
| Tetsu Fukui<br><br>(August 17, 1951)           | 9,000 Shares  | Director of Kubota Corporation, General Manager of Environmental Equipment R&D Center and General Manager of Environmental Consolidated Technology Dept. in Environmental Equipment R&D Center<br><br>June 2008: Director of Kubota Corporation (to present)<br>April 2007: General Manager of Environmental Equipment R&D Center and General Manager of Environmental Consolidated Technology Dept. in Environmental Equipment R&D Center (to present)<br><br>April 2005: General Manager of Turf & Utility Vehicle Engineering Dept. in Tractor Division<br>June 2004: General Manager of Vehicle Technology Generalization Dept. in Tractor Division<br>April 1976: Joined Kubota Corporation  |
| Satoshi Iida<br><br>(March 5, 1953)            | 5,000 Shares  | Director of Kubota Corporation, President of Kubota Europe S.A.S.<br><br>June 2008: Director of Kubota Corporation (to present)<br>April 2004: President of Kubota Europe S.A.S. (to present)<br>April 2003: General Manager of Construction Machinery Division<br>April 1980: Joined Kubota Corporation  |
| Shigeru Kimura<br><br>(September 10, 1953)     | 3,000 Shares  | Director of Kubota Corporation, General Manager of Finance & Accounting Dept.<br><br>June 2008: Director of Kubota Corporation (to present)<br>December 2002: General Manager of Finance & Accounting Dept. (to present)<br>April 1977: Joined Kubota Corporation   |
| Junichi Maeda<br><br>(May 23, 1945)            | 22,000 Shares | Corporate Auditor of Kubota Corporation<br><br>June 2005: Corporate Auditor of Kubota Corporation (to present)<br>June 2003: Director of Kubota Corporation<br>April 2003: General Manager of Ductile Iron Pipe Division<br>June 2001: General Manager of Planning Dept. in Ductile Iron Pipe Division<br>April 2001: Ditto and General Manager of Production Management Dept. in Ductile Iron Pipe Division<br>June 2000: General Manager of Planning Dept. in Ductile Iron Pipe Division<br>September 1972: Joined Kubota Corporation   |
| Yoshiharu Nishiguchi<br><br>(January 29, 1947) | 23,000 Shares | Corporate Auditor of Kubota Corporation<br><br>June 2007: Corporate Auditor of Kubota Corporation (to present)<br>April 2007: Director of Kubota Corporation<br>April 2006: In charge of General Affairs Dept., Tokyo Administration Dept.<br>April 2005: Managing Director of Kubota Corporation, In charge of Personnel Dept., Health & Safety Planning & Promotion Dept., General Manager of Head Office<br>April 2004: In charge of Septic Tanks Division, Housing & Building Materials Business Coordination Dept., Secretary & Public Relations Dept., PV Business Planning & Promotion Dept.,<br>June 2003: Director of Kubota Corporation, In charge of Air Condition Equipment Division, Corporate Planning & Control Dept., Finance & Accounting Dept.<br>December 2002: General Manager of Compliance Auditing Dept.<br>June 2000: General Manager of Finance & Accounting Dept. |

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July 1998: General Manager of Accounting Dept.  
April 1970: Joined Kubota Corporation



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Yoshio Suekawa 11,000 Shares Corporate Auditor of Kubota Corporation

(September 1, 1937)

June 2004: Corporate Auditor of Kubota Corporation (to present)  
 April 2004: Appointed as a special visiting professor, the Faculty of Commerce, Doshisha University  
 July 2002: Established Suekawa CPA Office (to present)  
 June 2002: Retired from Representative Partner of Deloitte Touche Tohmatsu, Osaka  
 May 1989: Assumed Representative Partner of Deloitte Touche, Tohmatsu, Osaka  
 July 1984: Joined Sanwa Tokyo Marunouchi (currently, Deloitte Touche Tohmatsu)  
 October 1963: Registered as a CPA with the Japanese Institute of Certified Public Accountants  
 October 1959: Joined Lowe Bingham and Luckie (currently, PricewaterhouseCoopers, Osaka)

Yuzuru Mizuno 9,000 Shares Corporate Auditor of Kubota Corporation

(January 21, 1948)

July 2008: Executive Vice President of Matsushita Real Estate Co., Ltd. (to present)  
 July 2005: Executive Senior Councilor of Corporate Accounting & Finance of Matsushita Electric Industrial Co., Ltd.  
 June 2005: Corporate Auditor of Kubota Corporation (to present)  
 July 2004: Executive Director of Matsushita Electric Industrial Co., Ltd., In charge of Corporate Finance & Investor Relations  
 February 2004: Director (non full-time) of Nippon Otis Elevator Company  
 October 2000: President (non full-time) of Panasonic Finance (Japan) Co., Ltd.  
 October 2000: General Manager of Corporate Finance Dept. of Matsushita Electric Industrial Co., Ltd.  
 June 1998: Managing Director of Matsushita Industrial Corporation Sdn. Bhd.  
 December 1995: General Manager of Accounting Dept. in Compressor Division of Matsushita Electric Industrial Co., Ltd.  
 April 1970: Joined Matsushita Electric Industrial Co., Ltd.

Masanobu Wakabayashi 1,000 Shares Corporate Auditor of Kubota Corporation

(January 19, 1944)

June 2007: Corporate Auditor of Kubota Corporation (to present)  
 Mar 2004: Chairman of Osaka Prefectural Labour Relations Commission  
 April 1993: Vice President of Osaka Bar Association  
 April 1979: Established Masanobu Wakabayashi Law Office (to present)  
 April 1970: Registered as an attorney with Osaka Bar Association

Among Directors or Corporate Auditors of Kubota Corporation, there is no family relationship. No Directors or Corporate Auditors, except Corporate Auditors Yoshio Suekawa, Yuzuru Mizuno and Masanobu Wakabayashi, of Kubota Corporation have business activities outside the Company. No Directors have directorship of another company.

There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person named above was selected as a Director or a Corporate Auditor.

The Company is not dependent on specific Directors, researchers, or any other entity for its management.

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**B. Compensation**

The aggregate remuneration, including bonuses, paid by the Company in fiscal 2008 to all Directors (some of whom are also the executive officers) and Corporate Auditors of the Company as a group (26 persons) was ¥919 million (\$9,190 thousand). No options to purchase securities from the registrant or any of its subsidiaries were outstanding on March 31, 2008.

At the meeting of the Board of Directors of the Company held on May 13, 2005, the Company resolved that the retirement benefit systems for Directors and Corporate Auditors should be terminated as of the date of the ordinary general meeting of shareholders held on June 24, 2005 and retirement benefits should be paid to the then Directors and Corporate Auditors for the services rendered before the termination of the system. The Board of Directors also resolved that the timing of payment would be at the time of the retirement of each Director and/or Corporate Auditor from his/her office. The amount of the retirement benefits for the services rendered before the termination of the system was allocated to other long-term liabilities in the Company's consolidated balance sheets. The amount included in other long-term liabilities in the Company's consolidated balance sheets was ¥147 million (\$1,470 thousand) as of March 31, 2008.

**C. Board Practices**

The Company's Articles of Incorporation as revised as of June 23, 2006 provide that the number of Directors of the Company shall be not more than 30 and that of the Corporate Auditors shall be not more than 6.

Directors and Corporate Auditors shall be elected by the general meeting of shareholders. The Board of Directors has ultimate responsibility for administration of the Company's affairs. Directors may, by resolution of the Board of Directors, appoint a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a President-Director, and one or more Executive Vice President-Directors, Executive Managing Directors and Managing Directors. The Chairman of the Board of Directors and President-Director are Representative Directors and severally represent the Company. In addition, the Board of Directors may by its resolution, appoint one or more additional Representative Directors. The term of office of Directors shall, under the Articles of Incorporation of the Company, expire at the conclusion of the ordinary general meeting of shareholders with respect to the last closing of accounts within one year from their assumption of office, and in the case of Corporate Auditors, within four years from their assumption of office. However, they may serve any number of consecutive terms.

Under the Corporate Law, the Corporate Auditors of the Company are not required to be and are not certified public accountants. However, at least half of the Corporate Auditors shall be a person who has not been a Director, accounting counselor, corporate executive officer, manager or any other employee of the Company or any of its subsidiaries at any time prior to his or her election as a Corporate Auditor.

The Corporate Auditors may not at the same time be Directors, accounting counselor, corporate executive officers, managers or any other employees of the Company or any of its subsidiaries. Each Corporate Auditor has the statutory duty to examine the Company's consolidated and non-consolidated financial statements and business report to be submitted by a Representative Director at the general meeting of shareholders and, based on such examination and a report of an Accounting Auditor referred to below, to respectively prepare his or her audit report. Each Corporate Auditor also has the statutory duty to supervise the administration by the Directors of the Company's affairs. They are required to attend in meetings of the Board of Directors and express opinions, if necessary, at such meetings, but they are not entitled to vote.

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In addition to Corporate Auditors, an independent certified public accountant or an audit corporation must be appointed at general meetings of shareholders as Accounting Auditor of the Company. Such Accounting Auditor has the duties to examine the consolidated and non-consolidated financial statements proposed to be submitted by a Representative Director at general meetings of shareholders and to report their opinion thereon to certain Corporate Auditors designated by the Board of Corporate Auditors to receive such report (if such Corporate Auditors are not designated, all Corporate Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements).

The Corporate Auditors constitute the Board of Corporate Auditors. The Board of Corporate Auditors has a statutory duty to, based upon the reports prepared by respective Corporate Auditors, prepare and submit its audit report to the accounting auditor and certain directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements and the business report). A Corporate Auditor may note his or her opinion in the audit report if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report. The Board of Corporate Auditors shall elect one or more full-time Corporate Auditors from among its members. The Board of Corporate Auditors is empowered to establish audit principles, method of examination by Corporate Auditors of the Company's affairs and financial position and other matters concerning the performance of the Corporate Auditors' duties.

There are no Directors' service contracts with Kubota Corporation providing for benefits upon termination of service.

The rights of ADR holders, including their rights relating to corporate governance practices, are governed by the Amended and Restated Deposit Agreement (incorporated by reference to the Registration Statement on Form F-6 (File No. 333-91654) filed on June 26, 2002).

**D. Employees****Head Count at the End of the Period**

|  | 2006   | 2007   | 2008   |
|--|--------|--------|--------|
|  | 23,049 | 23,727 | 24,464 |
| <b><u>Head Count in Each Segment</u></b> |        |        |        |
|  | 2006   | 2007   | 2008   |
| Internal Combustion Engine and Machinery | 12,383 | 13,440 | 14,281 |
| Pipes, Valves, and Industrial Castings   | 4,028  | 3,951  | 4,075  |
| Environmental Engineering                | 2,563  | 2,484  | 2,297  |
| Other                                    | 3,618  | 3,390  | 3,312  |
| Corporate                                | 457    | 462    | 499    |
| Total                                    | 23,049 | 23,727 | 24,464 |

The number of full-time employees of Kubota as of March 31, 2008 was 24,464. Most employees of the Company in Japan, other than managerial personnel, are union members. The unions belong to the Federation of all Kubota Labor Union, which is affiliated with the Japanese Trade Union Confederation. The Company believes it maintains good relationship with the union.

Basic wage rates are reviewed annually in spring, normally in April. In addition, in accordance with Japanese custom, Kubota grants its full-time employees semiannual bonuses.

The parent company and its domestic subsidiaries have a number of unfunded severance indemnity plans and defined benefit pension plans covering substantially all Japanese employees. Most employees of overseas subsidiaries are covered by defined benefit pension plans or defined contribution pension plans. As is customary in Japan, the Company provides a wide range of fringe benefits to its employees.

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E. Share Ownership

The total number of shares of the Company's common stock beneficially owned by the Directors and Corporate Auditors as a group as of June 20, 2008 was as follows:

| <b>Title of Class</b> | <b>Identity of persons or group</b> | <b>Number of shares owned</b> | <b>Percentage of class</b> |
|-----------------------|-------------------------------------|-------------------------------|----------------------------|
| Common stock          | Directors and Corporate Auditors    | 523,000                       | 0.04%                      |

For individual shareholdings, see Item 6.A Directors and Senior Management.

Employee Stock Ownership Association (Kubota Fund) owned 15,967,579 shares as of March 31, 2008, which amounted to 1.2 % of total shares issued.

The association consists of employees of the Company and some of its subsidiaries, and the members contribute a portion of their salaries to the association. The association purchases shares of Kubota's common stock on behalf of members.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

As of March 31, 2008, 3 shareholders held 5 percent or more of the shares issued. The 10 largest shareholders are as follows:

| Name                                       | (As of March 31, 2008)         |      |
|--|--------------------------------|------|
|  | Number of shares<br>(thousand) | (%)  |
| The Master Trust Bank of Japan, Ltd.       | 108,482                        | 8.46 |
| Japan Trustee Services Bank, Ltd.          | 94,745                         | 7.39 |
| Nippon Life Insurance Company              | 86,021                         | 6.71 |
| Meiji Yasuda Life Insurance Company        | 60,252                         | 4.70 |
| The Dai-ichi Mutual Life Insurance Company | 46,954                         | 3.66 |
| Sumitomo Mitsui Banking Corporation        | 45,006                         | 3.51 |
| Mizuho Corporate Bank, Ltd.                | 40,851                         | 3.18 |
| Trust & Custody Services Bank, Ltd.        | 34,175                         | 2.66 |
| Moxley & Co.                               | 30,221                         | 2.35 |
| The Chase Manhattan Bank 385036            | 29,214                         | 2.28 |

As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of the Company. The major shareholders have the same voting rights as other common shareholders of the Company.

As of March 31, 2008, there were 1,280,603,507 shares of Common Stock outstanding, of which 30,221,053 shares were in the form of ADR and 154,837,863 shares were held by the residents in the U.S. The number of registered ADR holders was 49 and the number of registered holders of common stock in the U.S. was 95.

To the best knowledge of the Company, the Company is not, directly or indirectly, owned or controlled by other corporations or by the Japanese or any foreign government.

**B. Related Party Transactions**

In the ordinary course of business, the Company has transactions with numerous companies. During the fiscal year ended March 31, 2008, the Company had sales transactions with affiliates accounted under the equity method, aggregating ¥48,847 million (\$488,470 thousand). As of March 31, 2008, the Company had trade notes and accounts receivable from affiliated companies of ¥17,185 million (\$171,850 thousand).

Refer to Note 3 of the Consolidated Financial Statements for additional information regarding the Company's investments in and advances to affiliated companies.

**C. Interests of Experts and Counsel**

Not applicable.

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### Item 8. Financial Information

#### A. Consolidated Statements and Other Financial Information

The information required by this item, except as stated below, appears in the consolidated financial statements of this Form 20-F.

#### Legal Proceedings

##### Anti-Trust

In May 1998, the Company was investigated by the Fair Trade Commission of Japan (the FTCJ) for an alleged violation of the Law Concerning Prohibition of Private Monopoly and Preservation of Fair Trade (the Anti-Monopoly Law) relating to participation in fixing the shares of ductile iron straight pipe orders in Japan. The Company received a cease and desist recommendation from the FTCJ in March 1999, which was accepted by the Company in April 1999.

The FTCJ also brought a criminal accusation alleging violation of the Anti-Monopoly Law against the Company and 3 of its employees, who were indicted in the Tokyo High Court in March 1999. On February 24, 2000, the Company was fined ¥130 million, and the 3 employees were given 6 to 10 months prison sentences, suspended for 2 years.

In the meanwhile, the Company received a surcharge order of ¥7,072 million (\$70,720 thousand) from the FTCJ. The Company has challenged this order and filed a petition for the initiation of hearing procedures that were started in March 2000. Under Section 49 of the then Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the then Anti-Monopoly Law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2, and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter. An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. The Company is not able to estimate the likelihood of such unfavorable outcome. Although the hearing procedures were completed on November 9, 2007, the Company has not received a copy of the preliminary decision to be served by the hearing examiner as of the date of this Form 20-F.

#### Policy on Dividends Distributions

The Company's basic policy for the allocation of profit is to maintain stable dividends or to provide increased dividends. The Company's policy is to determine the most appropriate use of retained earnings, by considering current business operations as well as the future business environment.

#### B. Significant Changes

Except as disclosed in this annual report, there have been no significant changes since the date of latest annual financial statements of the Company.

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details**

The primary market for Kubota's common stock is the Tokyo Stock Exchange (the "TSE") in the form of original common stock. Kubota's common stock has been listed on the TSE since 1949, and has also been listed on the Osaka Securities Exchange since 1949.

Overseas, Kubota's common stock is listed on the New York Stock Exchange (the "NYSE") in the form of American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs"). Prior to July 15, 2002, each ADS represented 20 shares of common stock. On July 15, 2002, the Company changed the unit of ADS from 20 common shares to 5 in order to help increase the number of ADS holders and improve the liquidity of its ADSs.

Kubota's ADSs, which have been listed on the NYSE since 1976, are issued by JPMorgan Chase Bank, as Depositary. Kubota's common stock is also listed on Frankfurt Stock Exchange.

The following table sets forth, for the periods indicated, the reported high and low sales prices of Kubota's common stock on the TSE and of Kubota's ADSs on the NYSE.

|                                 | TSE price per share<br>of common stock |       | NYSE price per ADS<br>(5 common shares) |     |       |     |
|---------------------------------|--|-------|---|-----|-------|-----|
|                                 | High                                   | Low   | High                                    | Low | High  | Low |
| <b>Annual Highs and Lows</b>    |  |       |   |     |       |     |
| 2004                            | ¥ 517                                  | ¥ 260 | \$ 24                                   | 15  | \$ 11 | 06  |
| 2005                            | 596                                    | 446   | 28                                      | 46  | 19    | 05  |
| 2006                            | 1,295                                  | 517   | 55                                      | 21  | 24    | 20  |
| <b>Quarterly Highs and Lows</b> |  |       |   |     |       |     |
| 2007                            |  |       |   |     |       |     |
| 1 st quarter                    | ¥ 1,379                                | ¥ 918 | \$ 60                                   | 60  | \$ 40 | 16  |
| 2 nd quarter                    | 1,123                                  | 897   | 48                                      | 95  | 38    | 51  |
| 3 rd quarter                    | 1,134                                  | 927   | 47                                      | 30  | 39    | 81  |
| 4 th quarter                    | 1,306                                  | 1,012 | 53                                      | 83  | 43    | 70  |
| 2008                            |  |       |   |     |       |     |
| 1 st quarter                    | 1,162                                  | 909   | 48                                      | 30  | 37    | 80  |
| 2 nd quarter                    | 1,116                                  | 802   | 45                                      | 80  | 35    | 32  |
| 3 rd quarter                    | 987                                    | 724   | 42                                      | 39  | 32    | 52  |
| 4 th quarter                    | 791                                    | 575   | 37                                      | 47  | 28    | 34  |
| 2009                            |  |       |   |     |       |     |
| 1 st quarter                    | 918                                    | 612   | 43                                      | 41  | 31    | 00  |
| <b>Monthly Highs and Lows</b>   |  |       |   |     |       |     |
| February, 2008                  | ¥ 791                                  | ¥ 651 | \$ 37                                   | 47  | \$ 30 | 94  |
| March                           | 687                                    | 575   | 33                                      | 95  | 29    | 17  |
| April                           | 770                                    | 612   | 36                                      | 42  | 31    | 00  |
| May                             | 861                                    | 717   | 40                                      | 63  | 34    | 91  |
| June                            | 918                                    | 760   | 43                                      | 41  | 34    | 51  |
| July                            | 771                                    | 679   | 35                                      | 29  | 31    | 53  |
| August                          | 811                                    | 615   | 35                                      | 81  | 28    | 91  |

The Company has never experienced trade suspension, and keeps enough liquidity for trading.





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**B. Plan of Distribution**

Not applicable.

**C. Markets**

The stock of the Company is listed on 2 stock exchanges in Japan (Tokyo and Osaka), and 2 overseas stock exchanges (New York and Frankfurt). In May 1949, the stock was listed on Tokyo Stock Exchange (the TSE ) and Osaka Securities Exchange. The stock was also listed on the Frankfurt Stock Exchange in March 1974, and the New York Stock Exchange (the NYSE ) in November 1976.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

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### **Item 10. Additional Information**

#### **A. Share Capital**

Not applicable.

#### **B. Memorandum and Articles of Association**

##### **Organization**

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Corporate Law of Japan. The Company is registered in the Commercial Register (*shogyo tokibo*) maintained by the Osaka Legal Affairs Bureau.

##### **Objects and Purposes**

Article 2 of the Articles of Incorporation of the Company provides that the Company's purpose is to engage in the following lines of business:

1. Manufacture, sale and laying work of cast iron pipe, various kinds of pipe and fittings thereof;
2. Manufacture and sale of castings, powder-metallurgy products and ceramic and other moldings;
3. Manufacture and sale of internal combustion engines, automobiles, agricultural machinery and ancillary farming products;
4. Manufacture, sale and installation of construction machinery, machine tools, pumps, valves, various kinds of industrial machinery and other machinery;
5. Manufacture, sale and installation of weighing, measuring and control equipment, electrical, electronic and communication machinery and equipment, automatic vending machines and automatizing machinery and equipment;
6. Manufacture and sale of various kinds of materials for civil engineering and construction as well as various kinds of machinery and equipment for houses;
7. Construction and civil engineering, and planning, manufacture, supervision, performance and sale of, and contracting for, houses, building structures, steel-frame structures and storage facilities and equipment;
8. Sale, purchase, lease and management of real estate and development of residential land;
9. Planning, manufacture, engineering and construction of, and contracting for, various environmental control devices and equipment and various plants;
10. Treatment, recovery and recycling business of various kinds of wastewater, exhaust gas and contaminated soil;

11. Treatment, recovery and recycling business of municipal and industrial wastes;
12. Manufacture and sale of chemicals for household use and for environmental control devices and equipment as well as bioproducts;
13. Manufacture, processing and sale of synthetic resins and other chemical synthetic products;
14. Development and sale of information processing and communication systems, and computer software;

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15. Operation of facilities for sports, lodging, training, health and medical care, recuperation and recreation;
16. Road cargo transportation business, water transportation business and warehousing business;
17. General leasing business;
18. Personnel dispatching agency business;
19. Business of soliciting life insurance, casualty insurance agency business and insurance agency business pursuant to the Automobile Injury Compensation Law;
20. Fee-charging employment agency;
21. Accounting and payroll administration services;
22. Copying, printing and bookbinding businesses;
23. Any consulting business relating to each of the foregoing items; and
24. Any other business ancillary to or relating to any of the foregoing items.

**Directors**

Each Director has executive powers and duties to manage the affairs of the Company and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent the Company in all respects. Under the Corporate Law, the Directors must refrain from engaging in any business competing with the Company unless approved by the Board of Directors and any Director who has a special interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The maximum aggregate amounts of remunerations, bonuses, and other financial benefits given in consideration of the performance of duties (the remunerations, etc. ) for the Company's Directors and that of the Company's Corporate Auditors must be, approved, respectively, at a general meeting of shareholders. The Company must also obtain the approval at a general meeting of shareholders if the Company desires to change such maximum aggregate amounts of remunerations, etc. The amount of remuneration for each class of Director is determined by the remuneration committee, which is not a statutory organization but is delegated to make such determination by the Board of Directors, and such amount of remuneration so determined by the remuneration committee is approved by the President. The same applies *mutatis mutandis* to the amount of bonus for each Director. The amount of remuneration for each Corporate Auditor is determined upon consultation among the Corporate Auditors.

Except as stated below, neither the Corporate Law nor the Company's Articles of Incorporation make special provisions as to the Directors' or Corporate Auditors' power to vote in connection with their own compensation, the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power), their retirement age or requirements to hold any shares of Common Stock of the Company. The Corporate Law specifically requires the resolution of the Board of Directors for a company to acquire or dispose of material assets; to borrow a substantial amount of money; to appoint or dismiss important employees, such as executive officers; to establish, change or abolish material corporate organizations such as a branch office; to determine material conditions concerning offering of corporate bonds set forth in the ordinances of the Ministry of Justice; and to establish and maintain the internal control system set forth in the ordinances of the Ministry of Justice, such as the system to ensure the legitimacy of the performance of duties by Directors. The Regulations of the Board of Directors and the relevant internal regulation of the Company require a resolution of the Board of Directors for the Company's borrowing in an amount more than 5 billion yen or guaranteeing in an amount more than one billion yen or its equivalent.



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### **Common Stock**

#### ***General***

Except as otherwise stated, set forth below is information relating to the Company's Common Stock, including brief summaries of the relevant provisions of the Company's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Corporate Law of Japan and related legislation.

Under the Corporate Law, generally, shares may be transferred only by delivering share certificates. In order to assert shareholders' rights against the Company, a shareholder must have its name and address registered on the Company's register of shareholders, in accordance with the Company's Share Handling Regulations. The registered beneficial holder of deposited shares underlying the American Depositary Shares (ADSs) is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against the Company.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within 5 years of the date of the promulgation. Currently, the effective date has not yet been determined but is expected to be January 5, 2009. On the effective date, the new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of common stock of the Company, will be subject to the new central clearing system. On the same day, the Company will be deemed to become a company which shall not issue share certificates for its shares and all existing share certificates will become null and void and the companies are not required to withdraw those share certificates from shareholders. Thereafter, the transfer of such shares will be effected through entry in the records maintained under the new central clearing system. Only shares deposited with Japan Securities Depository Center Inc. (JASDEC) will be immediately transferable under the new central clearing system. Upon the effective date, any requirement, reference and discussion relating to share certificates included in this section "Common stock" will not be applicable.

#### ***Authorized capital***

Article 6 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is 1,874,700,000 shares.

As of March 31, 2008, 1,285,919,180 shares of Common Stock were issued. All shares of Common Stock of the Company have no par value.

#### ***Distribution of Surplus***

##### ***Distribution of Surplus - General***

Under the Corporate Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of Surplus" ("Surplus" is defined in "Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to the shareholders any number of times per business year, subject to certain limitations described in "Restriction on Distributions of Surplus". Distributions of Surplus are required in principle to be authorized by a resolution of a general meeting of shareholders, but the Company may also authorize distributions of Surplus by a resolution of the Board of Directors as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or the board of directors authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) the Board of Directors, grant a right to the shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders (see "Voting Rights" with respect to a "special resolution").

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Under the Company's Articles of Incorporation, year-end dividends and interim dividends may be distributed to shareholders of record as of March 31 and September 30 each year, respectively, in proportion to the number of shares of common stock held by each shareholder following approval by the general meeting of shareholders or the Board of Directors. The Company is not obliged to pay any dividends in cash unclaimed for a period of three years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of common stock generally goes ex-dividend on the third business day prior to the record date.

*Distribution of Surplus Restriction on distribution of Surplus*

In making a distribution of Surplus, the Company must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$(A + B + C + D) - (E + F + G)$$

In the above formula:

A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year

B = (if the Company has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by the Company less the book value thereof

C = (if the Company has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)

D = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)

E = (if the Company has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock

F = (if the Company has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed

G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and thereby increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus to be distributed by the Company may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of treasury stock disposed of by the Company after the end of the last business year; and

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(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), the Company shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by ordinances of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by ordinances of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the board of directors or (if so required by the Corporate Law) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by the Company, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by the Company must be audited by the Corporate Auditors and the accounting auditor, as required by ordinances of the Ministry of Justice.

### ***Stock splits***

The Company may at any time split shares in issue into a greater number of shares by resolution of the Board of Directors, and may in principle amend its Articles of Incorporation to increase the number of the authorized shares to be issued in proportion to the relevant stock split pursuant to a resolution of the Board of Directors rather than a special shareholders resolution (as defined in *Voting Rights*) which is otherwise required for amending the Articles of Incorporation.

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date thereof, at least 2 weeks prior to such record date.

### ***Consolidation of Shares***

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in *Voting Rights*). When a consolidation of shares is to be made, the Company must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to the Company for exchange. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

### ***General meeting of shareholders***

The ordinary general meeting of shareholders of the Company for each fiscal year is normally held in June in each year in Osaka, Japan. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving notice of convocation thereof at least 2 weeks prior to the date set for the meeting.

Notice of convocation of a shareholders' meeting setting forth the place, time and purpose thereof, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least 2 weeks prior to the date set for the meeting. Under the Corporate Law, such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is March 31 of each year.



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Any shareholder or group of shareholders holding at least 3 percent of the total number of voting rights for a period of 6 months or more may require the convocation of a general meeting of shareholders for a particular purpose by submitting a written request to a Representative Director. Unless such shareholders' meeting is convened promptly or a convocation notice of a meeting which is to be held not later than 8 weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders' meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or one percent of the total number of voting rights for a period of 6 months or more may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a Representative Director at least 8 weeks prior to the date set for such meeting.

If the Company's Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

### ***Voting rights***

So long as the Company maintains the unit share system (see Section B of this Item 10 Memorandum and Articles of Association Common Stock Unit share system below; currently 1,000 shares constitute one unit) a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following 2 sentences. Any corporate or certain entity one-quarter or more of whose total voting rights are directly or indirectly owned by the Company may not exercise its voting rights with respect to shares of Common Stock of the Company that it owns. In addition, the Company may not exercise its voting rights with respect to its shares that it owns. If the Company eliminates from its Articles of Incorporation the provisions relating to the unit of shares, holders of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting. The Corporate Law and the Company's Articles of Incorporation provide, however, that the quorum for the election of Directors and Corporate Auditors shall not be less than one-third of the total number of voting rights of all the shareholders entitled to exercise their voting rights. The Company's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. The Company's shareholders also may cast their votes in writing. Shareholders may also exercise their voting rights by electronic means pursuant to the method determined by the Board of Directors.

The Corporate Law and the Company's Articles of Incorporation provide that in order to amend the Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from a specific party other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to subscribe for or acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a corporate auditor;
- (5) the exemption of liability of a director, corporate auditor or accounting auditor to the amounts set forth in the Corporate Law;
- (6) a reduction of stated capital;
- (7) a distribution of in-kind dividends which meets certain requirements;

- (8) dissolution, merger, consolidation or corporate split with certain exceptions in which a shareholders resolution is not required;
- (9) the transfer of the whole or a material part of the business;
- (10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required; or
- (11) share exchange or share transfer for the purpose of establishing 100% parent-subsiary relationships with certain exceptions in which a shareholders resolution is not required,  
the quorum shall be one-third of the total voting rights of all the shareholders entitled to exercise their voting rights and the approval by at least two-thirds of the voting rights of all the shareholders entitled to exercise their voting rights represented at the meeting is required (the special shareholders resolutions ).

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Pursuant to the terms of the Amended and Restated Deposit Agreement relating to American Depositary Receipts (ADRs) evidencing ADSs, each ADS representing 5 shares of Common Stock of the Company, as soon as practicable after receipt of notice of any meeting or solicitation of consents or proxies of shareholders of the Company, the Depositary (currently JPMorgan Chase Bank) will mail to the record holders of ADRs a notice which will contain the information in the original notice. The record holders of ADRs on a date specified by the Depositary will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the shares of Common Stock of the Company represented by their ADSs, including instructions to give a discretionary proxy to a person designated by the Company. The Depositary will endeavor, in so far as practicable, to vote the number of shares of Common Stock of the Company represented by such ADSs in accordance with such instructions. The Depositary will not itself exercise any voting discretion in respect of any Deposited Shares.

***Issue of additional shares and pre-emptive rights***

Holders of the Company's shares of Common Stock have no pre-emptive rights under its Articles of Incorporation. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under *Voting rights* above. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date at least 2 weeks prior to which public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least 2 weeks prior to the date on which such rights expire.

Rights to subscribe for new shares may be made generally transferable by a resolution of the Board of Directors. Whether the Company will make subscription rights generally transferable in future rights offerings will depend upon the circumstances at the time of such offerings.

Subject to certain conditions, the Company may issue stock acquisition rights or bonds with stock acquisition rights by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.

***Liquidation rights***

In the event of a liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses and taxes will be distributed among shareholders in proportion to the respective numbers of shares of Common Stock held.

***Record date***

As mentioned above, March 31 is the record date for the Company's year-end dividends. So long as the Company maintains the unit share system, the shareholders and beneficial shareholders who are registered as the holders of one or more units of shares in the Company's registers of shareholders and/or that of beneficial shareholders at the end of each March 31 are entitled to exercise shareholders' rights at the ordinary general meeting of shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, the Company may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights and for other purposes by giving at least 2 weeks' prior public notice.

The price of shares generally goes ex-dividends or ex-rights on Japanese stock exchanges on the third business day prior to a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

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**Table of Contents*****Acquisition by the Company of its Common Stock***

Under the Corporate Law and the Company's Articles of Incorporation, the Company may acquire shares of common stock (i) by soliciting all its shareholders to offer to sell shares of common stock held by them (in this case, certain terms of such acquisition, including the total number of shares of common stock to be purchased and the total amount of consideration, shall be set by an ordinary resolution of a general meeting of shareholders in advance, and such acquisition shall be executed pursuant to a resolution of the Board of Directors), (ii) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (iii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iv) by way of purchase on any Japanese stock exchange on which the Company's shares of common stock is listed or by way of tender offer (as long as its non-consolidated annual financial statements and certain documents for the last business year fairly present its asset and profit or loss status, as required by ordinances of the Ministry of Justice) (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

Shares acquired by the Company may be held by it for any period or may be cancelled by a resolution of the Board of Directors. The Company may also transfer to any person the shares held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in *Issue of additional shares and pre-emptive rights* above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

***Unit share system***

The Articles of Incorporation of the Company provide that 1,000 shares constitute one unit of shares of Common Stock. Although the number of shares constituting one unit is included in the Articles of Incorporation, any amendment to the Articles of Incorporation reducing (but not increasing) the number of shares constituting one unit or eliminating the provisions for the unit of shares may be made by a resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation. The number of shares constituting one unit, however, cannot exceed 1,000.

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights. Moreover, holders of shares constituting less than one unit will have no other shareholder rights, except that such holders may not be deprived of certain rights specified in the Corporate Law or ordinances of the Ministry of Justice, or in the Company's Articles of Incorporation, including the right to receive distribution of Surplus.

Unless the Company's Board of Directors adopts a resolution to eliminate the provision for the unit shares from the Articles of Incorporation or the shareholders amend the Articles of Incorporation by a special shareholders resolution to eliminate the provision not to issue share certificates for less than a unit of shares, a share certificate for any number of shares less than one full unit will in general not be issued. As the transfer of shares normally requires the delivery of the share certificates thereof, any fraction of a unit for which no share certificates are issued is not transferable.

A holder of shares constituting less than one unit may require the Company to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of the Company.

In addition, the Articles of Incorporation of the Company provide that a holder of shares constituting less than one full unit may request the Company to sell to such holder such amount of shares which will, when added together with the shares constituting less than one full unit held by such holder, constitute one full unit of Common Stock, in accordance with the provisions of the Share Handling Regulations of the Company.

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A holder who owns ADRs evidencing less than 200 ADSs will indirectly own less than one full unit of shares of Common Stock. Although, as discussed above, under the unit share system holders of less than one full unit have the right to require the Company to purchase their shares or sell shares held by the Company to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of full units are unable to withdraw the underlying shares of Common Stock representing less than one full unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares or sell shares held by the Company to such holders unless the Company's Articles of Incorporation are amended to eliminate the provision not to issue share certificates for the numbers of shares less than a unit. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of Common Stock in lots less than one full unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

### ***Sale by the Company of shares held by shareholders whose location is unknown***

The Company is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company continuously for 5 years or more.

In addition, the Company may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for 5 years or more at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive dividends on the shares continuously for 5 years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company, the Company may sell or otherwise dispose of the shareholder's shares by a resolution of the Board of Directors and after giving at least 3 months' prior public and individual notice, and holding or depositing the proceeds of such sale or disposal of shares at the then market price of the shares for the shareholder, the location of which is unknown.

### **Reporting of substantial shareholdings**

The Financial Instruments and Exchange Law of Japan and regulations thereunder requires any person, regardless of his/her residence, who has become, beneficially and solely or jointly, a holder of more than 5 percent of the total issued shares (with voting rights) of Common Stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director-General of a competent Local Finance Bureau of Ministry of Finance within 5 business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares (with voting rights) held by such holder and the issuer's total issued share capital (with voting rights). Any such report shall be filed with the Director General of the relevant Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors' Network (EDINET) system. Copies of such report must also be furnished to the issuer of such shares.

Except for general limitations under Japanese anti-trust and anti-monopoly regulations against holding of shares of Common Stock of a Japanese corporation which leads or may lead to a restraint of trade or a monopoly, limitations under the Foreign Exchange Regulations as described in "D. Exchange Controls" below, and general limitations under the Corporate Law or the Company's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to the Company or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of the Company or exercise voting rights thereon.

There is no provision in the Company's Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving the Company.

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### Daily Price Fluctuation Limits under Japanese Stock Exchange Rules

Stock prices on Japanese stock exchanges are determined on a real-time basis by the balance between bids and offers. These stock exchanges are order-driven markets without specialists or market makers to guide price formation. In order to prevent excessive volatility, these stock exchanges set daily upward and downward price range limitations for each listed stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit on these stock exchanges may not be able to effect a sale at such price on a particular trading day, or at all.

### C. Material Contracts

All contracts concluded by the Company during the two-year period preceding the date of this report were entered into in the ordinary course of business.

### D. Exchange Controls

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of Common Stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

- (i) individuals who do not reside in Japan; and
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- (i) individuals who are exchange non-residents;
- (ii) corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and
- (iii) corporations (1) of which 50% or more of their shares are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank or financial instruments firm licensed under Japanese law.

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If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of the Company) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from revenues in Japan of shares of Common Stock of the Company held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

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### E. Taxation

#### Japanese Taxation

*The following is a summary of the major Japanese national tax consequences of the ownership, acquisition and disposition of shares of Common Stock of the Company and of ADRs evidencing ADSs representing shares of Common Stock of the Company by a non-resident Holder (as defined below). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor depending on its individual circumstances. Accordingly, holders of shares of Common Stock of the Company including holders of ADRs evidencing ADSs are encouraged to consult their tax advisors regarding the application of the considerations discussed below to their particular circumstances.*

This summary is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed under its terms.

In general, taking into account the earlier assumption, for purposes of the Income Tax Treaty between Japan and the United States (the Treaty), and Japanese income tax purposes, eligible U.S. holders of ADRs will be treated as owning the Common Stock underlying the ADSs evidenced by the ADRs. For the purposes of the following discussion, an eligible U.S. holder is a holder that:

- (i) is a resident of the U.S. for purposes of the Treaty;
- (ii) does not maintain a permanent establishment in Japan (a) with which ADRs or shares of Common Stock are attributable or (b) of which ADRs or shares of Common Stock form part of the business property; and
- (iii) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the ADRs or shares of Common Stock.

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to non-residents of Japan or non-Japanese corporations without permanent establishments in Japan (non-resident Holders) who are holders of shares of Common Stock of the Company and of ADRs evidencing ADSs representing shares of Common Stock of the Company.

#### *Dividends and gains on revenues*

Generally, non-resident Holders of Japan or a non-Japanese corporation are subject to Japanese withholding tax on dividends paid by Japanese corporations. The Company withholds taxes from dividends it pays as required by Japanese law. Stock splits in themselves are not, in general, subject to Japanese income tax in general.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident Holders is 20 percent. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock of the Company) to non-resident Holders, except for any individual shareholder who holds 5 percent or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2009, and (ii) 15 percent for dividends due and payable on or after April 1, 2009. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and 10 percent under the income tax treaties with France, the U.K. and the United States).



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Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to a U.S. holder that is a portfolio investor is generally limited to 10 percent of the gross amount actually distributed, and dividends paid by a Japanese corporation to a U.S. holder that is a pension fund are exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on the Company's shares of Common Stock by the Company is required to submit, through the Company, an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends in advance to the relevant tax authority before payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits 2 Application Forms (one before payment of dividends, the other within 8 months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any non-resident Holder holding ADRs evidencing ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority. The Company does not assume any responsibility to ensure withholding at the reduced treaty rate or not withholding for shareholders who would be eligible under an applicable tax treaty but do not follow the required procedures as stated above.

Gains derived from the sale of shares of Common Stock of the Company or ADRs outside Japan by a non-resident Holder holding such shares or ADSs as a portfolio investor are, in general, not subject to Japanese income or corporation tax. U.S. holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

*Inheritance and gift*

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of Common Stock or ADSs as a legatee, heir or donee from an individual even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock of the Company or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

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### **United States Federal Income Taxation**

This section describes the material United States federal income tax consequences of owning Common Stock or ADSs. It applies to you only if you are a U.S. holder, as defined below, and you own your Common Stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities,

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,

a tax-exempt organization,

a life insurance company,

a person liable for alternative minimum tax,

a person that actually or constructively owns 10% or more of the voting stock of the Company,

a person that holds Common Stock or ADSs as part of a straddle or a hedging or conversion transaction, or

a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings and court decisions, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of Common Stock or ADSs and you are:

a citizen or resident of the United States,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

*You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of Common Stock and ADSs in your particular circumstances.*

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This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the Common Stock represented by those ADRs. Exchanges of Common Stock for ADRs, and ADRs for Common Stock, generally will not be subject to United States federal income tax.

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### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment Company, or PFIC rules discussed below, the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) to a U.S. holder is subject to United States federal income taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum rate of 15% provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends paid by the Company with respect to common stock or ADSs generally will be qualified dividend income.

You must include any Japanese tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of Common Stock, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Common Stock or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty, and paid over to Japan will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under Japanese law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. The rules governing foreign tax credits are complex and the Company urges you to consult your tax advisor regarding the foreign tax credit in your situation.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive income or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive income or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your Common Stock or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your Common Stock or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### *Passive Foreign Investment Company Rules*

The Company believes that the Common Stock and ADSs should not be treated as stock of a PFIC for U.S. federal income tax purposes, but this conclusion is a factual determination that is made annually thus may be subject to change. If the Company was to be treated as a PFIC, unless the Common Stock or ADSs are marketable stock and a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to the Common Stock or ADSs, gain realized on the sale or other disposition of the Common Stock or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your Common Stock or ADSs will be treated as stock of a PFIC if the Company was a PFIC at any time during your holding period of your Common Stock or ADSs. Dividends that you receive from the Company will not be eligible for the special tax rates applicable to qualified dividend income if the Company is a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.



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**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

According to the Securities Exchange Act of 1934, as amended, the Company is subject to the requirements of informational disclosure. The Company files various reports and other information, including this annual report on Form 20-F, to the U.S. Securities and Exchange Commission. These reports may be inspected at the following sites.

U.S. Securities and Exchange Commission : 100 F Street, N.E., Washington D.C. 20549

Form 20-F is also available at the website of the Company. URL : <http://www.kubota.co.jp>

**I. Subsidiary Information**

Not applicable.

**Table of Contents****Item 11. Quantitative and Qualitative Disclosures about Market Risk**

The Company is exposed to market risks, including changes in foreign currency exchange rates, interest rates and prices of marketable equity securities. In order to hedge the risks of changes in foreign currency exchange rates and interest rates, the Company uses derivative financial instruments. The Company uses these derivative financial instruments solely for the purpose of mitigating risk and no derivative instruments are held or used for speculative purposes.

**Foreign Currency Exchange Risks**

The Company's foreign currency exposure relates primarily to its foreign currency denominated assets in its international operations. The Company utilizes foreign exchange forward contracts and foreign currency option contracts primarily to fix the value of cash flows resulting from accounts receivable and payable and future transactions denominated in foreign currencies.

The following table provides information regarding the Company's derivative financial instruments related to foreign exchange forward contracts and currency options as of March 31, 2008. All foreign exchange forward contracts and currency options have original maturities of less than one year.

**Foreign Exchange Forward Contracts and Currency Options (as of March 31, 2008)**

|                           | Yen<br>Average<br>contractual<br>exchange rate | Millions of Yen     |               | Thousands of<br>Dollars |               |
|---------------------------|--|---------------------|---------------|-------------------------|---------------|
|                           |  | Contract<br>Amounts | Fair<br>Value | Contract<br>Amounts     | Fair<br>Value |
| Sell U.S. Dollar, Buy Yen | 103.02   | ¥ 28,124            | ¥ 866         | \$ 281,240              | \$ 8,660      |
| Sell Euro, Buy Yen        | 156.98   | 13,500              | (14)          | 135,000                 | (140)         |
| Others                    |  | 953                 | 43            | 9,530                   | 430           |

**Interest Rate Risks**

The Company is exposed to interest rate risks mainly inherent in its finance receivables and debt obligations. The Company has finance receivables with fixed rates and long-term debt with both fixed and variable rates. The Company uses interest rate swap agreements to enable the Company to choose between fixed and variable interest rates depending on how the funds are used as well as diversifying funding methods and lowering funding costs.

The following tables provide information about the Company's financial instruments that are sensitive to changes in interest rates at March 31, 2008. For finance receivables and long-term debt, these tables present annual maturities and fair value. For interest rate swap contracts, the table presents weighed average rate and notional amount by expected maturity dates.

**Finance Receivables excluding finance leases (as of March 31, 2008)**

|                 | Rates | Millions of Yen |          |          |          |          |                        |           | Total     | Fair value |
|-----------------|-------|-----------------|----------|----------|----------|----------|------------------------|-----------|-----------|------------|
|                 |       | 2009            | 2010     | 2011     | 2012     | 2013     | 2014 and<br>thereafter |           |           |            |
| U.S. dollar     | 3.18% | ¥ 89,941        | ¥ 68,467 | ¥ 37,474 | ¥ 23,655 | ¥ 10,716 | ¥ 3,150                | ¥ 233,403 | ¥ 228,902 |            |
| Canadian dollar | 5.05  | 14,686          | 10,775   | 7,580    | 4,480    | 2,186    | 661                    | 40,368    | 39,219    |            |

|                 | Thousands of U.S. Dollars |            |            |            |            |                        |              | Total        | Fair value |
|-----------------|---------------------------|------------|------------|------------|------------|------------------------|--------------|--------------|------------|
|                 | 2009                      | 2010       | 2011       | 2012       | 2013       | 2014 and<br>thereafter |              |              |            |
| U.S. dollar     | \$ 899,410                | \$ 684,670 | \$ 374,740 | \$ 236,550 | \$ 107,160 | \$ 31,500              | \$ 2,334,030 | \$ 2,289,020 |            |
| Canadian dollar | 146,860                   | 107,750    | 75,800     | 44,800     | 21,860     | 6,610                  | 403,680      | 392,190      |            |





**Table of Contents**Long-term trade accounts receivable (as of March 31, 2008)

|              | Rates | Millions of Yen |          |         |         |         |         | 2014 and thereafter | Total    | Fair value |
|--------------|-------|-----------------|----------|---------|---------|---------|---------|---------------------|----------|------------|
|              |       | 2009            | 2010     | 2011    | 2012    | 2013    |         |                     |          |            |
| Japanese yen | 0.76% | ¥ 23,127        | ¥ 10,823 | ¥ 7,309 | ¥ 4,564 | ¥ 2,358 | ¥ 1,283 | ¥ 49,464            | ¥ 52,154 |            |

|              | Thousands of U.S. Dollars |            |           |           |           |           | 2014 and thereafter | Total      | Fair value |
|--------------|---------------------------|------------|-----------|-----------|-----------|-----------|---------------------|------------|------------|
|              | 2009                      | 2010       | 2011      | 2012      | 2013      |           |                     |            |            |
| Japanese yen | \$ 231,270                | \$ 108,230 | \$ 73,090 | \$ 45,640 | \$ 23,580 | \$ 12,830 | \$ 494,640          | \$ 521,540 |            |

Long-term debt excluding capital lease obligations (as of March 31, 2008)

|              | Weighted Average Interest rates | Millions of Yen |          |          |         |          |          | 2014 and thereafter | Total     | Fair value |
|--------------|---------------------------------|-----------------|----------|----------|---------|----------|----------|---------------------|-----------|------------|
|              |                                 | 2009            | 2010     | 2011     | 2012    | 2013     |          |                     |           |            |
| Japanese yen | 2.39%                           | ¥ 20,316        | ¥ 20,225 | ¥ 14,905 | ¥ 681   | ¥ 26,409 | ¥ 10,989 | ¥ 93,525            | ¥ 93,355  |            |
| U.S. dollar  | 5.30                            | 36,896          | 34,056   | 54,391   | 2,701   | 464      |          | 128,508             | 127,818   |            |
| Others       | 5.02                            | 5,280           | 9,803    | 2,906    | 2,155   | 938      | 335      | 21,417              | 21,038    |            |
|              |                                 | ¥ 62,492        | ¥ 64,084 | ¥ 72,202 | ¥ 5,537 | ¥ 27,811 | ¥ 11,324 | ¥ 243,450           | ¥ 242,211 |            |

|              | Thousands of U.S. Dollars |            |            |           |            |            | 2014 and thereafter | Total        | Fair value |
|--------------|---------------------------|------------|------------|-----------|------------|------------|---------------------|--------------|------------|
|              | 2009                      | 2010       | 2011       | 2012      | 2013       |            |                     |              |            |
| Japanese yen | \$ 203,160                | \$ 202,250 | \$ 149,050 | \$ 6,810  | \$ 264,090 | \$ 109,890 | \$ 935,250          | \$ 933,550   |            |
| U.S. dollar  | 368,960                   | 340,560    | 543,910    | 27,010    | 4,640      |            | 1,285,080           | 1,278,180    |            |
| Others       | 52,800                    | 98,030     | 29,060     | 21,550    | 9,380      | 3,350      | 214,170             | 210,380      |            |
|              | \$ 624,920                | \$ 640,840 | \$ 722,020 | \$ 55,370 | \$ 278,110 | \$ 113,240 | \$ 2,434,500        | \$ 2,422,110 |            |

Interest Rate Swap Contracts (as of March 31, 2008)

|                                | Millions of Yen, except rates |          |          |         |       |       | 2014 and thereafter | Total     | Fair value |
|--------------------------------|-------------------------------|----------|----------|---------|-------|-------|---------------------|-----------|------------|
|                                | 2009                          | 2010     | 2011     | 2012    | 2013  |       |                     |           |            |
| Notional amounts (Yen)         | ¥ 8,500                       | ¥ 4,000  | ¥ 2,000  |         |       |       | ¥ 14,500            | ¥ 11      |            |
| Average pay rate               | 0.83%                         | 0.86%    | 1.31%    |         |       |       | 0.90%               |           |            |
| Average receive rate           | 1.10%                         | 1.06%    | 1.11%    |         |       |       | 1.09%               |           |            |
| Notional amounts (U.S. dollar) | ¥ 41,040                      | ¥ 34,200 | ¥ 22,800 |         |       |       | ¥ 98,040            | ¥ (1,116) |            |
| Average pay rate               | 5.11%                         | 5.17%    | 5.14%    |         |       |       | 5.14%               |           |            |
| Average receive rate           | 4.54%                         | 4.66%    | 4.90%    |         |       |       | 4.67%               |           |            |
| Notional amounts (Can\$)       | ¥ 12,180                      | ¥ 11,020 | ¥ 5,452  | ¥ 2,320 | ¥ 696 | ¥ 116 | ¥ 31,784            | ¥ (47)    |            |
| Average pay rate               | 4.25%                         | 4.31%    | 4.39%    | 4.47%   | 4.49% | 4.49% | 4.30%               |           |            |
| Average receive rate           | 4.58%                         | 4.58%    | 4.58%    | 4.58%   | 4.58% | 4.58% | 4.56%               |           |            |

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Thousands of U.S. Dollars

|                                | 2009      | 2010      | 2011      | 2012   | 2013  | 2014<br>and<br>thereafter | Total      | Fair value |
|--------------------------------|-----------|-----------|-----------|--------|-------|---------------------------|------------|------------|
| Notional amounts (Yen)         | \$ 85,000 | \$ 40,000 | \$ 20,000 |        |       |                           | \$ 145,000 | \$ 110     |
| Notional amounts (U.S. dollar) | 410,400   | 342,000   | 228,000   |        |       |                           | 980,400    | (11,160)   |
| Notional amounts (Can\$)       | 121,800   | 110,200   | 54,520    | 23,200 | 6,960 | 1,160                     | 317,840    | (470)      |

**Table of Contents****Equity Price Risk**

The Company holds available-for-sale securities included in investments. These securities are exposed to changes in equity price risks arising from changes in market prices for such securities. The Company does not hold marketable securities for trading purposes. The cost, fair value and unrealized holding gains and losses on marketable equity securities at March 31, 2008 were as follows:

|   | Millions of Yen |            |   |  | Thousands of U.S. Dollars |              |   |  |
|---|-----------------|------------|---|--|---------------------------|--------------|---|--|
|   | Cost            | Fair Value | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses | Cost                      | Fair Value   | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses |
| Available-for-sale:                         |                 |            |   |  |                           |              |   |  |
| Equity securities of financial institutions | ¥ 30,813        | ¥ 73,257   | ¥ 42,464                                | ¥ 20                                     | \$ 308,130                | \$ 732,570   | \$ 424,640                              | \$ 200                                   |
| Other equity securities                     | 20,305          | 61,793     | 42,892                                  | 1,404                                    | 203,050                   | 617,930      | 428,920                                 | 14,040                                   |
|   | ¥ 51,118        | ¥ 135,050  | ¥ 85,356                                | ¥ 1,424                                  | \$ 511,180                | \$ 1,350,500 | \$ 853,560                              | \$ 14,240                                |

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

The Company's management, with the participation of its chief executive and chief financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2008. Based on that evaluation, the Company's chief executive and chief financial officers concluded that the disclosure controls and procedures were effective as of that date.

**Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, for the Company. Management evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2008.

The Company's independent registered public accounting firm, Deloitte Touche Tohmatsu, has issued an audit report on the Company's internal control over financial reporting. Their report appears on page F-5 of the attached Consolidated Financial Statements.

**Changes in Internal Control over Financial Reporting**

No change in the Company's internal control over financial reporting occurred during the fiscal year ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

The Company's Board of Corporate Auditors has determined that Yoshio Suekawa qualifies as an audit committee financial expert as defined by the rules of the SEC. He is a certified public accountant in Japan. He started his career at Lowe Bingham and Luckie (subsequently, PricewaterhouseCoopers, Osaka) in 1959. Since then he has worked in several major accounting firms including Deloitte Touche Tohmatsu as a public accountant for more than 40 years. From 1974 to 1976 he worked at Price Waterhouse in Los Angeles. Currently he maintains Suekawa CPA Office. He was elected as one of the Company's Corporate Auditors at the ordinary general meeting of shareholders held on June 25, 2004, and reelected at the ordinary general meeting of shareholders held on June 20, 2008. See Item 6.A. for information regarding his business experience. He meets the independence requirements imposed on corporate auditors under the Corporate Law of Japan.

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**Item 16B. Code of Ethics**

The Board of Directors of the Company adopted a Code of Ethics in April, 2004, which is applicable to its Chief Executive Officer, Chief Financial Officer, General Manager of Finance & Accounting Department. This Code requires the relevant Officers to act honestly and candidly, including the ethical handling of conflict of interest, and to comply with all applicable laws, accounting standards, rules and regulations of self-regulatory organization, and policies and internal regulation of the Company. The Code also requires the relevant Officers to conduct full, fair, accurate, timely and understandable disclosure in reports and documents which are filed with or submitted to the SEC, and in other communications with the public and prompt internal reporting of violations of this Code.

**Table of Contents****Item 16C. Principal Accountant Fees and Services****Fees and Services of Principal Accountant**

The following table discloses the aggregate fees accrued or paid to principal accountant and associated entities for each of the last 2 fiscal years:

|                    | Millions of yen |              |
|--------------------|-----------------|--------------|
|                    | 2007            | 2008         |
| Audit Fees         | ¥ 639           | ¥ 593        |
| Audit-Related Fees | 12              | 17           |
| Tax Fees           | 174             | 112          |
| All Other Fees     | 8               | 69           |
| <b>Total</b>       | <b>¥ 833</b>    | <b>¥ 791</b> |

Audit Fees include fees charged for professional services rendered for audits of the Company's semi-annual and annual consolidated financial statements, statutory audits of the Company and its subsidiaries.

Audit-Related Fees include fees charged for assurance and related services such as internal control reviews, and consultations concerning financial accounting and reporting standards.

Tax Fees include fees charged for services related to tax compliance, including the preparation of tax returns and claims for refund, tax planning and tax advice, including assistance with tax audits and appeals, tax services for employee benefit plans and assistance with respect to requests for rulings from tax authorities.

All Other Fees include fees charged for services rendered with respect to consultation relating to improvements in the Company's internal controls.

**Policies for Pre-Approval of Audit and Non-Audit Services rendered by Independent Registered Public Accounting Firm**

The Board of Corporate Auditors of the Company consists of 5 auditors, including 3 outside corporate auditors. The Board has adopted Pre-Approval Policies and Procedures for Audit and Non-Audit Services (the Policies) for the purpose of supervising the services of its Independent Registered Public Accounting Firm. The Policies govern external auditors to render audit or non-audit services to the Company. The Policies classify audit and non-audit services into 3 categories depending on the nature of services and regulate them differently.

The first category includes the following services and they are pre-approved comprehensively.

All services necessary to perform audit or review of the Company and any subsidiaries to comply with the rules of the SEC, Corporate Law of Japan, Financial Instruments and Exchange Law of Japan, rules and regulation of Stock Exchanges in Japan and any other rules and regulation, and related consultation of accounting procedures and voluntary audit and examination of subsidiaries.

Audit-related services, such as due diligence related to merger & acquisition activity, audit of employee benefit plans including audit of pension fund and audit or review of information systems related to accounting.

Services and consultation related to the preparation of tax returns.

Other services, such as training of employees regarding accounting practices.

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The second category includes non-audit services which are restricted by the Sarbanes-Oxley act and the rules of SEC to be rendered by the same public accountants which renders audit services to the Company. The Policies prohibits such services to be rendered.

The third category includes additional services other than the above which may be pre-approved by the Board on an individual basis.

No services were provided for which pre-approval was waived pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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**Item 16D. Exemptions from the Listing Standards for Audit Committees**

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to the Company through Section 303A.06 of the New York Stock Exchange's Listed Company Manual, the Company relies on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with boards of corporate auditors meeting certain requirements. For a New York Stock Exchange-listed Japanese company with a board of corporate auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

1. The board of corporate auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with corporate auditors.
2. Japanese law must and does require the board of corporate auditors to be separate from the board of directors.
3. None of the members of the board of corporate auditors is elected by management, and none of the listed company's executive officers is a member of the board of corporate auditors.
4. Japanese law must and does set forth standards for the independence of the members of the board of corporate auditors from the listed company or its management.
5. The board of corporate auditors, in accordance with Japanese law or the listed company's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its principal accountant which audits its consolidated financial statements included in its annual reports on Form 20-F.
6. To the extent permitted by Japanese law:

the board of corporate auditors must establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by its employees of concerns regarding questionable accounting or auditing matters;

the board of corporate auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

the listed company must provide for appropriate funding, as determined by its board of corporate auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (ii) compensation to any advisers employed by the board of corporate auditors, and (iii) ordinary administrative expenses of the board of corporate auditors that are necessary or appropriate in carrying out its duties.

In the Company's assessment, the Company's Board of Corporate Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by that Rule) at acting independently of management and performing the functions of an audit committee as contemplated therein.





**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth the Company's purchases of its common stock during fiscal 2008:

| Period                                 | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share (Yen) | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|--------------------------------------|--|--|--|
| April 1, 2007 - April 30, 2007         | 9,443                                | 1,033.59                               | 0  | 0  |
| May 1, 2007 - May 31, 2007             | 7,582                                | 1,032.03                               | 0  | 0  |
| June 1, 2007 - June 30, 2007           | 11,358                               | 1,019.40                               | 0  | 10,000,000   |
| July 1, 2007 - July 31, 2007           | 34,865                               | 1,030.21                               | 0  | 10,000,000   |
| August 1, 2007 - August 31, 2007       | 16,959                               | 974.06                                 | 0  | 10,000,000   |
| September 1, 2007 - September 30, 2007 | 2,911,852                            | 839.18                                 | 2,900,000  | 0  |
| October 1, 2007 - October 31, 2007     | 10,097                               | 930.70                                 | 0  | 10,000,000   |
| November 1, 2007 - November 30, 2007   | 7,398                                | 913.17                                 | 0  | 10,000,000   |
| December 1, 2007 - December 31, 2007   | 3,011,531                            | 833.75                                 | 3,000,000  | 10,000,000   |
| January 1, 2008 - January 31, 2008     | 3,633                                | 670.65                                 | 0  | 10,000,000   |
| February 1, 2008 - February 28, 2008   | 5,230                                | 725.25                                 | 0  | 10,000,000   |
| March 1, 2008 - March 31, 2008         | 4,899,040                            | 600.03                                 | 4,894,000  | 10,000,000   |
| <b>Total</b>                           | <b>10,928,988</b>                    |  | <b>10,794,000</b>  |  |

Note: 1) All purchases other than purchases publicly announced were made as a result of holders of shares less than one unit, which is 1,000 shares of common stock, requesting the Company to purchase shares that are a fraction of a unit in accordance with the Corporate law.

Note: 2) In fiscal 2008, the Company established 4 programs of purchasing its shares on market. The Company executed the programs pursuant to Article 165, Paragraph 2 of the Corporate Law and its Articles of Incorporation. None of these programs was terminated prior to expiration. Details of each program are as follows:

(1) The program resolved at the Board of Directors Meeting held on June 22, 2007

- i) Date of announcement: June 22, 2007
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥11.0 billion
- v) Period: From June 25, 2007 to September 27, 2007

(2) The program resolved at the Board of Directors Meeting held on September 28, 2007

- i) Date of announcement: September 28, 2007
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥10.0 billion
- v) Period: From October 1, 2007 to December 17, 2007

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(3) The program resolved at the Board of Directors Meeting held on December 18, 2007

- i) Date of announcement: December 18, 2007
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥10.0 billion
- v) Period: From December 19, 2007 to March 24, 2008

(4) The program resolved at the Board of Directors Meeting held on March 25, 2008

- i) Date of announcement: March 25, 2008
- ii) Type of shares to be repurchased: Shares of common stock of the Company
- iii) Number of shares to be repurchased: Not exceeding 10.0 million shares
- iv) Amount of shares to be repurchased: Not exceeding ¥8.0 billion
- v) Period: From March 26, 2008 to June 19, 2008

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**PART III**

**Item 17. Financial Statements**

See Consolidated Financial Statements attached hereto.

**Item 18. Financial Statements**

Not applicable.

**Item 19. Exhibits**

Documents filed as exhibits to this annual report are as follows:

- 1.1 Articles of Incorporation of the Registrant (English translation)
  
- 1.2 Share Handling Regulations of the Registrant (English translation)
  
- 2.1 Form of Amended and Restated Deposit Agreement among the Registrant, JPMorgan Chase Bank as Depositary and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to the Registration Statement on Form F-6 (File No. 333-91654) filed on June 26, 2002)
  
- 8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C. of this Form 20-F)
  
- 11.1 Code of Ethics for Senior Financial Officers of the Registrant (English translation)
  
- 12.1 Certification of the principal executive officer of the Company required by Rule 13a-14(a)
  
- 12.2 Certification of the principal financial officer of the Company required by Rule 13a-14(a)
  
- 13.1 Certification required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code  
(Note) The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KUBOTA CORPORATION

Date: September 12, 2008

By /s/ Hirokazu Nara  
Hirokazu Nara  
Managing Director

(Principal Financial and Accounting Officer)

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**Attachment**

Kubota Corporation

Index to Consolidated Financial Statements

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**Table of Contents****Five-Year Financial Summary**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007, 2006, 2005, and 2004

|  | Millions of Yen<br>(Except Per Share Information) |             |             |             |             | Thousands of<br>U.S. Dollars<br>(Except Per Share<br>Information)<br>(Note 1) |
|--|---|-------------|-------------|-------------|-------------|---|
|  | 2008  | 2007        | 2006        | 2005        | 2004        | 2008  |
| <b>For the year</b>  |   |             |             |             |             |   |
| Revenues   | ¥ 1,154,574                                       | ¥ 1,127,456 | ¥ 1,065,736 | ¥ 994,483   | ¥ 939,234   | \$ 11,545,740   |
| Ratio to previous year   | 102.4%  | 105.8%      | 107.2%      | 105.9%      | 100.5%      |   |
| Cost of revenues   | 824,093   | 794,687     | 753,952     | 716,495     | 703,938     | 8,240,930   |
| Selling, general, and administrative expenses                                    | 192,935   | 199,356     | 186,017     | 182,498     | 199,062     | 1,929,350   |
| Loss from disposal and impairment of<br>businesses and fixed assets              | 671   | 3,066       | 4,709       | 1,414       | 6,359       | 6,710   |
| Operating income   | 136,875   | 130,347     | 121,058     | 94,076      | 29,875      | 1,368,750   |
| Income from continuing operations  | 67,837  | 77,743      | 81,149      | 107,132     | 12,848      | 678,370   |
| Income (loss) from discontinued operations,<br>net of taxes                      | 189   | (1,286)     | (115)       | 10,769      | (1,148)     | 1,890   |
| Net income:  | 68,026  | 76,457      | 81,034      | 117,901     | 11,700      | 680,260   |
| Ratio to previous year   | 89.0%   | 94.4%       | 68.7%       | 1,007.7%    |             |   |
| Ratio to revenues  | 5.9%  | 6.8%        | 7.6%        | 11.9%       | 1.2%        |   |
| <b>At year-end</b>   |   |             |             |             |             |   |
| Total assets   | ¥ 1,464,270                                       | ¥ 1,502,532 | ¥ 1,405,402 | ¥ 1,193,056 | ¥ 1,124,225 | \$ 14,642,700   |
| Working capital  | 303,177   | 240,417     | 241,786     | 171,326     | 199,747     | 3,031,770   |
| Long-term debt   | 183,945   | 150,105     | 152,024     | 117,488     | 144,845     | 1,839,450   |
| Total shareholders' equity   | 648,097   | 659,637     | 606,484     | 481,019     | 391,082     | 6,480,970   |
| <b>Per common share and per 5 common shares data<br/>(Yen and U.S. Dollars):</b> |   |             |             |             |             |   |
| Income from continuing operations per<br>common share:                           |   |             |             |             |             |   |
| Basic  | ¥ 52.65   | ¥ 60.00     | ¥ 62.23     | ¥ 80.97     | ¥ 9.57      | \$ 0.53   |
| Diluted  | 52.65   | 60.00       | 61.76       | 78.91       | 9.34        | 0.53  |
| Income from continuing operations per 5<br>common shares:                        |   |             |             |             |             |   |
| Basic  | ¥ 263.27  | ¥ 299.99    | ¥ 311.13    | ¥ 404.86    | ¥ 47.86     | \$ 2.63   |
| Diluted  | 263.27  | 299.99      | 308.57      | 394.55      | 46.70       | 2.63  |
| Net income per common share:   |   |             |             |             |             |   |
| Basic  | ¥ 52.80   | ¥ 59.01     | ¥ 62.14     | ¥ 89.11     | ¥ 8.72      | \$ 0.53   |
| Diluted  | 52.80   | 59.01       | 61.67       | 86.83       | 8.53        | 0.53  |
| Net income per 5 common shares:  |   |             |             |             |             |   |
| Basic  | ¥ 264.01  | ¥ 295.03    | ¥ 310.69    | ¥ 445.56    | ¥ 43.58     | \$ 2.64   |
| Diluted  | 264.01  | 295.03      | 308.34      | 434.16      | 42.64       | 2.64  |
| Shareholders' equity per common share<br>outstanding                             | ¥ 506.09  | ¥ 510.75    | ¥ 466.71    | ¥ 369.90    | ¥ 291.81    | \$ 5.06   |
| Shareholders' equity per 5 common shares<br>outstanding                          | ¥ 2,530.44  | ¥ 2,553.74  | ¥ 2,333.55  | ¥ 1,849.49  | ¥ 1,459.05  | \$ 25.30  |
| Cash dividends per common share  | ¥ 13  | ¥ 11        | ¥ 9         | ¥ 6         | ¥ 6         | \$ 0.13   |
| Cash dividends per 5 common shares   | ¥ 65  | ¥ 55        | ¥ 45        | ¥ 30        | ¥ 30        | \$ 0.65   |

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥100=US\$1. See Note 1 to the consolidated financial statements.

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The Company has not accounted for a nonmonetary security exchange transaction that occurred during the year ended March 31, 1997 in accordance with accounting principles generally accepted in the United States of America. See Note 1 to the consolidated financial statements.

3. Per share amounts have been calculated per common share and per 5 common shares since each American Depository Share represents 5 shares of common stock.
4. Cash dividends per common share are based on dividends paid during the year.
5. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the figures of the consolidated statements of income for the prior years related to the discontinued operations have been separately reported from the ongoing operating results to conform with the current year presentation. See Note 19 to the consolidated financial statements.

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**Table of Contents****SEGMENT INFORMATION**

The following segment information for the years ended March 31, 2008 and 2007, which is required under the regulations of the Financial Instruments and Exchange Act of Japan, is not consistent with accounting principles generally accepted in the United States of America.

***Industry Segments***

| Year Ended March 31, 2008               | Millions of Yen                                 |   |                              |          |             |                                |              |
|---|---|---|------------------------------|----------|-------------|--------------------------------|--------------|
|   | Internal<br>Combustion<br>Engine &<br>Machinery | Pipes,<br>Valves, &<br>Industrial<br>Castings | Environmental<br>Engineering | Other    | Total       | Corporate<br>&<br>Eliminations | Consolidated |
| Revenues:                               |   |   |                              |          |             |                                |              |
| Unaffiliated customers                  | ¥ 793,654                                       | ¥ 201,599                                     | ¥ 70,878                     | ¥ 88,443 | ¥ 1,154,574 | ¥                              | ¥ 1,154,574  |
| Intersegment                            | 16  | 485   | 97                           | 15,551   | 16,149      | (16,149)                       |              |
| Total                                   | 793,670   | 202,084                                       | 70,975                       | 103,994  | 1,170,723   | (16,149)                       | 1,154,574    |
| Cost of revenues and operating expenses | 660,709   | 186,849                                       | 75,997                       | 95,427   | 1,018,982   | (1,283)                        | 1,017,699    |
| Operating income (loss)                 | ¥ 132,961                                       | ¥ 15,235                                      | ¥ (5,022)                    | ¥ 8,567  | ¥ 151,741   | ¥ (14,866)                     | ¥ 136,875    |
| Identifiable assets at March 31, 2008   | ¥ 932,231                                       | ¥ 192,433                                     | ¥ 59,149                     | ¥ 79,796 | ¥ 1,263,609 | ¥ 200,661                      | ¥ 1,464,270  |
| Depreciation                            | 19,791  | 6,341   | 547                          | 1,347    | 28,026      | 2,093                          | 30,119       |
| Loss from impairment                    | 8   | 114   |                              |          | 122         | 15                             | 137          |
| Capital expenditures                    | 26,798  | 5,251   | 591                          | 1,794    | 34,434      | 729                            | 35,163       |

| Year Ended March 31, 2007               | Millions of Yen                                 |   |                              |          |             |                                |              |
|---|---|---|------------------------------|----------|-------------|--------------------------------|--------------|
|   | Internal<br>Combustion<br>Engine &<br>Machinery | Pipes,<br>Valves, &<br>Industrial<br>Castings | Environmental<br>Engineering | Other    | Total       | Corporate<br>&<br>Eliminations | Consolidated |
| Revenues:                               |   |   |                              |          |             |                                |              |
| Unaffiliated customers                  | ¥ 746,808                                       | ¥ 194,224                                     | ¥ 90,613                     | ¥ 95,811 | ¥ 1,127,456 | ¥                              | ¥ 1,127,456  |
| Intersegment                            | 22  | 768   | 340                          | 16,893   | 18,023      | (18,023)                       |              |
| Total                                   | 746,830   | 194,992                                       | 90,953                       | 112,704  | 1,145,479   | (18,023)                       | 1,127,456    |
| Cost of revenues and operating expenses | 621,926   | 172,985                                       | 96,568                       | 105,577  | 997,056     | 53                             | 997,109      |
| Operating income (loss)                 | ¥ 124,904                                       | ¥ 22,007                                      | ¥ (5,615)                    | ¥ 7,127  | ¥ 148,423   | ¥ (18,076)                     | ¥ 130,347    |
| Identifiable assets at March 31, 2007   | ¥ 862,298                                       | ¥ 197,555                                     | ¥ 68,742                     | ¥ 97,192 | ¥ 1,225,787 | ¥ 276,745                      | ¥ 1,502,532  |
| Depreciation                            | 16,241  | 4,776   | 590                          | 1,305    | 22,912      | 2,182                          | 25,094       |
| Loss from impairment                    | 12  |   | 138                          |          | 150         | 298                            | 448          |
| Capital expenditures                    | 30,308  | 4,549   | 647                          | 1,830    | 37,334      | 7,381                          | 44,715       |

**Year Ended March 31, 2008**

|  | Thousands of U.S. Dollars |                     |                              |       |       |                                |              |
|--|---------------------------|---------------------|------------------------------|-------|-------|--------------------------------|--------------|
|  | Internal<br>Combustion    | Pipes,<br>Valves, & | Environmental<br>Engineering | Other | Total | Corporate<br>&<br>Eliminations | Consolidated |

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|   | Engine &<br>Machinery | Industrial<br>Castings |             |            |               |              |  |               |
|---|-----------------------|------------------------|-------------|------------|---------------|--------------|--|---------------|
| Revenues:                               |                       |                        |             |            |               |              |  |               |
| Unaffiliated customers                  | \$ 7,936,540          | \$ 2,015,990           | \$ 708,780  | \$ 884,430 | \$ 11,545,740 | \$           |  | \$ 11,545,740 |
| Intersegment                            | 160                   | 4,850                  | 970         | 155,510    | 161,490       | (161,490)    |  |               |
| Total                                   | 7,936,700             | 2,020,840              | 709,750     | 1,039,940  | 11,707,230    | (161,490)    |  | 11,545,740    |
| Cost of revenues and operating expenses | 6,607,090             | 1,868,490              | 759,970     | 954,270    | 10,189,820    | (12,830)     |  | 10,176,990    |
| Operating income (loss)                 | \$ 1,329,610          | \$ 152,350             | \$ (50,220) | \$ 85,670  | \$ 1,517,410  | \$ (148,660) |  | \$ 1,368,750  |
| Identifiable assets at March 31, 2008   | \$ 9,322,310          | \$ 1,924,330           | \$ 591,490  | \$ 797,960 | \$ 12,636,090 | \$ 2,006,610 |  | \$ 14,642,700 |
| Depreciation                            | 197,910               | 63,410                 | 5,470       | 13,470     | 280,260       | 20,930       |  | 301,190       |
| Loss from impairment                    | 80                    | 1,140                  |             |            | 1,220         | 150          |  | 1,370         |
| Capital expenditures                    | 267,980               | 52,510                 | 5,910       | 17,940     | 344,340       | 7,290        |  | 351,630       |

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**Table of Contents****Geographic Segments**

| Year Ended March 31, 2008               | Millions of Yen |                |                |               |                  |                  | Corporate & Eliminations | Consolidated |
|---|-----------------|----------------|----------------|---------------|------------------|------------------|--------------------------|--------------|
|   | Japan           | North America  | Europe         | Other Areas   | Total            |                  |                          |              |
| <b>Revenues:</b>                        |                 |                |                |               |                  |                  |                          |              |
| Unaffiliated customers                  | ¥ 607,377       | ¥ 332,042      | ¥ 121,114      | ¥ 94,041      | ¥ 1,154,574      | ¥                | ¥ 1,154,574              |              |
| Intersegment                            | 292,371         | 9,160          | 4,142          | 1,623         | 307,296          | (307,296)        |                          |              |
| <b>Total</b>                            | <b>899,748</b>  | <b>341,202</b> | <b>125,256</b> | <b>95,664</b> | <b>1,461,870</b> | <b>(307,296)</b> | <b>1,154,574</b>         |              |
| Cost of revenues and operating expenses | 806,786         | 305,194        | 114,224        | 84,252        | 1,310,456        | (292,757)        | 1,017,699                |              |
| Operating income                        | ¥ 92,962        | ¥ 36,008       | ¥ 11,032       | ¥ 11,412      | ¥ 151,414        | ¥ (14,539)       | ¥ 136,875                |              |
| Identifiable assets at March 31, 2008   | ¥ 716,207       | ¥ 487,654      | ¥ 82,992       | ¥ 100,196     | ¥ 1,387,049      | ¥ 77,221         | ¥ 1,464,270              |              |

| Year Ended March 31, 2007               | Millions of Yen |                |               |               |                  |                  | Corporate & Eliminations | Consolidated |
|---|-----------------|----------------|---------------|---------------|------------------|------------------|--------------------------|--------------|
|   | Japan           | North America  | Europe        | Other Areas   | Total            |                  |                          |              |
| <b>Revenues:</b>                        |                 |                |               |               |                  |                  |                          |              |
| Unaffiliated customers                  | ¥ 637,881       | ¥ 325,188      | ¥ 93,603      | ¥ 70,784      | ¥ 1,127,456      | ¥                | ¥ 1,127,456              |              |
| Intersegment                            | 270,392         | 7,392          | 4,570         | 1,273         | 283,627          | (283,627)        |                          |              |
| <b>Total</b>                            | <b>908,273</b>  | <b>332,580</b> | <b>98,173</b> | <b>72,057</b> | <b>1,411,083</b> | <b>(283,627)</b> | <b>1,127,456</b>         |              |
| Cost of revenues and operating expenses | 810,520         | 297,951        | 89,557        | 62,636        | 1,260,664        | (263,555)        | 997,109                  |              |
| Operating income                        | ¥ 97,753        | ¥ 34,629       | ¥ 8,616       | ¥ 9,421       | ¥ 150,419        | ¥ (20,072)       | ¥ 130,347                |              |
| Identifiable assets at March 31, 2007   | ¥ 745,943       | ¥ 452,994      | ¥ 68,868      | ¥ 62,544      | ¥ 1,330,349      | ¥ 172,183        | ¥ 1,502,532              |              |

| Year Ended March 31, 2008               | Thousands of U.S. Dollars |                  |                  |                |                   |                    | Corporate & Eliminations | Consolidated |
|---|---------------------------|------------------|------------------|----------------|-------------------|--------------------|--------------------------|--------------|
|   | Japan                     | North America    | Europe           | Other Areas    | Total             |                    |                          |              |
| <b>Revenues:</b>                        |                           |                  |                  |                |                   |                    |                          |              |
| Unaffiliated customers                  | \$ 6,073,770              | \$ 3,320,420     | \$ 1,211,140     | \$ 940,410     | \$ 11,545,740     | \$                 | \$ 11,545,740            |              |
| Intersegment                            | 2,923,710                 | 91,600           | 41,420           | 16,230         | 3,072,960         | (3,072,960)        |                          |              |
| <b>Total</b>                            | <b>8,997,480</b>          | <b>3,412,020</b> | <b>1,252,560</b> | <b>956,640</b> | <b>14,618,700</b> | <b>(3,072,960)</b> | <b>11,545,740</b>        |              |
| Cost of revenues and operating expenses | 8,067,860                 | 3,051,940        | 1,142,240        | 842,520        | 13,104,560        | (2,927,570)        | 10,176,990               |              |
| Operating income                        | \$ 929,620                | \$ 360,080       | \$ 110,320       | \$ 114,120     | \$ 1,514,140      | \$ (145,390)       | \$ 1,368,750             |              |
| Identifiable assets at March 31, 2008   | \$ 7,162,070              | \$ 4,876,540     | \$ 829,920       | \$ 1,001,960   | \$ 13,870,490     | \$ 772,210         | \$ 14,642,700            |              |

The segment previously classified as Other Areas was separately reported into Europe and Other Areas for the fiscal year ended March 31, 2008. Figures for the year ended March 31, 2007 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2008.

**Revenues by Region**

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| Year Ended March 31, 2008 and 2007 | Millions of Yen |        |             |        | Thousands of  |
|------------------------------------|-----------------|--------|-------------|--------|---------------|
|                                    | 2008            |        | 2007        |        | U.S. Dollars  |
| Japan                              | ¥ 572,236       | 49.6%  | ¥ 603,502   | 53.5%  | \$ 5,722,360  |
| Overseas:                          |                 |        |             |        |               |
| North America                      | 329,495         | 28.5   | 323,092     | 28.7   | 3,294,950     |
| Europe                             | 125,388         | 10.9   | 97,151      | 8.6    | 1,253,880     |
| Other Areas                        | 127,455         | 11.0   | 103,711     | 9.2    | 1,274,550     |
| Subtotal                           | 582,338         | 50.4   | 523,954     | 46.5   | 5,823,380     |
| Total                              | ¥ 1,154,574     | 100.0% | ¥ 1,127,456 | 100.0% | \$ 11,545,740 |

- Notes: 1. Revenues by region represent revenues to unaffiliated customers based on the customers' locations.
2. The segment previously classified as Other Areas was separately reported into Europe and Other Areas for the fiscal year ended March 31, 2008. Figures for the year ended March 31, 2007 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2008.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited the accompanying consolidated balance sheets of Kubota Corporation and subsidiaries (the Company) as of March 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information has not been presented in the accompanying consolidated financial statements. In our opinion, presentation concerning operating segments and other information is required for a complete presentation of the Company's consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, the Company has not accounted for a nonmonetary security exchange transaction that occurred during the year ended March 31, 1997 in accordance with accounting principles generally accepted in the United States of America. In our opinion, the recognition of the nonmonetary exchange gain, and the related impact in subsequent periods, is required by accounting principles generally accepted in the United States of America. If such nonmonetary security exchange had been accounted for in accordance with accounting principles generally accepted in the United States of America, retained earnings would have decreased by ¥380 million at March 31, 2007, with a corresponding increase in accumulated other comprehensive income.

In our opinion, except for the effect on the 2007 financial statements of not properly recording a nonmonetary security exchange transaction and except for the effect on the 2008, 2007, and 2006 financial statements of the omission of segment and other information required by SFAS No. 131, as discussed in the preceding paragraphs, such consolidated financial statements present fairly, in all material respects, the financial position of Kubota Corporation and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 20, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

/s/ Deloitte Touche Tohmatsu  
Osaka, Japan  
June 20, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited the internal control over financial reporting of Kubota Corporation and subsidiaries (the Company) as of March 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2008 of the Company and our report dated June 20, 2008 expressed a qualified opinion on those financial statements because of the omission of segment and other information required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information .

/s/ Deloitte Touche Tohmatsu  
Osaka, Japan  
June 20, 2008

**Table of Contents****Consolidated Balance Sheets**

Kubota Corporation and Subsidiaries March 31, 2008 and 2007

|  | Millions of Yen    |                    | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|--------------------|--------------------|--|
|  | 2008               | 2007               | 2008                                     |
| <b>ASSETS</b>  |                    |                    |  |
| <b>Current assets:</b>   |                    |                    |  |
| Cash and cash equivalents  | ¥ 88,784           | ¥ 82,601           | \$ 887,840                               |
| Notes and accounts receivable (Notes 3, 6, 7, 10, 15 and 18):        |                    |                    |  |
| Trade notes  | 70,645             | 82,491             | 706,450                                  |
| Trade accounts   | 209,275            | 235,728            | 2,092,750                                |
| Less: Allowance for doubtful notes and accounts receivable           | (1,983)            | (2,011)            | (19,830)                                 |
| Short-term finance receivables net (Notes 5, 6, 7, 15 and 18)        | 113,409            | 97,798             | 1,134,090                                |
| Inventories (Note 2)   | 206,220            | 205,658            | 2,062,200                                |
| Interest in sold receivables (Note 18)                               | 77,767             | 74,247             | 777,670                                  |
| Other current assets (Notes 6, 7, 11 and 15)                         | 58,521             | 40,588             | 585,210                                  |
| Total current assets   | 822,638            | 817,100            | 8,226,380                                |
| <b>Investments and long-term finance receivables:</b>                |                    |                    |  |
| Investments in and loan receivables to affiliated companies (Note 3) | 13,646             | 13,754             | 136,460                                  |
| Other investments (Note 4)   | 145,322            | 215,130            | 1,453,220                                |
| Long-term finance receivables net (Notes 5, 6, 7, 15 and 18)         | 191,523            | 170,031            | 1,915,230                                |
| Total investments and long-term finance receivables                  | 350,491            | 398,915            | 3,504,910                                |
| <b>Property, plant, and equipment (Notes 7 and 17):</b>              |                    |                    |  |
| Land   | 92,208             | 90,416             | 922,080                                  |
| Buildings  | 211,570            | 208,529            | 2,115,700                                |
| Machinery and equipment  | 372,425            | 362,732            | 3,724,250                                |
| Construction in progress   | 6,225              | 8,216              | 62,250                                   |
| Total  | 682,428            | 669,893            | 6,824,280                                |
| Accumulated depreciation   | (444,355)          | (432,247)          | (4,443,550)                              |
| Net property, plant, and equipment                                   | 238,073            | 237,646            | 2,380,730                                |
| <b>Other assets:</b>   |                    |                    |  |
| Long-term trade accounts receivable (Note 15)                        | 26,605             | 27,701             | 266,050                                  |
| Other (Notes 8, 11 and 17)   | 27,444             | 23,981             | 274,440                                  |
| Less: Allowance for doubtful non-current receivables (Note 6)        | (981)              | (2,811)            | (9,810)                                  |
| Total other assets   | 53,068             | 48,871             | 530,680                                  |
| <b>Total</b>   | <b>¥ 1,464,270</b> | <b>¥ 1,502,532</b> | <b>\$ 14,642,700</b>                     |

See notes to consolidated financial statements.





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|  | Millions of Yen    |                    | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|--------------------|--------------------|--|
|  | 2008               | 2007               | 2008                                     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                    |                    |  |
| <b>Current liabilities:</b>  |                    |                    |  |
| Short-term borrowings (Note 7)   | ¥ 113,087          | ¥ 128,365          | \$ 1,130,870                             |
| Trade notes payable  | 21,232             | 30,487             | 212,320                                  |
| Trade accounts payable   | 191,042            | 206,808            | 1,910,420                                |
| Advances received from customers   | 4,748              | 3,699              | 47,480                                   |
| Notes and accounts payable for capital expenditures  | 15,436             | 20,895             | 154,360                                  |
| Accrued payroll costs  | 27,680             | 28,277             | 276,800                                  |
| Accrued expenses   | 32,608             | 32,498             | 326,080                                  |
| Income taxes payable   | 12,908             | 23,945             | 129,080                                  |
| Other current liabilities (Notes 11, 15 and 17)  | 34,744             | 30,280             | 347,440                                  |
| Current portion of long-term debt (Notes 7 and 17)   | 65,976             | 71,429             | 659,760                                  |
| <b>Total current liabilities</b>   | <b>519,461</b>     | <b>576,683</b>     | <b>5,194,610</b>                         |
| <b>Long-term liabilities:</b>  |                    |                    |  |
| Long-term debt (Notes 7, 15 and 17)  | 183,945            | 150,105            | 1,839,450                                |
| Accrued retirement and pension costs (Note 8)  | 43,790             | 27,306             | 437,900                                  |
| Other long-term liabilities (Note 11)  | 25,747             | 52,732             | 257,470                                  |
| <b>Total long-term liabilities</b>   | <b>253,482</b>     | <b>230,143</b>     | <b>2,534,820</b>                         |
| <b>Commitments and contingencies (Note 17)</b>   |                    |                    |  |
| <b>Minority interests</b>  | <b>43,230</b>      | <b>36,069</b>      | <b>432,300</b>                           |
| <b>Shareholders equity (Notes 9 and 13):</b>   |                    |                    |  |
| Common stock,<br>authorized 1,874,700,000 shares in 2008 and 2007, respectively<br>issued 1,285,919,180 shares and 1,291,919,180 shares in 2008 and 2007, respectively | 84,070             | 84,070             | 840,700                                  |
| Capital surplus  | 93,150             | 93,150             | 931,500                                  |
| Legal reserve  | 19,539             | 19,539             | 195,390                                  |
| Retained earnings (Note 3)   | 423,927            | 376,815            | 4,239,270                                |
| Accumulated other comprehensive income   | 31,177             | 86,247             | 311,770                                  |
| Treasury stock (5,315,673 shares and 406,439 shares in 2008 and 2007, respectively), at cost   | (3,766)            | (184)              | (37,660)                                 |
| <b>Total shareholders equity</b>   | <b>648,097</b>     | <b>659,637</b>     | <b>6,480,970</b>                         |
| <b>Total</b>   | <b>¥ 1,464,270</b> | <b>¥ 1,502,532</b> | <b>\$ 14,642,700</b>                     |

**Table of Contents****Consolidated Statements of Income**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

|  | Millions of Yen    |                    |                    | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|--------------------|--------------------|--------------------|--|
|  | 2008               | 2007               | 2006               | 2008                                     |
| <b>Revenues (Notes 3 and 5)</b>  | <b>¥ 1,154,574</b> | <b>¥ 1,127,456</b> | <b>¥ 1,065,736</b> | <b>\$ 11,545,740</b>                     |
| <b>Cost of revenues (Notes 5 and 16)</b>   | <b>824,093</b>     | <b>794,687</b>     | <b>753,952</b>     | <b>8,240,930</b>                         |
| <b>Selling, general, and administrative expenses (Note 16)</b>   | <b>192,935</b>     | <b>199,356</b>     | <b>186,017</b>     | <b>1,929,350</b>                         |
| <b>Loss from disposal and impairment of businesses and fixed assets (Note 16)</b>  | <b>671</b>         | <b>3,066</b>       | <b>4,709</b>       | <b>6,710</b>                             |
| <b>Operating income</b>  | <b>136,875</b>     | <b>130,347</b>     | <b>121,058</b>     | <b>1,368,750</b>                         |
| <b>Other income (expenses):</b>  |                    |                    |                    |  |
| Interest and dividend income (Note 3)  | 4,472              | 3,283              | 2,807              | 44,720                                   |
| Interest expense   | (986)              | (1,219)            | (1,156)            | (9,860)                                  |
| Gain on sales of securities net (Note 4)   | 704                | 1,313              | 4,703              | 7,040                                    |
| Valuation loss on other investments  | (6,715)            | (524)              | (403)              | (67,150)                                 |
| Gain on nonmonetary exchange of securities (Note 1)  |                    | 997                | 15,901             |  |
| Foreign exchange loss-net  | (9,043)            | (442)              | (1,952)            | (90,430)                                 |
| Other net  | (2,730)            | (2,190)            | (437)              | (27,300)                                 |
| Other income (expenses), net   | (14,298)           | 1,218              | 19,463             | (142,980)                                |
| <b>Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies</b> | <b>122,577</b>     | <b>131,565</b>     | <b>140,521</b>     | <b>1,225,770</b>                         |
| <b>Income taxes (Note 11):</b>   |                    |                    |                    |  |
| Current  | 43,929             | 48,008             | 34,433             | 439,290                                  |
| Deferred   | 4,115              | 953                | 21,634             | 41,150                                   |
| Total income taxes   | 48,044             | 48,961             | 56,067             | 480,440                                  |
| <b>Minority interests in earnings of subsidiaries</b>  | <b>6,790</b>       | <b>6,214</b>       | <b>4,938</b>       | <b>67,900</b>                            |
| <b>Equity in net income of affiliated companies (Note 3)</b>   | <b>94</b>          | <b>1,353</b>       | <b>1,633</b>       | <b>940</b>                               |
| <b>Income from continuing operations</b>   | <b>67,837</b>      | <b>77,743</b>      | <b>81,149</b>      | <b>678,370</b>                           |
| <b>Income (loss) from discontinued operations, net of taxes (Note 19)</b>  | <b>189</b>         | <b>(1,286)</b>     | <b>(115)</b>       | <b>1,890</b>                             |
| <b>Net income</b>  | <b>¥ 68,026</b>    | <b>¥ 76,457</b>    | <b>¥ 81,034</b>    | <b>\$ 680,260</b>                        |
|  |                    | <b>Yen</b>         |                    | <b>U.S. Dollars<br/>(Note 1)</b>         |
| <b>Net income (loss) per common share (Note 12):</b>   |                    |                    |                    |  |
| Basic:   |                    |                    |                    |  |
| Continuing operations  | ¥ 52.65            | ¥ 60.00            | ¥ 62.23            | \$ 0.53                                  |
| Discontinued operations  | 0.15               | (0.99)             | (0.09)             | 0.00                                     |

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|                         |   |              |   |        |   |        |    |             |
|-------------------------|---|--------------|---|--------|---|--------|----|-------------|
| <b>Net income</b>       | ¥ | <b>52.80</b> | ¥ | 59.01  | ¥ | 62.14  | \$ | <b>0.53</b> |
| Diluted:                |   |              |   |        |   |        |    |             |
| Continuing operations   | ¥ | <b>52.65</b> | ¥ | 60.00  | ¥ | 61.76  | \$ | <b>0.53</b> |
| Discontinued operations |   | <b>0.15</b>  |   | (0.99) |   | (0.09) |    | <b>0.00</b> |
| <b>Net income</b>       | ¥ | <b>52.80</b> | ¥ | 59.01  | ¥ | 61.67  | \$ | <b>0.53</b> |

See notes to consolidated financial statements.

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**Table of Contents****Consolidated Statements of Comprehensive Income (Loss)**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

|   | Millions of Yen |                 |                  | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|------------------|--|
|   | 2008            | 2007            | 2006             | 2008                                     |
| <b>Net income</b>   | <b>¥ 68,026</b> | <b>¥ 76,457</b> | <b>¥ 81,034</b>  | <b>\$ 680,260</b>                        |
| <b>Other comprehensive income (loss), net of tax (Note 13):</b> |                 |                 |                  |  |
| Foreign currency translation adjustments                        | (1,425)         | 4,670           | 13,570           | (14,250)                                 |
| Unrealized gains (losses) on securities                         | (36,834)        | (13,607)        | 45,017           | (368,340)                                |
| Unrealized gains (losses) on derivatives                        | (485)           | (244)           | 675              | (4,850)                                  |
| Pension liability adjustment                                    | (16,326)        |                 |                  | (163,260)                                |
| <b>Other comprehensive income (loss)</b>                        | <b>(55,070)</b> | <b>(9,181)</b>  | <b>59,262</b>    | <b>(550,700)</b>                         |
| <b>Comprehensive income</b>                                     | <b>¥ 12,956</b> | <b>¥ 67,276</b> | <b>¥ 140,296</b> | <b>\$ 129,560</b>                        |

See notes to consolidated financial statements.

**Consolidated Statements of Shareholders Equity**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

|  | Millions of Yen   |                 |                    |                  |                      | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock<br>at Cost |
|--|---|-----------------|--------------------|------------------|----------------------|---|------------------------------|
|  | Shares of<br>Common Stock<br>Outstanding<br>(Thousands) | Common<br>Stock | Capital<br>Surplus | Legal<br>Reserve | Retained<br>Earnings |   |                              |
| <b>Balance, March 31, 2005</b>                           | 1,300,413   | ¥ 78,156        | ¥ 87,263           | ¥ 19,539         | ¥ 290,187            | ¥ 27,507  | ¥ (21,633)                   |
| Net income   |   |                 |                    |                  | 81,034               |   |                              |
| Other comprehensive income                               |   |                 |                    |                  |                      | 59,262  |                              |
| Cash dividends, ¥9 per common share                      |   |                 |                    |                  | (11,769)             |   |                              |
| Purchases of treasury stock                              | (16,285)  |                 |                    |                  |                      |   | (14,863)                     |
| Retirement of treasury stock                             |   |                 |                    |                  | (36,336)             |   | 36,336                       |
| Conversion of bonds                                      | 15,360  | 5,914           | 5,887              |                  |                      |   |                              |
| <b>Balance, March 31, 2006</b>                           | 1,299,488   | 84,070          | 93,150             | 19,539           | 323,116              | 86,769  | (160)                        |
| Net income   |   |                 |                    |                  | 76,457               |   |                              |
| Other comprehensive loss                                 |   |                 |                    |                  |                      | (9,181)   |                              |
| Adjustment to initially adopt SFAS No. 158, net of taxes |   |                 |                    |                  |                      | 8,659   |                              |
| Cash dividends, ¥11 per common share                     |   |                 |                    |                  | (14,274)             |   |                              |
| Purchases of treasury stock                              | (7,975)   |                 |                    |                  |                      |   | (8,508)                      |
| Retirement of treasury stock                             |   |                 |                    |                  | (8,484)              |   | 8,484                        |
| <b>Balance, March 31, 2007</b>                           | 1,291,513   | 84,070          | 93,150             | 19,539           | 376,815              | 86,247  | (184)                        |
| Cumulative effect of adopting FIN 48                     |   |                 |                    |                  | <b>261</b>           |   |                              |

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|                                      |          |           |          |          |          |           |   |         |           |
|--------------------------------------|----------|-----------|----------|----------|----------|-----------|---|---------|-----------|
| Net income                           |          |           |          |          |          |           |   |         | 68,026    |
| Other comprehensive loss             |          |           |          |          |          |           |   |         | (55,070)  |
| Cash dividends, ¥13 per common share |          |           |          |          |          |           |   |         | (16,777)  |
| Purchases of treasury stock          | (10,909) |           |          |          |          |           |   |         | (7,980)   |
| Retirement of treasury stock         |          |           |          |          |          |           |   | (4,398) | 4,398     |
| <b>Balance, March 31, 2008</b>       |          | 1,280,604 | ¥ 84,070 | ¥ 93,150 | ¥ 19,539 | ¥ 423,927 | ¥ | 31,177  | ¥ (3,766) |

Thousands of U.S. Dollars (Note 1)

|   | Common<br>Stock | Capital<br>Surplus | Legal<br>Reserve | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock<br>at Cost |
|---|-----------------|--------------------|------------------|----------------------|--|------------------------------|
| <b>Balance, March 31, 2007</b>          | \$ 840,700      | \$ 931,500         | \$ 195,390       | \$ 3,768,150         | \$ 862,470   | \$ (1,840)                   |
| Cumulative effect of adopting FIN 48    |                 |                    |                  | 2,610                |  |                              |
| Net income                              |                 |                    |                  | 680,260              |  |                              |
| Other comprehensive loss                |                 |                    |                  |                      | (550,700)  |                              |
| Cash dividends, \$0.13 per common share |                 |                    |                  | (167,770)            |  |                              |
| Purchases of treasury stock             |                 |                    |                  |                      |  | (79,800)                     |
| Retirement of treasury stock            |                 |                    |                  | (43,980)             |  | 43,980                       |
| <b>Balance, March 31, 2008</b>          | \$ 840,700      | \$ 931,500         | \$ 195,390       | \$ 4,239,270         | \$ 311,770   | \$ (37,660)                  |

See notes to consolidated financial statements.

**Table of Contents****Consolidated Statements of Cash Flows**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

|   | 2008      | Millions of Yen<br>2007 | 2006      | Thousands<br>of<br>U.S. Dollars<br>(Note 1)<br>2008 |
|---|-----------|-------------------------|-----------|---|
| <b>Operating activities:</b>  |           |                         |           |   |
| Net income  | ¥ 68,026  | ¥ 76,457                | ¥ 81,034  | \$ 680,260  |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |                         |           |   |
| Depreciation and amortization   | 30,565    | 27,097                  | 25,821    | 305,650   |
| Gain on sales of securities   | (704)     | (1,313)                 | (4,703)   | (7,040)   |
| Gain on nonmonetary exchange of securities  |           | (997)                   | (15,901)  |   |
| Valuation loss on other investments   | 6,715     | 524                     | 403       | 67,150  |
| Loss from disposal of fixed assets  | 925       | 1,172                   | 23        | 9,250   |
| Minority interests in earnings of subsidiaries                                    | 6,790     | 6,214                   | 4,938     | 67,900  |
| Equity in net income of affiliated companies                                      | (94)      | (1,353)                 | (1,633)   | (940)   |
| Deferred income taxes   | 4,115     | 953                     | 21,634    | 41,150  |
| Change in assets and liabilities:   |           |                         |           |   |
| Decrease in notes and accounts receivable   | 31,750    | 35                      | 11,099    | 317,500   |
| Increase in inventories   | (6,656)   | (24,255)                | (11,736)  | (66,560)  |
| Increase in other current assets  | (20,072)  | (3,935)                 | (10,559)  | (200,720)   |
| Increase (decrease) in trade notes and accounts payable                           | (23,311)  | 11,999                  | (4,060)   | (233,110)   |
| Increase (decrease) in income taxes payable                                       | (10,842)  | 11,305                  | (167)     | (108,420)   |
| Increase in other current liabilities   | 7,539     | 5,085                   | 4,408     | 75,390  |
| Decrease in accrued retirement and pension costs                                  | (10,998)  | (10,942)                | (12,514)  | (109,980)   |
| Other   | 6,362     | (1,216)                 | (230)     | 63,620  |
| Net cash provided by operating activities   | 90,110    | 96,830                  | 87,857    | 901,100   |
| <b>Investing activities:</b>  |           |                         |           |   |
| Purchases of fixed assets   | (35,735)  | (34,286)                | (25,680)  | (357,350)   |
| Purchases of investments and change in loan receivables                           | 3,337     | (1,311)                 | 442       | 33,370  |
| Proceeds from sales of property, plant, and equipment                             | 115       | 3,709                   | 5,568     | 1,150   |
| Proceeds from sales of investments  | 490       | 2,391                   | 8,717     | 4,900   |
| Increase in finance receivables   | (196,494) | (190,098)               | (142,393) | (1,964,940)   |
| Collection of finance receivables   | 155,202   | 129,442                 | 80,163    | 1,552,020   |
| Sales of finance receivables  |           |                         | 11,753    |   |
| Other   | 741       | 146                     | 138       | 7,410   |
| Net cash used in investing activities   | (72,344)  | (90,007)                | (61,292)  | (723,440)   |
| <b>Financing activities:</b>  |           |                         |           |   |
| Proceeds from issuance of long-term debt  | 113,962   | 86,434                  | 88,829    | 1,139,620   |
| Repayments of long-term debt  | (84,895)  | (73,654)                | (71,719)  | (848,950)   |
| Net increase (decrease) in short-term borrowings                                  | (15,840)  | (5,937)                 | 335       | (158,400)   |
| Cash dividends  | (16,777)  | (14,274)                | (11,769)  | (167,770)   |
| Purchases of treasury stock   | (7,997)   | (8,515)                 | (14,898)  | (79,970)  |
| Other   | (133)     | (889)                   | (964)     | (1,330)   |
| Net cash used in financing activities   | (11,680)  | (16,835)                | (10,186)  | (116,800)   |

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|  |                 |                 |                 |                   |
|--|-----------------|-----------------|-----------------|-------------------|
| Effect of exchange rate changes on cash and cash equivalents | 97              | 755             | 916             | 970               |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>6,183</b>    | <b>(9,257)</b>  | <b>17,295</b>   | <b>61,830</b>     |
| <b>Cash and cash equivalents, beginning of year</b>          | <b>82,601</b>   | <b>91,858</b>   | <b>74,563</b>   | <b>826,010</b>    |
| <b>Cash and cash equivalents, end of year</b>                | <b>¥ 88,784</b> | <b>¥ 82,601</b> | <b>¥ 91,858</b> | <b>\$ 887,840</b> |

See notes to consolidated financial statements.

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### **Notes to Consolidated Financial Statements**

Kubota Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Description of Business**

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

The manufacturing operations of the Company are conducted primarily at 20 plants in Japan and at 8 overseas plants located in the United States and certain other countries. Farm equipment, construction machinery, ductile iron pipe, and certain other products are sold both in Japan and overseas markets which consist mainly of North America, Europe, and Asia.

##### **Basis of Financial Statements**

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

##### **Translation into United States Dollars**

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the parent company is incorporated and operates. The United States dollar amounts included herein represent a translation using the approximate exchange rate at March 31, 2008 of ¥100 =US\$1, solely for convenience of readers outside Japan. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into United States dollars.

##### **Consolidation**

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

The Company had been involved with a VIE, which was engaged in sales activities within the Internal Combustion Engine and Machinery segment until March 31, 2007. The VIE was consolidated by the Company in accordance with FIN46R. Total assets of the VIE at March 31, 2007 were ¥1,057 million. All assets of the VIE were not collateral for the VIE's obligations. In the year ended March 31, 2008, the VIE was liquidated, and there were no VIEs at March 31, 2008.

Intercompany items have been eliminated in consolidation.

Investments in affiliates in which the Company has the ability to exercise significant influence over their operating and financial policies, but where the Company does not have a controlling financial interest are accounted for using the equity method.

##### **Use of Estimates**

Preparing financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect reported amounts and related disclosures. Significant estimates and assumptions are used primarily in the area of inventory valuation, impairment of investments, impairment of long-lived assets, valuation allowance for deferred tax assets, collectibility of notes and receivable, uncertain tax positions, accruals for employee retirement and pension plans, revenue recognition for long-term contracts, and loss contingencies. Actual results could differ from those estimates.



**Foreign Currency Translation**

The assets and liabilities of foreign subsidiaries, using the local currency as their functional currency, are translated to Japanese yen based on the current exchange rate prevailing at each balance sheet date and any resulting translation adjustments are included in accumulated other comprehensive income (loss). Revenues and expenses are translated into Japanese yen using the average exchange rates prevailing for each period presented.

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### **Revenue Recognition**

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

Sales of environmental and other plant and equipment are recorded when the installation of plant and equipment is completed and accepted by the customer for short-term contracts, and recorded under the percentage-of-completion method of accounting for long-term contracts. (See Note 10. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS.) Estimated losses on sales contracts are charged to income in the period in which they are identified. The percentages of revenues to consolidated revenues for the years ended March 31, 2008, 2007, and 2006 that pertain to long-term contracts were 1.7%, 1.8%, and, 4.0%, respectively.

Housing real estate sales are recorded when the title is legally transferred to the customer in accordance with the underlying contract and real estate laws and regulations. The percentages of revenues to consolidated revenues for the years ended March 31, 2008, 2007, and 2006 that pertain to housing real estate sales were 0.3%, 0.8%, and 0.5%, respectively.

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

### **Securitization of Receivables**

The Company sells trade and finance receivables to investors through independent securitization trusts. At the time the receivables are sold to the securitization trusts, the balances are removed from the consolidated balance sheets of the Company. The investment in the sold receivables pool is allocated between the portion sold and the portion retained based on their relative fair values on the date of sale. The gain or loss for each qualifying sale of receivables is determined based on book value allocated to the portion sold. If forecasted future cash flows result in an other-than-temporary decline in the fair value of the retained interests, then an impairment loss is recognized to the extent that the fair value is less than the carrying amount. Such losses would be included in the consolidated statements of income. The Company estimates fair value based on the present value of future expected cash flows less credit losses.

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

### **Allowance for Doubtful Receivables**

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

### **Inventories**

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

### **Investments**

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

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

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(Merger of Bank of Tokyo and Mitsubishi Bank)

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

If EITF 91-5 had been adopted, net income for the year ended March 31, 1997 would have increased by ¥3,081 million reflecting the unrecognized gain on the initial nonmonetary exchange, and net losses for the years ended March 31 from 1999 through 2003 would have increased totaling ¥3,461 million reflecting primarily subsequent losses on sales and impairment of the investment. There would have been no material impact on operating results for the years ended March 31, 2008, 2007, and 2006. Retained earnings would have decreased by ¥380 million at March 31, 2007, with a corresponding increase in accumulated other comprehensive income. The impact in retained earnings and accumulated other comprehensive income at March 31, 2008 is not material.

(Merger of UFJ Holdings and Mitsubishi Tokyo Financial Group)

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

For the year ended March 31, 2006, the Company accounted for the gain on nonmonetary exchange of securities of ¥15,901 million, based on the fair value of MUFG s common shares of ¥18,284 million less carrying amounts of UFJ s common shares of ¥2,383 million.

(Merger of Hanshin Electric Railway and Hankyu Holdings)

On October 1, 2006, Hanshin Electric Railway Co., Ltd. ( Hanshin ) and Hankyu Holdings, Inc. merged. Upon the merger, each common share of Hanshin owned by the Company which had been carried at cost was converted into 1.4 shares of the combined entity, Hankyu Hanshin Holdings, Inc. ( Hankyu Hanshin ).

For the year ended March 31, 2007, the Company accounted for gain on nonmonetary exchange of securities of ¥997 million, based on the fair value of Hankyu Hanshin s common shares of ¥1,205 million less carrying amounts of Hanshin s common shares of ¥208 million.

**Property, Plant, and Equipment**

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

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

**Income Taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes and FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109.

Under SFAS No. 109, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities and tax loss and other carry forwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that management believes will more likely than not be realized.

The Company adopted the provisions of FIN48 on April 1, 2007. The Company recognizes the financial statement effects of tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

**Retirement and Pension Plans**

The Company accounts for retirement and pension plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R). The Company adopted the recognition and disclosure provisions of SFAS No. 158 on March 31, 2007. The Company recognizes the overfunded or underfunded status of the defined benefit plan as an asset or a liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The Company's measurement date of benefit obligations and plan assets is March 31.

The Company amortizes the prior service costs (benefits) due to amendments of the benefit plans over approximately 15 years. 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 14 years).

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### **Consideration Given by a Vendor to a Customer**

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

### **Accounting for Sales Tax**

Revenues are presented exclusive of sales tax.

### **Research and Development and Advertising**

Research and development and advertising costs are expensed as incurred.

### **Shipping and Handling Costs**

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

### **Expense from the Payments for Health Hazard of Asbestos**

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

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

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

(b) The amount of loss can be reasonably estimated.  
(See Note 17. COMMITMENTS AND CONTINGENCIES.)

### **Net Income per Common Share**

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

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

### **Derivative Financial Instruments**

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

On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the

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consolidated balance sheets or to specific firm commitments or forecasted transactions. The Company considers all hedges to be highly effective in offsetting changes in cash flows of hedged items, because the currency, index of interest rates, amount, and terms of the derivatives correspond to those of the hedged items in accordance with the Company's policy.

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

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**Table of Contents****Impairment of Long-Lived Assets**

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

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

**Discontinued Operations**

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

**Cash Flow Information**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At March 31, 2008, 2007, and 2006, time deposits with original maturities of three months or less amounting to ¥3,915 million (\$39,150 thousand), ¥3,832 million, and ¥4,195 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥12,875 million (\$128,750 thousand), ¥11,066 million, and ¥6,911 million, and for income taxes amounted to ¥56,535 million (\$565,350 thousand), ¥36,733 million, and ¥32,724 million for the years ended March 31, 2008, 2007, and 2006, respectively.

The Company retired treasury stock of ¥4,398 million (\$43,980 thousand), ¥8,484 million, and ¥36,336 million during the years ended March 31, 2008, 2007, and 2006, respectively.

Convertible bonds of ¥11,801 million were converted into common stock for the year ended March 31, 2006.

The Company capitalized leased assets under capital leases of ¥3,678 million (\$36,780 thousand), ¥4,231 million, and ¥3,945 million for the years ended March 31, 2008, 2007, and 2006, respectively.

**New Accounting Standards**

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertainty in income tax return. This interpretation is effective in fiscal years beginning after December 15, 2006, and was adopted by the Company on April 1, 2007, resulting mainly in a ¥3,334 million increase of other assets, a ¥3,230 million increase of other long-term liabilities, and a ¥261 million increase of retained earnings.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value and expands disclosures about fair value measurements that are required or permitted under other accounting pronouncements. This statement is effective in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's consolidated result of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of SFAS No. 115. This statement offers an irrevocable option to report selected financial assets and liabilities at fair value, with changes in fair value recorded in earnings. This statement is effective in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's consolidated result of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 141 (revised 2007) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be



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reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statements of income. These statements are effective in fiscal years beginning after December 15, 2008. The Company is currently calculating the impact of applying the statements on the consolidated financial statements.

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**Table of Contents****2. INVENTORIES**

Inventories at March 31, 2008 and 2007 were as follows:

|  | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------|------------------------------|
|  | 2008            | 2007      | 2008                         |
| <b>Manufacturing:</b>  |                 |           |                              |
| Finished products  | ¥ 128,561       | ¥ 123,901 | \$ 1,285,610                 |
| Spare parts  | 23,359          | 21,332    | 233,590                      |
| Work in process  | 34,036          | 31,793    | 340,360                      |
| Raw materials and supplies   | 20,264          | 23,100    | 202,640                      |
| Subtotal   | 206,220         | 200,126   | 2,062,200                    |
| <b>Real estate:</b>  |                 |           |                              |
| Completed projects, land to be developed, and projects under development |                 | 5,532     |                              |
|  | ¥ 206,220       | ¥ 205,658 | \$ 2,062,200                 |

**3. INVESTMENTS IN AND LOAN RECEIVABLES TO AFFILIATED COMPANIES**

Investments in and loan receivables to affiliated companies at March 31, 2008 and 2007 consisted of the following:

|                  | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|------------------|-----------------|----------|------------------------------|
|                  | 2008            | 2007     | 2008                         |
| Investments      | ¥ 13,640        | ¥ 13,734 | \$ 136,400                   |
| Loan receivables | 6               | 20       | 60                           |
|                  | ¥ 13,646        | ¥ 13,754 | \$ 136,460                   |

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

|                            | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|----------------------------|-----------------|----------|------------------------------|
| At March 31, 2008 and 2007 | 2008            | 2007     | 2008                         |
| Current assets             | ¥ 69,686        | ¥ 59,006 | \$ 696,860                   |
| Noncurrent assets          | 57,019          | 57,354   | 570,190                      |
| Total assets               | 126,705         | 116,360  | 1,267,050                    |
| Current liabilities        | 73,188          | 62,182   | 731,880                      |
| Noncurrent liabilities     | 19,929          | 21,542   | 199,290                      |
| Net assets                 | ¥ 33,588        | ¥ 32,636 | \$ 335,880                   |

Millions of Yen

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| Years Ended March 31, 2008, 2007, and 2006 | 2008      | 2007      | 2006      | Thousands of<br>U.S. Dollars<br>2008 |
|--|-----------|-----------|-----------|--------------------------------------|
| Revenues                                   | ¥ 215,574 | ¥ 219,750 | ¥ 219,920 | \$ 2,155,740                         |
| Cost of revenues                           | 162,533   | 161,392   | 162,124   | 1,625,330                            |
| Net income                                 | 482       | 2,956     | 3,126     | 4,820                                |

Trade notes and accounts receivable from affiliated companies at March 31, 2008 and 2007 were ¥17,185 million (\$171,850 thousand) and ¥18,411 million, respectively.

Revenues from affiliated companies aggregated ¥48,847 million (\$488,470 thousand), ¥51,882 million, and ¥54,484 million for the years ended March 31, 2008, 2007, and 2006, respectively.

Cash dividends received from affiliated companies were ¥31 million (\$310 thousand), ¥28 million, and ¥48 million for the years ended March 31, 2008, 2007, and 2006, respectively.

Retained earnings include net undistributed earnings of affiliated companies in the amount of ¥8,817 million (\$88,170 thousand) and ¥8,729 million at March 31, 2008 and 2007, respectively.

**Table of Contents****4. OTHER INVESTMENTS**

The cost, fair value, and gross unrealized holding gains and losses for securities by major security type at March 31, 2008 and 2007 were as follows:

|   | Millions of Yen |            |            |            |          |            |            |            |
|---|-----------------|------------|------------|------------|----------|------------|------------|------------|
|   | 2008            |            |            |            | 2007     |            |            |            |
|   | Cost            | Fair Value | Gross      | Gross      | Cost     | Fair Value | Gross      | Gross      |
|   |                 |            | Unrealized | Unrealized |          |            | Unrealized | Unrealized |
|   |                 | Holding    | Holding    |            |          | Holding    | Holding    |            |
|   |                 | Gains      | Losses     |            |          | Gains      | Losses     |            |
| <b>Other investments:</b>                   |                 |            |            |            |          |            |            |            |
| Available-for-sale:                         |                 |            |            |            |          |            |            |            |
| Equity securities of financial institutions | ¥ 30,813        | ¥ 73,257   | ¥ 42,464   | ¥ 20       | ¥ 36,988 | ¥ 125,948  | ¥ 88,960   | ¥          |
| Other equity securities                     | 20,305          | 61,793     | 42,892     | 1,404      | 21,119   | 77,778     | 56,677     | 18         |
|   | ¥ 51,118        | ¥ 135,050  | ¥ 85,356   | ¥ 1,424    | ¥ 58,107 | ¥ 203,726  | ¥ 145,637  | ¥ 18       |

|   | Thousands of U.S. Dollars |              |            |            |
|---|---------------------------|--------------|------------|------------|
|   | 2008                      |              |            |            |
|   | Cost                      | Fair Value   | Gross      | Gross      |
|   |                           |              | Unrealized | Unrealized |
|   |                           | Holding      | Holding    |            |
|   |                           | Gains        | Losses     |            |
| <b>Other investments:</b>                   |                           |              |            |            |
| Available-for-sale:                         |                           |              |            |            |
| Equity securities of financial institutions | \$ 308,130                | \$ 732,570   | \$ 424,640 | \$ 200     |
| Other equity securities                     | 203,050                   | 617,930      | 428,920    | 14,040     |
|   | \$ 511,180                | \$ 1,350,500 | \$ 853,560 | \$ 14,240  |

Gross unrealized holding losses and fair values on available-for-sale securities that are not deemed to be other-than-temporarily impaired at March 31, 2008 and 2007 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

|   | Millions of Yen     |            |                     |            |                     |            |                     |       |
|---|---------------------|------------|---------------------|------------|---------------------|------------|---------------------|-------|
|   | 2008                |            |                     |            | 2007                |            |                     |       |
|   | Less than 12 months |            | 12 months or longer |            | Less than 12 months |            | 12 months or longer |       |
|   | Fair Value          | Gross      | Fair Value          | Gross      | Fair Value          | Gross      | Fair Value          | Gross |
| Unrealized                                  |                     | Unrealized |                     | Unrealized |                     | Unrealized |                     |       |
|   | Holding             |            | Holding             |            | Holding             |            | Holding             |       |
|   | Losses              |            | Losses              |            | Losses              |            | Losses              |       |
| <b>Other investments:</b>                   |                     |            |                     |            |                     |            |                     |       |
| Available-for-sale:                         |                     |            |                     |            |                     |            |                     |       |
| Equity securities of financial institutions | ¥ 249               | ¥ 20       | ¥                   | ¥          | ¥                   | ¥          | ¥                   | ¥     |
| Other equity securities                     | 3,142               | 1,404      |                     |            | 154                 | 18         |                     |       |
|   | ¥ 3,391             | ¥ 1,424    | ¥                   | ¥          | ¥ 154               | ¥ 18       | ¥                   | ¥     |

|   | Thousands of U.S. Dollars |           |                     |        |
|---|---------------------------|-----------|---------------------|--------|
|   | 2008                      |           |                     |        |
|   | Less than 12 months       |           | 12 months or longer |        |
|   | Gross                     |           | Gross               |        |
|   | Unrealized                |           | Unrealized          |        |
|   | Holding                   |           | Holding             |        |
|   | Fair Value                | Losses    | Fair Value          | Losses |
| <b>Other investments:</b>                   |                           |           |                     |        |
| Available-for-sale:                         |                           |           |                     |        |
| Equity securities of financial institutions | \$ 2,490                  | \$ 200    | \$                  | \$     |
| Other equity securities                     | 31,420                    | 14,040    |                     |        |
|   | \$ 33,910                 | \$ 14,240 | \$                  | \$     |

For the years ended March 31, 2008, 2007, and 2006, valuation losses on other investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥6,715 million (\$67,150 thousand), ¥524 million, and ¥403 million, respectively.

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Proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales for the years ended March 31, 2008, 2007, and 2006 were as follows:

|  | Millions of Yen |         |         | Thousands of<br>U.S. Dollars |
|--|-----------------|---------|---------|------------------------------|
|  | 2008            | 2007    | 2006    | 2008                         |
| Proceeds from sales of available-for-sale securities | ¥ 2,001         | ¥ 2,749 | ¥ 8,970 | \$ 20,010                    |
| Gross realized gains                                 | 705             | 1,463   | 4,944   | 7,050                        |
| Gross realized losses                                | (1)             | (150)   | (241)   | (10)                         |

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥10,272 million (\$102,720 thousand) and ¥11,404 million at March 31, 2008 and 2007, respectively. Investments in non-marketable equity securities for which there is no readily determinable fair value were accounted for using the cost method. Each investment in non-marketable equity securities is reviewed annually for impairment or upon the occurrence of an event or change in circumstances that may have a significant adverse effect on the carrying value of the investment.

**5. FINANCE RECEIVABLES**

The Company provides retail finance and finance leases to customers mainly in order to support sales of farm equipment and construction machinery.

Finance receivables net at March 31, 2008 and 2007 consisted of the following:

|                                   | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|-----------------------------------|-----------------|-----------|------------------------------|
|                                   | 2008            | 2007      | 2008                         |
| Retail                            | ¥ 273,771       | ¥ 253,755 | \$ 2,737,710                 |
| Finance leases                    | 39,536          | 17,767    | 395,360                      |
| Total finance receivables         | 313,307         | 271,522   | 3,133,070                    |
| Less:                             |                 |           |                              |
| Unearned income                   | (6,995)         | (2,621)   | (69,950)                     |
| Allowance for credit losses       | (1,380)         | (1,072)   | (13,800)                     |
| Total finance receivables net     | 304,932         | 267,829   | 3,049,320                    |
| Less current portion              | (113,409)       | (97,798)  | (1,134,090)                  |
| Long-term finance receivables net | ¥ 191,523       | ¥ 170,031 | \$ 1,915,230                 |

Annual maturities of retail finance receivables and future minimum lease payments on finance leases at March 31, 2008 are summarized as follows:

| Years Ending March 31, | Millions of Yen |                   | Thousands of<br>U.S. Dollars |                   |
|------------------------|-----------------|-------------------|------------------------------|-------------------|
|                        | Retail          | Finance<br>Leases | Retail                       | Finance<br>Leases |
|                        | 2009            | ¥ 104,627         | ¥ 12,525                     | \$ 1,046,270      |
| 2010                   | 79,242          | 10,387            | 792,420                      | 103,870           |
| 2011                   | 45,054          | 8,649             | 450,540                      | 86,490            |

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|                     |                  |                 |                     |                   |
|---------------------|------------------|-----------------|---------------------|-------------------|
| 2012                | 28,135           | 5,100           | 281,350             | 51,000            |
| 2013                | 12,902           | 2,224           | 129,020             | 22,240            |
| 2014 and thereafter | 3,811            | 651             | 38,110              | 6,510             |
| <b>Total</b>        | <b>¥ 273,771</b> | <b>¥ 39,536</b> | <b>\$ 2,737,710</b> | <b>\$ 395,360</b> |

There is no estimated unguaranteed residual value on finance leases at March 31, 2008.

Revenues and cost of revenues for the years ended March 31, 2008, 2007, and 2006 included finance income and expenses as follows:

|                  | Millions of Yen |          |          | Thousands of<br>U.S. Dollars |
|------------------|-----------------|----------|----------|------------------------------|
|                  | 2008            | 2007     | 2006     | 2008                         |
| Finance income   | <b>¥ 27,539</b> | ¥ 22,217 | ¥ 15,311 | <b>\$ 275,390</b>            |
| Finance expenses | <b>15,363</b>   | 12,282   | 7,196    | <b>153,630</b>               |

The Company sells finance receivables. (See Note 18. SECURITIZATION OF RECEIVABLES.) Pretax gains or losses on such sales are included in finance income or finance expenses in the table above.

**Table of Contents****6. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The changes in the allowance for doubtful notes and accounts receivable for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                                 | Millions of Yen |                |                | Thousands of<br>U.S. Dollars |
|---------------------------------|-----------------|----------------|----------------|------------------------------|
|                                 | 2008            | 2007           | 2006           | 2008                         |
| Balance at beginning of year    | ¥ 2,011         | ¥ 2,155        | ¥ 2,257        | \$ 20,110                    |
| Provision for doubtful accounts | 482             | 255            | 55             | 4,820                        |
| Write-offs                      | (531)           | (468)          | (179)          | (5,310)                      |
| Other                           | 21              | 69             | 22             | 210                          |
| <b>Balance at end of year</b>   | <b>¥ 1,983</b>  | <b>¥ 2,011</b> | <b>¥ 2,155</b> | <b>\$ 19,830</b>             |

The changes in the allowance for doubtful non-current receivables for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                                 | Millions of Yen |                |                | Thousands of<br>U.S. Dollars |
|---------------------------------|-----------------|----------------|----------------|------------------------------|
|                                 | 2008            | 2007           | 2006           | 2008                         |
| Balance at beginning of year    | ¥ 2,811         | ¥ 3,913        | ¥ 4,474        | \$ 28,110                    |
| Provision for doubtful accounts | 140             | 13             | 101            | 1,400                        |
| Write-offs                      | (137)           | (792)          | (313)          | (1,370)                      |
| Other                           | (1,833)         | (323)          | (349)          | (18,330)                     |
| <b>Balance at end of year</b>   | <b>¥ 981</b>    | <b>¥ 2,811</b> | <b>¥ 3,913</b> | <b>\$ 9,810</b>              |

The changes in the allowance for finance receivables for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                                 | Millions of Yen |                |                | Thousands of<br>U.S. Dollars |
|---------------------------------|-----------------|----------------|----------------|------------------------------|
|                                 | 2008            | 2007           | 2006           | 2008                         |
| Balance at beginning of year    | ¥ 1,072         | ¥ 1,017        | ¥ 818          | \$ 10,720                    |
| Provision for doubtful accounts | 542             | 203            | 331            | 5,420                        |
| Write-offs                      | (133)           | (108)          | (250)          | (1,330)                      |
| Other                           | (101)           | (40)           | 118            | (1,010)                      |
| <b>Balance at end of year</b>   | <b>¥ 1,380</b>  | <b>¥ 1,072</b> | <b>¥ 1,017</b> | <b>\$ 13,800</b>             |

**7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

Short-term borrowings at March 31, 2008 and 2007 consisted of notes payable to banks of ¥113,087 million (\$1,130,870 thousand) and ¥128,365 million, respectively.

Stated annual interest rates of short-term borrowings ranged primarily from 0.50% to 5.59% and from 0.81% to 5.77% at March 31, 2008 and 2007, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2008 and 2007 were 4.9% and 5.3%, respectively.

Available lines of credit with certain banks totaled ¥20,000 million (\$200,000 thousand) at March 31, 2008 and 2007. The Company had no outstanding borrowings as of March 31, 2008 and 2007 related to lines of credit.



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Long-term debt at March 31, 2008 and 2007 consisted of the following:

|   | Due in Years Ending<br>March 31 | Millions of Yen |              | Thousands of<br>U.S. Dollars |
|---|---------------------------------|-----------------|--------------|------------------------------|
|   |                                 | 2008            | 2007         | 2008                         |
| <b>Unsecured bonds:</b>   |                                 |                 |              |                              |
| 1.20% yen notes   | 2011                            | ¥ 10,000        | ¥ 10,000     | \$ 100,000                   |
| 1.54% yen notes   | 2013                            | 10,000          | 10,000       | 100,000                      |
| 1.27% yen notes   | 2013                            | 10,000          |              | 100,000                      |
| 1.53% yen notes   | 2015                            | 10,000          |              | 100,000                      |
| <b>Loans, principally from banks and insurance companies,<br/>maturing on various dates through 2015:</b> |                                 |                 |              |                              |
| Collateralized  |                                 | 64,399          | 70,491       | 643,990                      |
| Unsecured   |                                 | 139,051         | 124,466      | 1,390,510                    |
| <b>Capital lease obligations</b>  |                                 | <b>6,471</b>    | <b>6,577</b> | <b>64,710</b>                |
| Total   |                                 | 249,921         | 221,534      | 2,499,210                    |
| Less current portion  |                                 | (65,976)        | (71,429)     | (659,760)                    |
|   |                                 | ¥ 183,945       | ¥ 150,105    | \$ 1,839,450                 |

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The interest rates on unsecured bonds were fixed. The interest rates of the long-term loans from banks and insurance companies were principally fixed. The weighted average rates at March 31, 2008 and 2007 were 4.2% and 3.6%, respectively.

Annual maturities of long-term debt at March 31, 2008 were as follows:

| Year Ending March 31 | Millions of Yen  |        | Thousands of U.S. Dollars |
|----------------------|------------------|--------|---------------------------|
|                      | 2008             | 2007   | 2008                      |
| 2009                 | ¥ 65,976         |        | \$ 659,760                |
| 2010                 |                  | 65,958 | 659,580                   |
| 2011                 |                  | 73,041 | 730,410                   |
| 2012                 |                  | 5,713  | 57,130                    |
| 2013                 |                  | 27,880 | 278,800                   |
| 2014 and thereafter  |                  | 11,353 | 113,530                   |
| <b>Total</b>         | <b>¥ 249,921</b> |        | <b>\$ 2,499,210</b>       |

At March 31, 2008 and 2007, assets pledged as collateral for debt were as follows:

|                                | Millions of Yen  |                  | Thousands of U.S. Dollars |
|--------------------------------|------------------|------------------|---------------------------|
|                                | 2008             | 2007             | 2008                      |
| Trade notes                    | ¥ 439            | ¥ 456            | \$ 4,390                  |
| Trade accounts                 | 3,422            | 2,524            | 34,220                    |
| Other current assets           | 950              |                  | 9,500                     |
| Finance receivables            | 101,945          | 117,835          | 1,019,450                 |
| Property, plant, and equipment | 9,932            | 9,646            | 99,320                    |
| <b>Total</b>                   | <b>¥ 116,688</b> | <b>¥ 130,461</b> | <b>\$ 1,166,880</b>       |

Other current assets consist of the time deposits which are pledged as collateral and are deemed restricted in accordance with the terms of borrowing.

The above assets were pledged against the following liabilities:

|                                   | Millions of Yen |                  | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|------------------|---------------------------|
|                                   | 2008            | 2007             | 2008                      |
| Short-term borrowings             | ¥ 31,434        | ¥ 35,927         | \$ 314,340                |
| Current portion of long-term debt | 27,862          | 28,709           | 278,620                   |
| Long-term debt                    | 36,537          | 41,782           | 365,370                   |
| <b>Total</b>                      | <b>¥ 95,833</b> | <b>¥ 106,418</b> | <b>\$ 958,330</b>         |

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



**Table of Contents****8. RETIREMENT AND PENSION PLANS**

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

In the parent company, employees who terminate their employment have the option to receive benefits in the form of lump-sum payments or annuity payments from a defined benefit pension plan. The benefits are calculated as an aggregation of the following points under the point-based benefits system (with a point having specific monetary value):

Points granted in proportion to each employee's job classification at retirement and length of service period

Accumulated points granted in proportion to each employee's job classification at the end of each fiscal year

Accumulated points granted in proportion to each employee's performance evaluation at the end of each fiscal year

The plan consists of a lifetime pension plan and a limited annuity plan, and annual contributions are made by the parent company for an amount determined on the basis of an accepted actuarial method for the plan. The plan is administered by a board of trustees composed of management and employee representatives. Plan assets, which are managed by trust banks and investment advisors, are invested primarily in corporate and government bonds and stocks.

The Company adopted the recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R) on March 31, 2007. The Company recognizes the underfunded status of the defined benefit postretirement plan as a liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The statement replaced SFAS No. 87, *Employers' Accounting for Pensions* which required the reporting of at least minimum pension liability measured as excess of the accumulated benefit obligation over the fair value of the plan assets. The amount of pension liability adjustment is comprised of prior service cost (benefit) and actuarial loss (gain), which will be subsequently recognized as net periodic benefit cost in the consolidated statements of income pursuant to the Company's accounting policy for amortizing such amounts.

Net periodic benefit cost for the unfunded severance indemnity plan and the defined benefit pension plan of the parent company and certain subsidiaries for the years ended March 31, 2008, 2007, and 2006 consisted of the following components:

|                                       | Millions of Yen |         |         | Thousands of<br>U.S. Dollars |
|---------------------------------------|-----------------|---------|---------|------------------------------|
|                                       | 2008            | 2007    | 2006    | 2008                         |
| Service cost                          | ¥ 5,830         | ¥ 5,974 | ¥ 6,841 | \$ 58,300                    |
| Interest cost                         | 3,751           | 3,799   | 3,858   | 37,510                       |
| Expected return on plan assets        | (3,023)         | (2,748) | (2,277) | (30,230)                     |
| Amortization of prior service benefit | (808)           | (777)   | (780)   | (8,080)                      |
| Transfer to an affiliated company     |                 |         | (514)   |                              |
| Net periodic benefit cost             | ¥ 5,750         | ¥ 6,248 | ¥ 7,128 | \$ 57,500                    |

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets were as follows:

|  | Millions of Yen | Thousands of<br>U.S. Dollars |
|--|-----------------|------------------------------|
|--|-----------------|------------------------------|

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|  | 2008      | 2007      | 2008         |
|--|-----------|-----------|--------------|
| <b>Change in benefit obligations:</b>    |           |           |              |
| Benefit obligations at beginning of year | ¥ 174,242 | ¥ 176,109 | \$ 1,742,420 |
| Service cost                             | 5,830     | 5,974     | 58,300       |
| Interest cost                            | 3,751     | 3,799     | 37,510       |
| Amendments                               |           | (439)     |              |
| Actuarial loss                           | 695       | 1,024     | 6,950        |
| Benefits paid (lump-sum payments)        | (7,670)   | (8,868)   | (76,700)     |
| Benefits paid (annuity payments)         | (3,758)   | (3,446)   | (37,580)     |
| Foreign currency exchange rate changes   | 599       | 89        | 5,990        |
| Benefit obligations at end of year       | ¥ 173,689 | ¥ 174,242 | \$ 1,736,890 |

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|  |                   |                   |                     |
|--|-------------------|-------------------|---------------------|
| Fair value of plan assets at beginning of year | ¥ 147,066         | ¥ 142,755         | \$ 1,470,660        |
| Actual return on plan assets                   | (22,689)          | (366)             | (226,890)           |
| Employer contributions                         | 13,849            | 13,338            | 138,490             |
| Benefits paid (lump-sum payments)              | (4,703)           | (5,293)           | (47,030)            |
| Benefits paid (annuity payments)               | (3,758)           | (3,446)           | (37,580)            |
| Foreign currency exchange rate changes         | 595               | 78                | 5,950               |
| Fair value of plan assets at end of year       | ¥ 130,360         | ¥ 147,066         | \$ 1,303,600        |
| <b>Funded status at end of year</b>            | <b>¥ (43,329)</b> | <b>¥ (27,176)</b> | <b>\$ (433,290)</b> |

Accumulated benefit obligations at March 31, 2008 and 2007 were as follows:

|   | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|---|-----------------|-----------|------------------------------|
|   | 2008            | 2007      | 2008                         |
| <b>Accumulated benefit obligations:</b>   |                 |           |                              |
| Accumulated benefit obligations at end of year  | ¥ 168,530       | ¥ 168,808 | \$ 1,685,300                 |
| Projected benefit obligations and fair value of plan assets with projected benefit obligations in excess of plan assets, and accumulated benefit obligations and fair value of plan assets with accumulated benefit obligations in excess of plan assets were as follows: |                 |           |                              |

|  | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------|------------------------------|
|  | 2008            | 2007      | 2008                         |
| <b>Retirement and pension plans with projected benefit obligations in excess of plan assets:</b>           |                 |           |                              |
| Projected benefit obligations  | ¥ 170,659       | ¥ 171,494 | \$ 1,706,590                 |
| Fair value of plan assets  | 126,869         | 144,016   | 1,268,690                    |
| <b>Retirement and pension plans with accumulated benefit obligations in excess of plan assets:</b>         |                 |           |                              |
| Accumulated benefit obligations  | 165,500         | 166,060   | 1,655,000                    |
| Fair value of plan assets  | 126,869         | 144,016   | 1,268,690                    |
| Amounts recognized in the consolidated balance sheets at March 31, 2008 and 2007 consist of the following: |                 |           |                              |

|  | Millions of Yen |            | Thousands of<br>U.S. Dollars |
|--|-----------------|------------|------------------------------|
|  | 2008            | 2007       | 2008                         |
| Accrued retirement and pension costs                         | ¥ (43,790)      | ¥ (27,306) | \$ (437,900)                 |
| Prepaid expenses for benefit plans, included in other assets | 461             | 130        | 4,610                        |
| Funded status  | ¥ (43,329)      | ¥ (27,176) | \$ (433,290)                 |

Amounts recognized in accumulated other comprehensive income, before tax, at March 31, 2008 and 2007 consist of the following:

|                       | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|-----------------------|-----------------|-----------|------------------------------|
|                       | 2008            | 2007      | 2008                         |
| Actuarial loss (gain) | ¥ 18,862        | ¥ (7,873) | \$ 188,620                   |
| Prior service benefit | (6,052)         | (6,860)   | (60,520)                     |

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|  |                 |                   |                   |
|--|-----------------|-------------------|-------------------|
| Total recognized in accumulated other comprehensive income | <b>¥ 12,810</b> | <b>¥ (14,733)</b> | <b>\$ 128,100</b> |
|--|-----------------|-------------------|-------------------|

Amounts of estimated actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending March 31, 2009 are as follows:

|                       | <b>Millions of Yen</b> | <b>Thousands of U.S. Dollars</b> |
|-----------------------|------------------------|----------------------------------|
| Actuarial loss        | ¥ 128                  | \$ 1,280                         |
| Prior service benefit | (808)                  | (8,080)                          |

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The weighted-average discount rate used in calculating benefit obligations at March 31, 2008 and 2007 was 2.5%.

Weighted-average assumptions used in calculating net periodic benefit cost for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                                | 2008 | 2007 | 2006 |
|--------------------------------|------|------|------|
| Discount rate                  | 2.5% | 2.5% | 2.5% |
| Expected return on plan assets | 3.0  | 3.0  | 3.0  |
| Rate of compensation increase  |      |      | 6.5  |

The rate of compensation increase was not used in the calculations of benefit obligations at March 31, 2008 and 2007, or net periodic benefit cost for the years ended March 31, 2008 and 2007 as a result of transition to the point-based benefits system. Under the system, the benefit obligations and the net periodic benefit cost are determined using cumulative points and not salaries. The benefit obligations at March 31, 2008 and 2007, and the net periodic benefit cost for the years ended March 31, 2008 and 2007 were calculated on the basis of an annual increase in points of 0.2%~9.6%.

The expected rate of return on plan assets is determined after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, the Company's principal policy for plan asset management, and forecasted market conditions.

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

|                   | 2008          | 2007   |
|-------------------|---------------|--------|
| Equity securities | 38.1%         | 44.6%  |
| Debt securities   | 61.1          | 54.9   |
| Other             | 0.8           | 0.5    |
|                   | <b>100.0%</b> | 100.0% |

The Company's investment policy is to invest in equity securities and debt securities of companies in Japan and overseas primarily in Europe and the United States in order to diversify risk. The Company evaluates the gap between expected and actual rate of return on invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the portfolio. The Company revises the portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

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

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

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2009                 | ¥ 12,309        | \$ 123,090                |
| 2010                 | 12,504          | 125,040                   |
| 2011                 | 12,328          | 123,280                   |
| 2012                 | 12,185          | 121,850                   |
| 2013                 | 12,085          | 120,850                   |
| 2014-2018            | 54,021          | 540,210                   |



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**9. SHAREHOLDERS EQUITY**

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the Corporate Law ), which reformed and replaced the Japanese Commercial Code with various revisions that are, for the most part, applicable to events or transactions which occur on and after May 1, 2006 and for the fiscal years ended on and after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

**Dividends**

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the companies so stipulate. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

Under the Corporate Law, the amount available for dividends is based on retained earnings, less treasury stock, as recorded on the books of the parent Company. Certain adjustments, not recorded on the parent company's books, are reflected in the consolidated financial statements. At March 31, 2008, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥227,470 million (\$2,274,700 thousand).

**Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus**

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

**Treasury Stock and Treasury Stock Acquisition Rights**

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

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

**10. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS**

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

The contracts, which are fully executed before the commencement of construction projects, include the terms of the contract price, expected completion date and critical milestone dates, and acceptance inspections (e.g., performance tests and external appearance inspections). The contracts are legally enforceable and the parties are expected to satisfy their obligations under the contracts. The Company is able to develop reasonably dependable estimates of the total contract cost based on the construction order, that includes details on every single component unit, labor hour costs, and all overhead. Further, the Company believes that it is able to develop reasonably dependable estimates of the extent of progress towards completion of individual contracts and, therefore, the long-term contracts are accounted for using the percentage of completion method. Concerning the method of measuring the extent of progress toward completion, the Company uses the cost-to-cost method in measuring the extent of progress toward completion. In most cases, the Company's contracts with customers include the delivery and installation of component units.

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In the situation where an option or an addition which has separate content from an existing contract has occurred, it is treated as a separate contract and, if otherwise, is combined with the original contract. Additional contract revenue arising from any claims for customer-caused reasons is recognized when the contract modification is completed. Any revisions in revenue, cost, and profit estimates or in measurements of the extent of progress toward completion are accounted for in the consolidated statements of income for the fiscal year in which the contract modification has been completed. A disclosure is made of the effect of such revisions in the financial statements, if significant.

Notes receivable and accounts receivable related to the long-term contracts accounted for under the percentage of completion method at March 31, 2008 and 2007 were as follows:

| Years Ended March 31 | Millions of Yen     |           |           |                     |           |           | Thousands of U.S. Dollars |           |           |
|----------------------|---------------------|-----------|-----------|---------------------|-----------|-----------|---------------------------|-----------|-----------|
|                      | 2008                |           |           | 2007                |           |           | 2008                      |           |           |
|                      | Less than<br>1 year | 1-2 years | 2-3 years | Less than<br>1 year | 1-2 years | 2-3 years | Less than<br>1 year       | 1-2 years | 2-3 years |
| Notes receivable     | ¥ 427               | ¥         | ¥         | ¥                   | ¥         | ¥         | \$ 4,270                  | \$        | \$        |
| Accounts receivable  | 6,411               | 15        |           | 9,244               | 679       |           | 64,110                    | 150       |           |
|                      | ¥ 6,838             | ¥ 15      | ¥         | ¥ 9,244             | ¥ 679     | ¥         | \$ 68,380                 | \$ 150    | \$        |

A large portion of such receivables had been billed to customers, and the total aggregated amounts which had not been billed or were not billable were not material at March 31, 2008 and 2007. The total aggregated amounts subject to uncertainty were not material.

With respect to the inventories related to the long-term contracts, the aggregated amounts of manufacturing or production costs which exceeds the aggregated estimate costs of all in-process, the total aggregated amounts subject to uncertainty, and advances receipt offset with inventories were not material at March 31, 2008 and 2007.

**Table of Contents****11. INCOME TAXES**

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies and income taxes for the years ended March 31, 2008, 2007, and 2006 were comprised of the following:

|   | Millions of Yen |           |           | Thousands of<br>U.S. Dollars |
|---|-----------------|-----------|-----------|------------------------------|
|   | 2008            | 2007      | 2006      | 2008                         |
| <b>Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies:</b> |                 |           |           |                              |
| Domestic  | ¥ 65,172        | ¥ 80,208  | ¥ 102,857 | \$ 651,720                   |
| Foreign   | 57,405          | 51,357    | 37,664    | 574,050                      |
|   | ¥ 122,577       | ¥ 131,565 | ¥ 140,521 | \$ 1,225,770                 |
| <b>Income taxes:</b>  |                 |           |           |                              |
| Current   |                 |           |           |                              |
| Domestic  | ¥ 26,550        | ¥ 28,184  | ¥ 18,065  | \$ 265,500                   |
| Foreign   | 17,379          | 19,824    | 16,368    | 173,790                      |
|   | 43,929          | 48,008    | 34,433    | 439,290                      |
| Deferred  |                 |           |           |                              |
| Domestic  | 3,537           | 3,415     | 24,522    | 35,370                       |
| Foreign   | 578             | (2,462)   | (2,888)   | 5,780                        |
|   | 4,115           | 953       | 21,634    | 41,150                       |
| Total   | ¥ 48,044        | ¥ 48,961  | ¥ 56,067  | \$ 480,440                   |

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2008 differed from the normal Japanese statutory tax rates as follows:

|  | 2008  | 2007  | 2006  |
|--|-------|-------|-------|
| Normal Japanese statutory tax rates applied to income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 40.6% | 40.6% | 40.6% |
| Increase (decrease) in taxes resulting from:   |       |       |       |
| Increase (decrease) in valuation allowance   | 0.1   | (1.4) | (0.3) |
| Permanently nondeductible expenses   | 0.4   | 0.7   | 0.4   |
| Nontaxable dividend income   | (0.4) | (0.2) | (0.2) |
| Extra tax deduction on expenses for research and development   | (1.7) | (1.9) | (1.2) |
| Other net  | 0.2   | (0.6) | 0.6   |

Effective income tax rates applied to income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies

|  | 2008  | 2007  | 2006  |
|--|-------|-------|-------|
|  | 39.2% | 37.2% | 39.9% |

Net deferred tax balances at March 31, 2008 and 2007 were reflected in the accompanying consolidated balance sheets under the following line items:

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|                                       | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|---------------------------------------|-----------------|-----------|------------------------------|
|                                       | 2008            | 2007      | 2008                         |
| Other current assets                  | ¥ 33,614        | ¥ 37,467  | \$ 336,140                   |
| Other assets                          | 4,392           | 4,046     | 43,920                       |
| Other current liabilities             |                 | (60)      |                              |
| Other long-term liabilities           | (15,859)        | (50,208)  | (158,590)                    |
| Net deferred tax assets (liabilities) | ¥ 22,147        | ¥ (8,755) | \$ 221,470                   |

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The approximate effects of temporary differences and tax loss and credit carryforwards that gave rise to deferred tax balances at March 31, 2008 and 2007 were as follows:

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|--|-----------------|----------|------------------------------|
|  | 2008            | 2007     | 2008                         |
| <b>Deferred tax assets:</b>                                |                 |          |                              |
| Allowance for doubtful receivables                         | ¥ 1,109         | ¥ 1,540  | \$ 11,090                    |
| Intercompany profits                                       | 11,793          | 12,340   | 117,930                      |
| Adjustment of investment securities                        | 11,498          | 11,322   | 114,980                      |
| Write-downs of inventories and fixed assets                | 1,643           | 2,834    | 16,430                       |
| Accrued bonus  | 6,466           | 6,173    | 64,660                       |
| Retirement and pension costs                               | 21,752          | 15,123   | 217,520                      |
| Tax loss and credit carryforwards                          | 3,676           | 4,390    | 36,760                       |
| Other temporary differences                                | 21,195          | 23,615   | 211,950                      |
| Subtotal   | 79,132          | 77,337   | 791,320                      |
| Less valuation allowance                                   | (1,326)         | (1,212)  | (13,260)                     |
|  | ¥ 77,806        | ¥ 76,125 | \$ 778,060                   |
| <b>Deferred tax liabilities:</b>                           |                 |          |                              |
| Adjustment of investment securities                        | ¥ 38,259        | ¥ 66,015 | \$ 382,590                   |
| Unremitted earnings of foreign subsidiaries and affiliates | 11,165          | 9,511    | 111,650                      |
| Other temporary differences                                | 6,235           | 9,354    | 62,350                       |
|  | ¥ 55,659        | ¥ 84,880 | \$ 556,590                   |

Deferral of income taxes relating to intercompany profits of ¥11,793 million (\$117,930 thousand) and ¥12,340 million at March 31, 2008 and 2007 included in the above table is accounted for in accordance with Accounting Research Bulletins No. 51, Consolidated Financial Statements. The movements of ¥(547) million (\$(5,470) thousand), ¥878 million, and ¥2,157 million for the years ended March 31, 2008, 2007, and 2006 in such deferral of income taxes are presented as Income taxes Deferred in the consolidated statements of income. The total amounts of deferred tax assets recorded in accordance with SFAS No. 109, Accounting for Income Taxes were ¥66,013 million (\$660,130 thousand) and ¥63,785 million at March 31, 2008 and 2007, respectively.

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

The changes in the valuation allowance for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                              | Millions of Yen |         |         | Thousands of<br>U.S. Dollars |
|------------------------------|-----------------|---------|---------|------------------------------|
|                              | 2008            | 2007    | 2006    | 2008                         |
| Balance at beginning of year | ¥ 1,212         | ¥ 3,439 | ¥ 3,824 | \$ 12,120                    |
| Addition                     | 421             | 548     | 508     | 4,210                        |
| Deduction                    | (307)           | (2,775) | (893)   | (3,070)                      |
| Balance at end of year       | ¥ 1,326         | ¥ 1,212 | ¥ 3,439 | \$ 13,260                    |

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse and/or the tax losses and credits are carried forward, management believes it is more likely than not that the

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Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances at March 31, 2008.

At March 31, 2008, the tax loss carryforwards in the aggregate amounted to ¥8,773 million (\$87,730 thousand), which are available to offset future taxable income, and will expire in the period from 2009 through 2013.

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The Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 on April 1, 2007.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended March 31, 2008 is as follows:

|   | Millions of Yen | Thousands of<br>U.S. Dollars |
|---|-----------------|------------------------------|
| Balance at beginning of year                          | ¥ 3,491         | \$ 34,910                    |
| Gross increase for tax positions taken in prior years | 3,535           | 35,350                       |
| Gross decrease for tax positions taken in prior years | (40)            | (400)                        |
| Settlements   | (11)            | (110)                        |
| Lapse of statute of limitations                       | (9)             | (90)                         |
| Other   | (16)            | (160)                        |
| <b>Balance at end of year</b>                         | <b>¥ 6,950</b>  | <b>\$ 69,500</b>             |

Total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, is not material.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income. Both interest and penalties accrued at March 31, 2008 and interest and penalties included in income taxes for the year ended March 31, 2008 are not material.

During the year ended March 31, 2008, the U.S. Internal Revenue Service ( IRS ) and the National Taxation Agency in Japan ( NTA ) reached an agreement on a bilateral Advance Pricing Agreement ( APA ), for which the Company had submitted requests with respect to certain intercompany transactions between related parties in U.S. and Japan. The Company accrued an estimated additional tax payment to the NTA of ¥6,521 million (\$65,210 thousand) in other long-term liabilities and recognized an estimated tax refund from the IRS of ¥5,941 million (\$59,410 thousand) in other assets at March 31, 2008. These estimates may be adjusted in the future through the final period covered by the APA. It is reasonably possible that the amount of unrecognized tax benefits due to the APA may significantly increase or decrease within the next 12 months depending on the business results of the U.S. subsidiaries. The Company believes that it is difficult to estimate reasonably the range of the business results of the U.S. subsidiaries in the future periods. However, a significant increase or decrease in the amount of unrecognized tax benefits due to the APA would not have a material effect on the Company's consolidated results of operations or financial position since the tax refund from the IRS will increase or decrease in proportion to the increase or decrease of additional tax payment to the NTA.

The Company files income tax returns in Japan, U.S., and various foreign tax jurisdictions. With limited exception, the Company is no longer subject to regular income tax examinations by the tax authorities for the years on or before March 31, 2005 in Japan, and for the years on or before December 31, 2000 in U.S., respectively. While the tax authority could conduct a transfer pricing examination for the years on and after April 1, 2001, the intercompany transactions between related parties in U.S. and Japan will not be subject to a tax examination since the APA between U.S. and Japan has been agreed.

**Table of Contents****12. NET INCOME (LOSS) PER COMMON SHARE**

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per common share computation for the years ended March 31, 2008, 2007, and 2006 was as follows:

|  | Millions of Yen |          |          | Thousands of<br>U.S. Dollars |
|--|-----------------|----------|----------|------------------------------|
|  | 2008            | 2007     | 2006     | 2008                         |
| <b>Basic net income (loss):</b>                          |                 |          |          |                              |
| Income from continuing operations                        | ¥ 67,837        | ¥ 77,743 | ¥ 81,149 | \$ 678,370                   |
| Income (loss) from discontinued operations, net of taxes | 189             | (1,286)  | (115)    | 1,890                        |
| Net income   | ¥ 68,026        | ¥ 76,457 | ¥ 81,034 | \$ 680,260                   |
| Effect of dilutive convertible bonds                     | ¥               | ¥        | ¥ 55     | \$                           |
| <b>Diluted net income (loss):</b>                        |                 |          |          |                              |
| Income from continuing operations                        | ¥ 67,837        | ¥ 77,743 | ¥ 81,204 | \$ 678,370                   |
| Income (loss) from discontinued operations, net of taxes | 189             | (1,286)  | (115)    | 1,890                        |
| Net income   | ¥ 68,026        | ¥ 76,457 | ¥ 81,089 | \$ 680,260                   |

|  | Number of Shares<br>(Thousands) |           |           |
|--|---------------------------------|-----------|-----------|
|  | 2008                            | 2007      | 2006      |
| Weighted average common shares outstanding | 1,288,337                       | 1,295,750 | 1,304,097 |
| Effect of dilutive convertible bonds       |                                 |           | 10,831    |
| Diluted common shares outstanding          | 1,288,337                       | 1,295,750 | 1,314,928 |

**13. OTHER COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2008, 2007, and 2006 are as follows:

|  | Millions of Yen<br>2008 |                          |                      | Thousands of U.S. Dollars<br>2008 |                          |                      |
|--|-------------------------|--------------------------|----------------------|-----------------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount    | Tax Benefit<br>(Expense) | Net-of-Tax<br>Amount | Before-Tax<br>Amount              | Tax Benefit<br>(Expense) | Net-of-Tax<br>Amount |
| <b>Foreign currency translation adjustments:</b>               |                         |                          |                      |                                   |                          |                      |
| Foreign currency translation adjustments arising during period | ¥ (2,656)               | ¥ 1,231                  | ¥ (1,425)            | \$ (26,560)                       | \$ 12,310                | \$ (14,250)          |
| Reclassification adjustment for losses realized in net income  |                         |                          |                      |                                   |                          |                      |
|  | (2,656)                 | 1,231                    | (1,425)              | (26,560)                          | 12,310                   | (14,250)             |

**Unrealized losses on securities:**



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|   |                   |                 |                   |                     |                   |                     |
|---|-------------------|-----------------|-------------------|---------------------|-------------------|---------------------|
| Unrealized losses on securities arising during period         | (68,031)          | 27,626          | (40,405)          | (680,310)           | 276,260           | (404,050)           |
| Reclassification adjustment for losses realized in net income | 6,011             | (2,440)         | 3,571             | 60,110              | (24,400)          | 35,710              |
|   | (62,020)          | 25,186          | (36,834)          | (620,200)           | 251,860           | (368,340)           |
| <b>Unrealized losses on derivatives:</b>                      |                   |                 |                   |                     |                   |                     |
| Unrealized losses on derivatives arising during period        | (916)             | 322             | (594)             | (9,160)             | 3,220             | (5,940)             |
| Reclassification adjustments for gains realized in net income | 191               | (82)            | 109               | 1,910               | (820)             | 1,090               |
|   | (725)             | 240             | (485)             | (7,250)             | 2,400             | (4,850)             |
| <b>Pension liability adjustments:</b>                         |                   |                 |                   |                     |                   |                     |
| Pension liability adjustments arising during period           | (26,735)          | 10,889          | (15,846)          | (267,350)           | 108,890           | (158,460)           |
| Reclassification adjustment for gains realized in net income  | (808)             | 328             | (480)             | (8,080)             | 3,280             | (4,800)             |
|   | (27,543)          | 11,217          | (16,326)          | (275,430)           | 112,170           | (163,260)           |
| <b>Other comprehensive loss</b>                               | <b>¥ (92,944)</b> | <b>¥ 37,874</b> | <b>¥ (55,070)</b> | <b>\$ (929,440)</b> | <b>\$ 378,740</b> | <b>\$ (550,700)</b> |

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|  | Millions of Yen<br>2007 |                          |                      |
|--|-------------------------|--------------------------|----------------------|
|  | Before-Tax<br>Amount    | Tax Benefit<br>(Expense) | Net-of-Tax<br>Amount |
| <b>Foreign currency translation adjustments:</b>               |                         |                          |                      |
| Foreign currency translation adjustments arising during period | ¥ 5,095                 | ¥ (425)                  | ¥ 4,670              |
| Reclassification adjustment for losses realized in net income  |                         |                          |                      |
|  | 5,095                   | (425)                    | 4,670                |
| <b>Unrealized losses on securities:</b>                        |                         |                          |                      |
| Unrealized losses on securities arising during period          | (22,114)                | 8,976                    | (13,138)             |
| Reclassification adjustment for gains realized in net income   | (789)                   | 320                      | (469)                |
|  | (22,903)                | 9,296                    | (13,607)             |
| <b>Unrealized losses on derivatives:</b>                       |                         |                          |                      |
| Unrealized losses on derivatives arising during period         | (4,823)                 | 1,924                    | (2,899)              |
| Reclassification adjustments for losses realized in net income | 4,469                   | (1,814)                  | 2,655                |
|  | (354)                   | 110                      | (244)                |
| <b>Other comprehensive loss</b>                                | ¥ (18,162)              | ¥ 8,981                  | ¥ (9,181)            |
| <br>   |                         |                          |                      |
|  | Millions of Yen<br>2006 |                          |                      |
|  | Before-Tax<br>Amount    | Tax Benefit<br>(Expense) | Net-of-Tax<br>Amount |
| <b>Foreign currency translation adjustments:</b>               |                         |                          |                      |
| Foreign currency translation adjustments arising during period | ¥ 14,131                | ¥ (582)                  | ¥ 13,549             |
| Reclassification adjustment for losses realized in net income  | 21                      |                          | 21                   |
|  | 14,152                  | (582)                    | 13,570               |
| <b>Unrealized gains on securities:</b>                         |                         |                          |                      |
| Unrealized gains on securities arising during period           | 80,095                  | (32,524)                 | 47,571               |
| Reclassification adjustment for gains realized in net income   | (4,300)                 | 1,746                    | (2,554)              |
|  | 75,795                  | (30,778)                 | 45,017               |
| <b>Unrealized gains on derivatives:</b>                        |                         |                          |                      |
| Unrealized losses on derivatives arising during period         | (5,593)                 | 2,289                    | (3,304)              |
| Reclassification adjustments for losses realized in net income | 6,698                   | (2,719)                  | 3,979                |
|  | 1,105                   | (430)                    | 675                  |
| <b>Other comprehensive income</b>                              | ¥ 91,052                | ¥ (31,790)               | ¥ 59,262             |

The components of other comprehensive income at March 31, 2008, 2007, and 2006 and the related changes, net of taxes for the year ended March 31, 2008, 2007, and 2006 consist of the following:

Millions of Yen

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|  | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Gains<br>(Losses) on<br>Securities | Unrealized<br>Gains<br>(Losses)<br>on<br>Derivatives | Pension<br>Liability<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Income (loss) |
|--|---|--|--|-------------------------------------|--|
| <b>Balance, March 31, 2005</b>                         | ¥ (12,913)  | ¥ 41,016   | ¥ (596)  | ¥                                   | ¥ 27,507   |
| Current period change                                  | 13,570  | 45,017   | 675  |                                     | 59,262   |
| <b>Balance, March 31, 2006</b>                         | 657   | 86,033   | 79   |                                     | 86,769   |
| Current period change                                  | 4,670   | (13,607)   | (244)  |                                     | (9,181)  |
| Adjustment to initial apply SFAS No. 158, net of taxes |   |  |  | 8,659                               | 8,659  |
| <b>Balance, March 31, 2007</b>                         | 5,327   | 72,426   | (165)  | 8,659                               | 86,247   |
| Current period change                                  | (1,425)   | (36,834)   | (485)  | (16,326)                            | (55,070)   |
| <b>Balance, March 31, 2008</b>                         | ¥ 3,902   | ¥ 35,592   | ¥ (650)  | ¥ (7,667)                           | ¥ 31,177   |

|                                | Thousands of U.S. Dollars                         |  |   |                                     |  |
|--------------------------------|---|--|---|-------------------------------------|--|
|                                | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Gains<br>(Losses) on<br>Securities | Unrealized<br>Gains<br>(Losses) on<br>Derivatives | Pension<br>Liability<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Income (loss) |
| <b>Balance, March 31, 2007</b> | \$ 53,270   | \$ 724,260                                       | \$ (1,650)  | \$ 86,590                           | \$ 862,470   |
| Current period change          | (14,250)  | (368,340)  | (4,850)   | (163,260)                           | (550,700)  |
| <b>Balance, March 31, 2008</b> | \$ 39,020   | \$ 355,920                                       | \$ (6,500)  | \$ (76,670)                         | \$ 311,770   |

**Table of Contents****14. DERIVATIVE FINANCIAL INSTRUMENTS****Risk Management Policy**

The Company is subject to market rate risks due to fluctuation of foreign currency exchange rates and interest rates. The Company manages these risks by using derivative financial instruments in accordance with established policies and procedures. The Company does not use derivative financial instruments for trading purposes. The credit risks associated with these instruments are not considered to be significant since the counterparties are reliable major international financial institutions and the Company does not anticipate any such losses.

**Foreign Currency Exchange Risks**

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

**Interest Rate Risks**

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

**Cash Flow Hedges**

Changes in the fair value of foreign exchange contracts and interest rate swap agreements designated and qualifying as cash flow hedges are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. In the case of interest rate swaps, the amounts are reclassified when the related interest expense is recognized. Substantially all of the unrecognized net loss on derivatives included in accumulated other comprehensive income at March 31, 2008 will be reclassified into earnings within the next 12 months.

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK****Fair Value of Financial Instruments**

The carrying value and fair values of financial instruments at March 31, 2008 and 2007 are as follows:

|   | Millions of Yen |            |                |            | Thousands of U.S. Dollars |              |
|---|-----------------|------------|----------------|------------|---------------------------|--------------|
|   | 2008            |            | 2007           |            | 2008                      |              |
|   | Carrying Value  | Fair Value | Carrying Value | Fair Value | Carrying Value            | Fair Value   |
| <b>Financial assets:</b>  |                 |            |                |            |                           |              |
| Finance receivables - net   | ¥ 272,529       | ¥ 268,121  | ¥ 252,739      | ¥ 239,924  | \$ 2,725,290              | \$ 2,681,210 |
| Long-term trade accounts receivable - net                                 | 49,464          | 52,154     | 49,451         | 51,717     | 494,640                   | 521,540      |
| <b>Financial liabilities:</b>   |                 |            |                |            |                           |              |
| Long-term debt  | (243,450)       | (242,211)  | (214,957)      | (210,777)  | (2,434,500)               | (2,422,110)  |
| <b>Derivative financial instruments recorded as assets (liabilities):</b> |                 |            |                |            |                           |              |
| Foreign exchange instruments  | 895             | 895        | (899)          | (899)      | 8,950                     | 8,950        |
| Interest rate swaps and other instruments                                 | (1,152)         | (1,152)    | 33             | 33         | (11,520)                  | (11,520)     |

The fair values of finance receivables, long-term trade accounts receivable, and long-term debt are based on discounted cash flows using the current market rate. The carrying value of finance receivables - net at March 31, 2008 and 2007 in the table excludes that of finance leases. Long-term trade accounts receivable in the table include the current portion, which is included in trade accounts receivable on the consolidated balance sheet.

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The carrying amounts of cash and cash equivalents, notes and accounts receivable and payable (excluding the current portion of long-term trade accounts receivable), and short-term borrowings approximate the fair value because of the short maturity of those instruments. The carrying value and fair values of other investments are disclosed in Note 4.

### **Concentration of Credit Risks**

Interest in sold receivables and retail finance receivables are composed of those to the dealers or customers in the farm equipment market in North America. Interest in sold receivables arises from the sales of trade accounts receivable to a large number of dealers, and retail finance receivables arise from the sales of the Company's products to the retail customers. The Company considers that credit risks on these receivables are limited since no single dealer or customer represents a significant concentration of credit risks.

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**Table of Contents****16. SUPPLEMENTAL EXPENSE INFORMATION****Research and Development Expenses, Advertising Costs, Shipping and Handling Costs and Depreciation**

Amounts of certain costs and expenses for the years ended March 31, 2008, 2007, and 2006 were as follows:

|                                   | Millions of Yen |          |          | Thousands of<br>U.S. Dollars |
|-----------------------------------|-----------------|----------|----------|------------------------------|
|                                   | 2008            | 2007     | 2006     | 2008                         |
| Research and development expenses | ¥ 24,784        | ¥ 22,925 | ¥ 22,731 | \$ 247,840                   |
| Advertising costs                 | 9,550           | 10,085   | 9,184    | 95,500                       |
| Shipping and handling costs       | 51,068          | 50,982   | 45,834   | 510,680                      |
| Depreciation                      | 30,119          | 25,094   | 25,167   | 301,190                      |

**Loss from Disposal and Impairment of Businesses and Fixed Assets**

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2008 includes a loss from disposal of fixed assets of ¥925 million (\$9,250 thousand) and a gain on disposal of business of ¥314 million (\$3,140 thousand) resulting from a partial sale of the shares of a company which conducts condominium business.

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2007 includes a loss from disposal of fixed assets of ¥1,172 million and a loss from disposal and impairment of businesses of ¥1,446 million resulting mainly from the liquidation of a company which operated a construction business.

Loss from disposal and impairment of businesses and fixed assets for the year ended March 31, 2006 includes a loss from impairment of fixed assets of ¥1,038 million and a loss from disposal and impairment of businesses of ¥3,648 million resulting mainly from a loss of ¥2,788 million related to the additional payments due to employment transfer to a subsidiary and an affiliated company.

**17. COMMITMENTS AND CONTINGENCIES****Commitments**

Commitments for capital expenditures outstanding at March 31, 2008 approximated ¥3,756 million (\$37,560 thousand).

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

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

|                          | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|--------------------------|-----------------|----------|------------------------------|
|                          | 2008            | 2007     | 2008                         |
| Machinery and equipment  | ¥ 12,359        | ¥ 12,148 | \$ 123,590                   |
| Accumulated depreciation | (6,224)         | (5,852)  | (62,240)                     |
| Software                 | 336             | 281      | 3,360                        |
|                          | ¥ 6,471         | ¥ 6,577  | \$ 64,710                    |

Amortization expenses under capital leases for the years ended March 31, 2008, 2007, and 2006 were ¥3,861 million (\$38,610 thousand), ¥3,677 million, and ¥2,763 million, respectively.



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Future minimum lease payments required under capital and noncancelable operating leases that have an initial or a remaining lease term in excess of one year as of March 31, 2008 were as follows:

| Years Ending March 31,                                     | Millions of Yen |                  | Thousands of U.S. Dollars |                  |
|--|-----------------|------------------|---------------------------|------------------|
|  | Capital Leases  | Operating Leases | Capital Leases            | Operating Leases |
| 2009   | ¥ 3,561         | ¥ 826            | \$ 35,610                 | \$ 8,260         |
| 2010   | 1,906           | 364              | 19,060                    | 3,640            |
| 2011   | 858             | 131              | 8,580                     | 1,310            |
| 2012   | 181             | 89               | 1,810                     | 890              |
| 2013   | 72              | 78               | 720                       | 780              |
| 2014 and thereafter  | 31              | 75               | 310                       | 750              |
| <b>Total minimum lease payments</b>                        | <b>6,609</b>    | <b>¥ 1,563</b>   | <b>66,090</b>             | <b>\$ 15,630</b> |
| Less: amounts representing interest                        | (138)           |                  | (1,380)                   |                  |
| <b>Present value of net minimum capital lease payments</b> | <b>¥ 6,471</b>  |                  | <b>\$ 64,710</b>          |                  |

Capital lease obligations are included in the current portion of long-term debt and long-term debt in the consolidated balance sheets. Rental expenses under operating leases for the years ended March 31, 2008, 2007, and 2006 were ¥5,619 million (\$56,190 thousand), ¥5,727 million, and ¥6,009 million, respectively.

**Guarantees**

The Company is contingently liable as guarantor of the indebtedness of distributors including affiliated companies, and customers for their borrowings from financial institutions. The Company would have to perform under these guarantees in the events of default on a payment within the guarantee periods of 1 year to 10 years for distributors and customers. The maximum potential amount of undiscounted future payments of these financial guarantees as of March 31, 2008 was ¥2,602 million (\$26,020 thousand).

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

The changes in the accrued product warranty cost for the years ended March 31, 2008 and 2007 were as follows:

|                               | Millions of Yen |                | Thousands of U.S. Dollars |
|-------------------------------|-----------------|----------------|---------------------------|
|                               | 2008            | 2007           | 2008                      |
| Balance at beginning of year  | ¥ 6,201         | ¥ 5,473        | \$ 62,010                 |
| Addition                      | 4,823           | 5,007          | 48,230                    |
| Utilization                   | (4,565)         | (4,335)        | (45,650)                  |
| Other                         | (2)             | 56             | (20)                      |
| <b>Balance at end of year</b> | <b>¥ 6,457</b>  | <b>¥ 6,201</b> | <b>\$ 64,570</b>          |

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

**Legal Proceedings**



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

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

An unfavorable outcome from this issue could materially affect the Company's results of operations or cash flows in a given year. In November, 2007, the hearing on the surcharge ended. However, the Company is not able to predict the timing of the decision and its outcome at this moment.

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**Table of Contents****Matters Related to Health Hazard of Asbestos****(Background)**

Until 1995, the Company's plant in Amagasaki, Hyogo Prefecture, had produced asbestos-containing products. In April 2005, the Company was advised that some residents who lived near the plant suffered from mesothelioma, a form of cancer that is said to be mainly caused by aspiration of asbestos. In June 2005, the Company voluntarily decided to make consolation payments to certain residents with mesothelioma and started the program. In April 2006, the Company decided to establish the relief payment system in place of the consolation payment and make additional payment to the residents to whom consolation payment was paid or payable, and started the system. The new supporting system is applied to the residents who make a claim for the payment in the future. With regard to current and former employees who suffered and are suffering from asbestos-related diseases, the Company shall make the compensation which is not required by law but is made in accordance with the Company's internal policies.

The Japanese government newly established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases ( New Asbestos Law ) in March 2006. This law was enacted for the purpose of promptly providing relief to the people suffering from asbestos-related diseases who are not eligible for relief by compensation from the Insurance in accordance with the Workers' Accident Compensation Insurance Law. The relief aid payments are contributed by the national government, municipal governments, and business entities. The contribution, which includes a special contribution by the companies which operated a business closely related to asbestos, to be made by business entities commenced from the year ended March 31, 2008.

**(Accounting for Asbestos-Related Expenses)**

The Company expenses the payments for the health hazard of asbestos based on the Company's accounting policies and procedures. (See Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.) The expenses include payments to certain residents who lived near the Company's plant and current and former employees, and special contribution in accordance with the New Asbestos Law. The Company recorded expenses aggregating ¥1,090 million (\$10,900 thousand), ¥4,035 million, and ¥4,196 million during the years ended March 31, 2008, 2007, and 2006, respectively. These amounts are included in the selling, general, and administrative expenses. During the year ended March 31, 2007, the Company expensed the special contribution in accordance with the New Asbestos Law aggregating ¥735 million which is expected to be paid during four years commencing on and after April 1, 2007. The Company accrues in those cases where the conditions of loss contingencies provided under SFAS No. 5, Accounting for Contingencies, are met. The amount accrued and included in recorded expenses were ¥968 million (\$9,680 thousand) and ¥1,359 million at March 31, 2008 and 2007, respectively. Though the Company believes that this amount appears to be a better estimate than any other amount within a reasonably estimable range of amounts, the additional exposure to loss in excess of this accrued amount of ¥720 million (\$7,200 thousand) exists.

Since the Company has no basis or information to estimate the number of current and former employees and residents that are going to apply for payments, the Company is not able to consider such condition in accounting for the amount accrued and included in recorded expenses. While asbestos-related lawsuits against the Japanese government and the Company have been filed since May 2007, the Company is not also able to predict the proceedings of the lawsuits and possibility of being named in other lawsuits like this. Therefore, the Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to this contingency. However, the Company believes asbestos-related issues contain potentially material risks for the Company's consolidated results of operations, financial position, and its liquidity.

**Table of Contents****18. SECURITIZATION OF RECEIVABLES**

The Company sells trade and finance receivables to investors through independent securitization trusts. (See Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.) The Company recognized pretax losses resulting from the sales of trade receivables of ¥3,008 million (\$30,080 thousand), ¥2,607 million, and ¥931 million for the years ended March 31, 2008, 2007, and 2006, respectively. The Company recognized pretax gains resulting from the sales of finance receivables of ¥77 million (\$770 thousand) and ¥211 million for the years ended March 31, 2008 and 2007, respectively, and recognized pretax losses resulting from the sales of finance receivables of ¥172 million for the year ended March 31, 2006. The amounts of servicing assets or liabilities were not material as of March 31, 2008 and 2007.

The retained interests in sold receivables are subordinate to investors' interests. If forecasted future cash flows result in an other-than-temporary decline in the fair value of the retained interests, then an impairment loss is recognized to the extent that the fair value is less than the carrying amount.

The value of the retained interests is subject to credit, repayment, dilution, and interest rate risks on sold receivables. Due to the short-term nature of the Company's retained interest in sold receivables, its fair value approximated carrying value, net of an appropriate allowance. The amounts of credit losses and delinquencies were not material.

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

|                                      | 2008  | 2007   |
|--------------------------------------|-------|--------|
| <b>Trade receivables:</b>            |       |        |
| Weighted average life (months)       | 6.5   | 6.5    |
| Expected net dilution (monthly rate) | 0.78% | 0.78%  |
| Discount rate and fee (annual rate)  | 5.58% | 5.57%  |
| <b>Finance receivables:</b>          |       |        |
| Weighted-average life (months)       |       | 35.0   |
| Expected credit losses (annual rate) |       | 0.13%  |
| Discount rate (annual rate)          |       | 10.00% |

The following depicts the sensitivity of the fair value of retained interests in trade receivables at March 31, 2008 to adverse changes in the key economic assumptions of the current fair value of future cash flow:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| <b>Trade receivables:</b>                  |                 |                           |
| Fair value of retained interest            | ¥ 77,767        | \$ 777,670                |
| Expected net dilution (monthly rate):      | 0.78%           |                           |
| Impact on fair value of 10% adverse change | 338             | 3,380                     |
| Impact on fair value of 20% adverse change | 674             | 6,740                     |
| Discount rate and fee (annual rate):       | 5.58%           |                           |
| Impact on fair value of 10% adverse change | 31              | 310                       |
| Impact on fair value of 20% adverse change | 62              | 620                       |

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

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

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|  | Millions of Yen |           |           | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------|-----------|------------------------------|
|  | 2008            | 2007      | 2006      | 2008                         |
| <b>Trade receivables:</b>  |                 |           |           |                              |
| Proceeds from collections reinvested in revolving-period securitizations | ¥ 160,468       | ¥ 165,633 | ¥ 163,671 | \$ 1,604,680                 |
| Servicing fees received  | 413             | 338       | 275       | 4,130                        |
| <b>Finance receivables:</b>  |                 |           |           |                              |
| Servicing fees received  |                 | 576       | 219       |                              |
| Cash flows received on retained interests in securitizations             |                 | 1,489     | 598       |                              |

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**Table of Contents****19. DISCONTINUED OPERATIONS**

During the year ended March 31, 2007, Kubota Retex Corp., a subsidiary reported in the Environmental Engineering Segment, decided to liquidate itself and withdraw from industrial waste treatment market. During the year ended March 31, 2008, the Company completed liquidation.

Operating results of the discontinued operations for the years ended March 31, 2008, 2007, and 2006 were as follows:

|  | Millions of Yen |           |         | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------|---------|------------------------------|
|  | 2008            | 2007      | 2006    | 2008                         |
| Revenues   | ¥               | ¥ 267     | ¥ 615   | \$                           |
| Income (loss) from discontinued operations before income taxes | ¥ 316           | ¥ (2,818) | ¥ (115) | \$ 3,160                     |
| Gain from disposal of business                                 |                 |           |         |                              |
| Income taxes   | (127)           | 1,532     |         | (1,270)                      |
| Income (loss) from discontinued operations                     | ¥ 189           | ¥ (1,286) | ¥ (115) | \$ 1,890                     |

**20. SUBSEQUENT EVENTS**

On May 13, 2008, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2008 of ¥8 per common share (¥40 per 5 common shares) or a total of ¥10,248 million (\$102,480 thousand).

On June 20, 2008, the Company's Board of Directors approved the purchase of up to 10,000,000 shares, or up to ¥10,000 million (\$100,000 thousand) of the parent company's outstanding common stock on and after June 23, 2008 through September 24, 2008.