

KUBOTA CORP
Form 20-F/A
June 27, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F/A

(AMENDMENT NO. 1)

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

OR

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

For the fiscal year ended March 31, 2005

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, SHIKITSUHIGASHI 1-CHOME, NANIWA-KU, OSAKA, JAPAN

(Address of principal executive offices)

Securities registered or to be registered pursuant to

Section 12(b) of the Act

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

* 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.

| <u>Title of Class</u> | <u>Outstanding as of</u> | |
|----------------------------|---------------------------------------|--|
| | <u>March 31, 2005</u> (Tokyo Time) | <u>March 31, 2005</u> (New York Time) |
| Common stock | 1,340,808,978 shares | |
| American Depositary Shares | | 2,088,542 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 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

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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):

Large accelerated filer Accelerated filer Non-accelerated filer

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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Explanatory Note

The registrant hereby amends its annual report on Form 20-F for the fiscal year ended March 31, 2005 (the Form 20-F), which was filed with the Securities and Exchange Commission on September 26, 2005. The purpose of this amendment (this Form 20-F/A) is to reflect restatements in the registrant's consolidated financial statements for the fiscal years ended March 31, 2003, 2004 and 2005. These restatements reflect the effects of the presentation of a subsidiary sold by the registrant during the fiscal year ended March 31, 2005 as a discontinued operation under Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The registrant's restated consolidated financial statements for the fiscal years ended March 31, 2003, 2004 and 2005, together with an auditor's report thereon, are included in this Form 20-F/A. Revisions related to these restatements have been made in the selected financial data set forth under A. Selected Financial Data of Item 3. Key Information . The registrant has also revised the discussion under B. Business Overview of Item 4. Information on the Company , A. Operating Results and D. Trend Information of Item 5. Operating and Financial Review and Prospects , A. Consolidated Statements and Other Financial Information of Item 8. Financial Information and Item 15. Controls and Procedures , in order to reflect the effects of these restatements. Except with respect to these matters, the registrant's restated consolidated financial statements included in this Form 20-F/A do not reflect any events that have occurred after the filing of the Form 20-F.

All information contained in this Form 20-F/A is as of or for the 12 months ended March 31, 2005 unless otherwise specified in response to a comment from the staff of the U.S. Securities and Exchange Commission.

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

Certain sections of this Form 20-F/A 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 3. Key Information**

The information required by this item, except as stated below, appears on page 11 in the consolidated financial statements of this Form 20-F/A.

A. Selected Financial Data

| | Years ended March 31 (millions of yen) | | | | |
|-------------------------------|--|--------|--------|--------|--------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Capital stock | 78,156 | 78,156 | 78,156 | 78,156 | 78,156 |
| Capital expenditures | 37,170 | 36,342 | 35,845 | 21,396 | 26,097 |
| Depreciation and amortization | 43,926 | 40,535 | 38,804 | 27,755 | 25,808 |
| R & D expenses | 30,257 | 30,186 | 26,405 | 23,261 | 21,963 |

| | Years ended March 31 | | | | |
|---|----------------------|--------|--------|--------|--------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Cash dividends declared per depositary share: | | | | | |
| Interim (in yen) | 15 | 15 | 15 | 15 | 15 |
| (in U.S. dollars) | 0.134 | 0.119 | 0.121 | 0.138 | 0.136 |
| Year-end (in yen) | 15 | 15 | 15 | 15 | 25 |
| (in U.S. dollars) | 0.120 | 0.125 | 0.125 | 0.138 | 0.233 |
| Exchange rates (yen amounts per U.S. dollar): | | | | | |
| Year-end | 125.54 | 132.70 | 118.07 | 104.18 | 107.22 |
| Average | 111.65 | 125.64 | 121.10 | 112.75 | 107.28 |
| High | 125.54 | 134.77 | 133.40 | 120.55 | 114.30 |
| Low | 104.19 | 115.89 | 115.71 | 104.18 | 102.26 |

| 2005 | Feb. | Mar. | Apr. | May | Jun. | Jul. |
|------------|--------|--------|--------|--------|--------|--------|
| High | 105.84 | 107.49 | 108.67 | 108.17 | 110.91 | 113.42 |
| Low | 103.70 | 103.87 | 104.64 | 104.41 | 106.64 | 110.47 |
| Period-end | 104.25 | 107.22 | 104.64 | 107.97 | 110.91 | 112.25 |

Notes to Selected Financial Data:

1. Cash dividends in U.S. dollars are computed based on the exchange rates, determined as described in the succeeding Note 2, at each respective payment date.

2. 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 9, 2005 was ¥109.69 = US\$1.

Table of Contents**Item 4. Information on the Company****B. Business Overview**

The Company classifies its products for revenue reporting purposes into the following 4 product 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.

The Company reclassified its segment information for the year ended March 31, 2004 to confirm with the segment information for the year ended March 31, 2005. See further description in Segment Information in the attached 2005 Annual Report.

Net Sales by Product Group

Years ended March 31, 2005, 2004, and 2003

| | <u>Millions of yen</u> | | <u>Thousands of U.S. dollars</u> |
|--|------------------------|--------------|----------------------------------|
| | <u>2005</u> | | <u>2005</u> |
| | <u>¥</u> | <u>%</u> | <u>\$</u> |
| Internal Combustion Engine and Machinery | 582,664 | 59.3 | 5,445,458 |
| Pipes, Valves, and Industrial Castings | 170,629 | 17.3 | 1,594,664 |
| Environmental Engineering | 117,633 | 12.0 | 1,099,374 |
| Other | 112,300 | 11.4 | 1,049,532 |
| Total | 983,226 | 100.0 | 9,189,028 |

| | <u>Millions of yen</u> | | | |
|--|------------------------|--------------|----------------|--------------|
| | <u>2004</u> | | <u>2003</u> | |
| | <u>¥</u> | <u>%</u> | <u>¥</u> | <u>%</u> |
| Internal Combustion Engine and Machinery | 501,551 | 53.9 | 444,169 | 48.0 |
| Pipes, Valves, and Industrial Castings | 175,178 | 18.8 | 177,217 | 19.1 |
| Environmental Engineering | 115,721 | 12.5 | 136,381 | 14.7 |
| Other | 137,426 | 14.8 | 168,021 | 18.2 |
| Total | 929,876 | 100.0 | 925,788 | 100.0 |

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 largest manufacturer of farm equipment and small engines for agricultural use based on market share. Sales in this market in Japan are 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 sales of this segment accounted for 55.9% of the total sales of this segment in fiscal 2005.

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 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, People's Republic of China and Thailand, and minority equity interests in an overseas manufacturing company.

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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, filament winding (FW) pipes, 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, tunnel segments, and soil pipes and fittings. Steel castings include alloyed tubing and fittings for the petrochemical industry, rolls for the paper industry, centrifugal cast pipes used in oil tankers, and centrifugal cast steel columns and piles used in civil engineering and construction.

The products in this segment are manufactured at 10 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, night soil treatment plants, landfill leachate treatment plants, submerged membrane systems and biogas production systems. Regarding solid waste treatment, the Company supplies refuse incineration plants, industrial waste treatment plants, pulverizing facilities. The Company is also engaged in related engineering, such as contaminated soil remediation and industrial waste treatment business.

This segment manufactures and supplies various pumps for waterworks, sewage facilities, irrigation system, rainwater drainage and power supplies.

At present, almost all the sales 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.

Overseas Activities

The Company's overseas sales (which represent sales to unaffiliated customers outside Japan) in fiscal 2005, 2004, and 2003 amounted to ¥345,324 million (\$3,227,327 thousand), ¥286,891 million and ¥241,891 million, respectively. The ratios of such overseas sales to consolidated net sales in 2005, 2004, and 2003 were 35.1%, 30.9 % and 26.1%, respectively. The sales of the Company's subsidiaries outside Japan in fiscal 2005, 2004, and 2003 amounted to ¥323,943 million (\$3,027,504 thousand), ¥254,795 million and 213,181 million, respectively. Its ratio to consolidated net sales in fiscal 2005, 2004, and 2003 were 32.9%, 27.4% and 23.0%, respectively.

The Company has manufacturing subsidiaries in the U.S.A., Canada, Germany, China, Indonesia and Thailand, and manufacturing affiliates in Indonesia and China. International sales subsidiaries are located in the U.S.A., Canada, France, the U.K., Germany, Spain, Australia, Singapore, China and South Korea. In addition, a representative office is maintained in Beijing, and 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) and Cairo (Egypt).

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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.

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 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, 2005, the Company held 5,735 Japanese patent and utility model registrations, and 885 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 2005, royalty income and expenses were ¥672 million (\$6,280 thousand) and ¥706 million (\$6,598 thousand), respectively, under such licensing arrangements.

Competition

The Company is the largest manufacturer of farm equipment in Japan based on market share. 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. The Company believes that foreign manufacturers do not at present produce the kind of machinery or, in the case of farm tractors, the size of tractors suited to Japanese agriculture and that the Company has the advantages that accrue from an established production and distribution system. 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 investments, tariffs, anti-monopoly, intellectual property, foreign exchange, and environment.

Domestic sales of farm equipment, which are the mainstay of the Company's business, are prone to be influenced by Japanese agricultural policies. For example, policies that decrease rice prices or reduce rice paddy acreage will adversely influence the sales of farm equipment.

In overseas markets, restrictions on exhausted gas may affect the engines business of the Company.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

(The fiscal year ended March 31, 2005 compared with the fiscal year ended March 31, 2004)

General Economic Conditions

During the year ended March 31, 2005, although the Japanese economy initially maintained an upward trend, the tempo of economic growth slackened after the summer, reflecting slower growth of exports and higher prices of oil and raw materials. Overseas, while the U.S. economy expanded smoothly supported by active housing investment and private capital expenditures, the EU economy decelerated gradually, affected by the stronger Euro.

While the domestic market for Internal Combustion Engine and Machinery was sluggish, overseas markets, especially the small-sized tractors market in the U.S.A., were brisk due to active private consumption and the high level of housing starts. As for the public works related markets, the total amount of orders remained stagnant as ever due to the continuously declining public works spending. The domestic demand for ductile iron pipe, which is one of the mainstays in the public works related products, continued to decline although the pace of decrease declined. Environmental Engineering also faced a difficult operating environment in terms of receiving orders from public agencies.

Sales

Under such conditions, net sales of the Company during the year under review were ¥983.2 billion (\$9,189 million), a 5.7% increase from the prior year, and domestic sales were ¥637.9 billion (\$5,962 million), a 0.8% decrease from the prior year. Although the negative impact from the sale of building materials operations in December 2003 (a decrease of ¥28.5 billion) was largely offset by a favorable increase in sales in other

segments, domestic sales slightly declined from the prior year.

Overseas sales were ¥345.3 billion (\$3,227 million), a 20.4% increase from the prior year. This increase was mainly due to the continuing growth in sales of tractors in North America where a very promising new product was introduced, and brisk sales of construction machinery and engines principally in the U.S.A. and European markets. As a result, overseas sales accounted for 35.1% of net sales, 4.2 percentage points higher than in the prior year.

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Sales by Industry Segment

1) Internal Combustion Engine and Machinery

Sales in Internal Combustion Engine and Machinery were ¥582.7 billion (\$5,446 million), 16.2% higher than in the prior year, comprising 59.3% of consolidated net sales. Domestic sales increased 5.8%, to ¥257.0 billion (\$2,402 million), and overseas sales increased 25.9%, to ¥325.7 billion (\$3,044 million). This segment consists of farm equipment and engines as well as construction machinery.

In the domestic market, due to the declining number of farmers and the negative impact of typhoons and earthquakes, market conditions were rather harsh. Accordingly, the Company executed aggressive sales promotion campaigns in connection with the introduction of new models of competitively priced farm equipment offering improved performance. By stimulating the market through these activities, the Company further diversified its customer base and increased its market share, which led to higher sales. Sales of construction machinery also increased due to the expansion of sales to rental companies and the introduction of new models supported by a recovery in demand. In overseas markets, sales of tractors in North America remained strong as a result of the introduction of new models and sales promotions, including promotions offering a 0% promotional interest rate. In particular, sales of a newly introduced product, the utility vehicle (multipurpose four-wheel vehicles), greatly exceeded expectations, fueling overall sales growth. In European markets, sales of tractors remained steady. In Asian and Oceanian markets, the Company recorded favorable sales, especially in Australia, South Korea, and Thailand. Sales of engines increased due principally to growth in demand from European and North American manufacturers of industrial machinery. Sales of construction machinery, underpinned by growing worldwide demand, also expanded sharply in Europe, our main market, and in the U.S.A., where the market for mini-excavators is growing rapidly.

2) Pipes, Valves, and Industrial Castings

Sales in Pipes, Valves, and Industrial Castings were ¥170.6 billion (\$1,594 million), 2.6% lower than in the prior year, comprising 17.3% of consolidated net sales. Domestic sales increased 2.0%, to ¥155.4 billion (\$1,452 million), but overseas sales declined 33.2%, to ¥15.2 billion (\$142 million). This segment consists of pipes and valves as well as industrial castings. As for domestic sales of ductile iron pipes and PVC pipes, prices of these products improved substantially. However, sales of ductile iron pipes decreased due to the lower demand from municipalities, while sales of PVC pipes increased, reflecting higher prices. Sales of industrial castings increased principally due to brisk demand from the steel, energy, and automobile industries.

On the other hand, overseas sales deteriorated significantly because shipments of large orders to Middle East countries were over in the prior fiscal year, although sales of industrial castings rose.

3) Environmental Engineering

Sales in Environmental Engineering were ¥117.6 billion (\$1,099 million), 1.7% higher than in the prior year, comprising 12.0% of consolidated net sales. Domestic sales increased 1.3%, to ¥113.9 billion (\$1,064 million), and overseas sales also increased, up 12.5%, to ¥3.7 billion (\$35 million). This segment consists of environmental control plants and pumps.

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In the domestic market, Sales in the Water & Sewage Engineering Division decreased as a consequence of the lower level of bids accepted by local government in the prior year due to increased competition. Sales of pumps declined owing to reduced demand of large-sized pumps. On the other hand, sales in the Waste Engineering Division increased due to the progress in construction of large orders. Overall, total sales in Environmental Engineering increased in the domestic market. Overseas sales increased due to favorable sales in a subsidiary, which sells submerged membrane system.

4) Other

Sales in Other were ¥112.3 billion (\$1,050 million), 18.3% lower than in the prior year, comprising 11.4% of consolidated net sales. Domestic sales decreased 17.4%, to ¥111.6 billion (\$1,043 million), and overseas sales declined 67.5%, to ¥0.7 billion (\$7 million). This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, septic tanks, condominiums, construction, and other equipment and services.

Sales of this segment decreased sharply, affected by the impact of the business transfer of building materials operations. However, sales of vending machines increased owing to brisk demand from the cigarette and bottling industries. Sales of air-conditioning equipment and condominiums also increased significantly. Additionally, sales of electronic-equipped machinery and septic tanks grew. On the other hand, revenues from construction services declined from the prior year.

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Operating Income

Operating income increased 283.8% from the prior year, to ¥86.8 billion (\$811 million). In spite of the appreciation of the yen and higher prices of raw materials, a significant decrease in pension costs (a decrease of ¥44.9 billion), increased sales centering on the Internal Combustion Engine and Machinery segment, and the reduction of costs and spending control in public works related business contributed to an increase in operating income. In the prior year, the Company recognized a large amount of unrecognized actuarial loss that resulted from unfavorable stock market conditions in Japan in the past few years before the prior year and a reduction of the discount rate used in pension plans in the year before the prior year.

The Company also had expenses related to reorganization of the building materials business in the prior year (¥4.8 billion). In contrast, the Company had non-recurring operating income in connection with the business transfer of a subsidiary in the year under review. As a result of these factors, operating income for the year under review expanded significantly. 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 ¥79.2 billion (\$740 million), a 46.5% increase; Pipes, Valves, and Industrial Castings, operating income of ¥11.5 billion (\$107 million), as compared to an operating loss of ¥5.7 billion in the prior year; Environmental Engineering, operating income of ¥5.7 billion (\$53 million), a 4,262.6% increase; and Other, operating income of ¥3.9 billion (\$36 million), as compared to an operating loss of ¥7.1 billion in the prior year.

Profitability in Internal Combustion Engine and Machinery benefited from the brisk sales of lawn mowers as well as compact and utility tractors in the U.S. market, due to steady private consumption and strong housing construction, which was similar with that of the prior year. In addition to the above factors, the decrease in pension costs contributed to an increase in operating income in this segment. Profitability in Pipes, Valves, and Industrial Castings benefited from rigorous cost controls and the increased efficiency of the manufacturing process as well as the decrease in pension costs. In Environmental Engineering, profitability improved due to the decrease in pension costs.

Cost of Sales

The cost of sales increased 1.7% from the prior year, to ¥713.3 billion (\$6,666 million). The cost of sales as a percentage of net sales decreased 2.9 percentage points, to 72.6%. The decrease in the ratio was attributable to the substantial decrease in pension costs.

SG&A Expenses

Selling, general, and administrative (SG&A) expenses decreased 8.8% from the prior year, to ¥181.7 billion (\$1,698 million). The ratio of SG&A expenses to net sales decreased 2.9 percentage points, to 18.5%. The decrease in pension costs as well as the Company's efforts for spending control in all aspects of business operations contributed to the decrease in the ratio.

Loss from Disposal and Impairment of Businesses and Fixed Assets

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Loss from disposal and impairment of business and fixed assets decreased 77.8 % from the prior year, to ¥1.4 billion (\$13 million). This improvement was mainly due to the absence of impairment loss of the roofing and siding materials business in the prior year.

Other Income (Expenses)

Other income (expenses), net, was income of ¥69.3 billion (\$647 million), an increase of ¥64.0 billion from the prior year. The increase is largely due to ¥58.6 billion from a government subsidy, which is the difference in the substitutional portion of accumulated benefit obligation settled and related plan assets transferred to the Japanese government. In addition, the foreign exchange gain improved ¥5.1 billion (\$48 million) and interest and dividend income increased by ¥2.2 billion (\$21 million).

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

Due to the factors described above, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies increased 459.4%, to ¥156.0 billion (\$1,458 million).

Income Taxes

Income taxes increased 251.2% from the prior year, to ¥48.1 billion (\$450 million). The effective tax rate decreased 18.3 percentage points, to 30.8%. The primary reason for the decrease in the effective tax rate was due to the deductibility of the historical impairment losses and net operating losses related to the sale and dissolution of the subsidiaries. Related deferred tax assets were fully reserved prior to the sale and dissolution of the subsidiaries. Income tax current was ¥34.5 billion (\$322 million), an increase of ¥5.2 billion (\$49 million), and income tax deferred (expense) was ¥13.6 billion (\$127 million) as compared to income tax deferred (benefit) of ¥15.6 billion in the prior year.

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

Minority interests in earnings of subsidiaries increased ¥1.0 billion, to ¥3.4 billion (\$32 million). Equity in net income of affiliated companies increased ¥1.5 billion from the prior year, to ¥2.3 billion (\$22 million). Increased profit of the joint venture Kubota Matsushitadenko Exterior Works, Ltd., contributed to increased equity in net income of affiliated companies.

Income (Loss) from Discontinued Operations, Net of Taxes

Income from discontinued operations, net of taxes was ¥11.1 billion (\$104 million), as compared to a loss of ¥0.8 billion in the prior year. This income resulted from a gain in connection with the sale of a subsidiary that operated a golf course.

Net Income

Due to the factors described previously, net income was ¥117.9 billion (\$1,102 million), compared with ¥11.7 billion in the prior year. Return on shareholders' equity improved 23.7 percentage points, to 27.0%, from the prior year.

Income per ADS

Basic net income per ADS (5 common shares) was ¥446 (\$4.17), as compared to ¥44 in the prior year. The number of shares of treasury stock held by the Company was 40.4 million as of March 31, 2005, and these shares were excluded from the calculation of net income per ADS.

Dividends

The Company's basic policy for the allocation of profit is to maintain or raise dividends. To this end, the Company determines the most appropriate use of retained earnings by considering requirements of maintaining stable current business operations as well as the future business environment. A year-end cash dividend per ADS at the rate of ¥25 (\$0.23) was approved at the general meeting of shareholders, held on June 24, 2005. The Company also paid a ¥15 (\$0.14) per ADS interim dividend to each shareholder.

Comprehensive Income

Comprehensive income was ¥119.3 billion (\$1,115 million), a ¥33.5 billion improvement from the prior year. The increase resulted from the expansion of net income, to ¥117.9 billion (\$1,102 million). However, the increase was partially offset by a decrease in unrecognized gains on securities and adjustment to reduce the minimum pension liability.

(The fiscal year ended March 31, 2004 compared with the fiscal year ended March 31, 2003)

General Economic Conditions

During the year ended March 31, 2004, the Japanese economic recovery continued at a gradual pace, supported by steady growth in private capital expenditure and exports. However, public investment remained weak, resulting in harsh business conditions for the Company. Overseas, in the U.S.A., brisk private consumption continued, housing investment remained favorable, private capital expenditures expanded, and signs of an economic upturn prevailed.

While the domestic market for Internal Combustion Engine and Machinery showed slight improvement, the overseas market, especially the small size tractor market in the U.S.A., was brisk due to increased private consumption and lower interest rates. As for the public works related market, the total amount of orders and order prices remained sluggish due to the reduction of public works spending. The demand for ductile iron pipes, one of the mainstays in the public works related market, showed no signs of increase, although the pace of decrease declined.

Sales

Under such conditions, net sales of the Company during the year under review were ¥929.9 billion, a 0.4% increase from the prior year. Domestic sales were ¥643.0 billion, a 6.0% decrease from the prior year, resulting principally from persistently sluggish sales of public works related products, the sale of Kubota Lease Corporation, and the business transfer of the roofing and siding materials operations to a newly formed affiliate (the Company has applied the equity method of accounting to the affiliated company). Overseas sales were ¥286.9 billion, an 18.6% increase from the prior year, mainly due to the strong sales of tractors in North America and brisk export of ductile iron pipes to Middle Eastern countries. As the increase in overseas sales exceeded the decrease in domestic sales, net sales increased. The percentage of overseas sales to net sales was 30.9%, 4.8 percentage points higher than the prior year.

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Sales by Industry Segment

1) Internal Combustion Engine and Machinery

Sales in Internal Combustion Engine and Machinery totaled ¥501.5 billion, an increase of 12.9% from the prior year, comprising 53.9% of consolidated net sales. Domestic sales were ¥243.0 billion, an increase of 7.7%, and overseas sales were ¥258.5 billion, an increase of 18.3% from the prior year. This segment consists of farm equipment and engines and construction machinery.

(1) Sales of farm equipment and engines were ¥450.7 billion, an increase of 12.9% from the prior year. Domestic sales were ¥219.8 billion, an increase of 7.6%, and overseas sales were ¥231.0 billion, an increase of 18.3% from the prior year. In domestic markets, the Company has aggressively conducted sales promotion campaigns to introduce new models of farm equipment with improved performance and price-competitiveness and thus stimulated the market and increased its market share. As a result, sales of farm equipment increased from the prior year. In overseas markets, sales of tractors in North America had a significant increase resulting from sales campaigns, including a zero-percent promotional interest rate offered by the Company's retail finance subsidiary, and the introduction of new models, such as full model changes of the L-series tractors. In the Asian market, sales of farm equipment grew favorably, especially in China and South Korea.

Sales of engines increased 4.4% from the prior year. Domestic sales increased 0.7%, and overseas sales also increased 5.0%, owing principally to growing sales to original equipment manufacturers in EU markets as well as in the U.S. markets. (2) Sales of construction machinery were ¥50.8 billion, an increase of 13.4% from the prior year. Domestic sales were ¥23.2 billion, an increase of 8.8%, and overseas sales were ¥27.6 billion, an increase of 17.6% from the prior year. While demand for construction machinery in the Japanese market recovered, the Company made successful marketing efforts aimed at major rental companies, resulting in a sales increase. Overseas, while demand in EU markets was recovering and demand in North America was strong, the Company achieved sales increases by introducing new models and executing effective sales campaigns.

2) Pipes, Valves, and Industrial Castings

Sales in Pipes, Valves, and Industrial Castings totaled ¥175.2 billion, a decrease of 1.2% from the prior year, comprising 18.8% of consolidated net sales. Domestic sales were ¥152.5 billion, a decrease of 4.1%, and overseas sales were ¥22.7 billion, an increase of 24.6% from the prior year. This segment consists of pipes and valves and industrial castings.

(1) Sales of pipes and valves were ¥143.8 billion, a decrease of 1.2% from the prior year. Domestic sales were ¥130.7 billion, a decrease of 3.6%, and overseas sales were ¥13.1 billion, an increase of 30.1% from the prior year. While domestic sales of ductile iron pipes decreased slightly from the prior year, domestic sales of PVC pipes remained at the same level in spite of a reduction in public works spending and the financial difficulties of local governments. However, sales of spiral-welded steel pipes and valves declined significantly, and thus total domestic sales of this sub-segment decreased. Overseas sales surged as a result of the brisk export of ductile iron pipes to Middle Eastern countries.

(2) Sales of industrial castings were ¥31.4 billion, a decrease of 0.8% from the prior year. Domestic sales were ¥21.8 billion, a decrease of 7.2%, and overseas sales were ¥9.6 billion, an increase of 17.7% from the prior year. Domestic sales declined mainly due to the weak demand for ductile tunnel segments in construction markets, although the demand in steel industries recovered. Overseas sales increased due to the rising demand for reformer tubes in petrochemical industries.

3) Environmental Engineering

Sales in Environmental Engineering totaled ¥115.7 billion, a decrease of 15.1% from the prior year, comprising 12.4% of consolidated net sales. Domestic sales were ¥112.4 billion, a decrease of 16.5%, and overseas sales were ¥3.3 billion, an increase of 79.6% from the prior year. This segment consists of environmental control plants and pumps.

Due to prolonged sluggish public works spending and fierce competition, domestic sales fell in the Solid Waste Engineering, Water Environment Engineering, and Pumps divisions. Sales in the Solid Waste Engineering division decreased due to a downturn in demand for rebuilding incinerators to prevent dioxin emissions and as a result of the very low number of orders received during the prior fiscal year. Sales in the Water and Sewage Engineering division increased due to the high level of orders received in the prior year. Overseas sales increased due to the growing export of pumps to the African and Southeast Asian markets.

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4) Building Materials and Housing

Sales in Building Materials and Housing were ¥51.8 billion, a decrease of 19.5% from the prior year, comprising 5.6% of consolidated net sales. This segment consists mainly of building materials (roofing materials, siding materials, and septic tanks) and sales of condominiums.

(1) Sales of building materials were ¥42.7 billion, a decrease of 25.5% from the prior year. On December 1, 2003, Matsushita Electric Works, Ltd. (MEW), and the Company established and held a 50% ownership in Kubota Matsushitadenko Exterior Works, Ltd. (hereinafter KMEW), the joint operation entity, into which the Company transferred its roofing and siding materials business. The Company has applied the equity method of accounting to KMEW, due to its 50% ownership in the entity, and has excluded the sales of roofing and siding materials during the period from December 1, 2003, through March 31, 2004, from its consolidated operations. Accordingly, sales of building materials fell sharply. Sales of septic tanks remained at the same level as in the prior year, owing to the focus of marketing efforts on the expansion of market share.

(2) Sales of condominiums were ¥9.1 billion, an increase of 29.7% from the prior year. Sales of condominiums surged from the prior year due to the completion of large orders during the year under review.

5) Other

Sales in Other were ¥85.6 billion, a decrease of 17.4% from the prior year, comprising 9.3% of consolidated net sales. Domestic sales were ¥83.3 billion, a decrease of 17.1%, and overseas sales were ¥2.3 billion, a decrease of 27.2% from the prior year. This segment consists of vending machines, weighing and measuring control systems, electronic-equipped machinery, air-conditioning equipment, construction, and other items.

The decrease was mainly due to the sale of Kubota Lease Corporation at the beginning of the year which had sales of ¥13.4 billion in the prior year. Although sales of electronic-equipped machinery increased due to a recovery in private sector capital expenditures, sales of vending machines decreased, due to increasing price competition. Sales of construction also decreased, mainly due to the reduction in public works spending.

Operating Income

Operating income decreased 51.5% from the prior year, to ¥22.6 billion, and as a percentage of net sales decreased to 2.4%, 2.6% lower than the prior year. The decrease was mainly due to a significant increase in pension costs in fiscal 2004 (an increase of ¥43.4 billion) and expenses resulting mainly from the reorganization of the building materials business (¥4.8 billion). The increase in pension costs resulted from the unfavorable stock market conditions in Japan, which caused a significant loss on plan assets in the prior year. Accordingly, the Company amortized a large amount of unrecognized actuarial loss during fiscal 2004. Additionally, the Company reduced the discount rate used in pension plans from 3.0% to 2.5% as of March 31, 2003, resulting in an increase in benefit obligations. The expenses from the reorganization of the building materials business include a loss resulting from the disposal of certain fixed assets related to the roofing and siding materials business.

Operating Income or Loss in Each Industry Segment

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 ¥54.0 billion, a 4.7% decrease; Pipes, Valves, and Industrial Castings, operating loss of ¥5.7 billion, as compared to operating income of ¥1.9 billion in the prior year; Environmental Engineering, operating income of ¥0.1 billion, a 98.5% decrease; Building Materials and Housing, operating loss of ¥6.4 billion, as compared to operating income of ¥32 million in the prior year; and Other, operating loss of ¥0.7 billion, compared with loss of ¥0.2 billion for the prior year.

Profitability in Internal Combustion Engine and Machinery benefited from the brisk sales of lawn mowers, compact and utility tractors in the U.S. market, due to lower interest rates, and strong housing construction, which was consistent with the prior year. However, this benefit was offset by the increase in pension costs and, in the end, operating income declined from the prior year. Profitability in Pipes, Valves, and Industrial Castings benefited from rigorous cost controls and the increased efficiency of the manufacturing process production system. However, these benefits were offset by the surge in the prices of raw materials and the increase in pension costs. In Environmental Engineering, profitability deteriorated because of lower sales to local governments. Building Materials and Housing recorded an operating loss of ¥6.4 billion, reflecting various expenses from the reorganization of the building materials business amounting to approximately ¥4.7 billion.

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Cost of Sales

The cost of sales increased 0.9% from the prior year, to ¥701.7 billion. The cost of sales as a percentage of net sales increased 0.4%, to 75.5%. In spite of a favorable product mix and continuous cost reduction efforts, the increase in pension costs (an increase of ¥28.2 billion) increased the ratio of cost of sales to sales.

Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses increased 10.1% from the prior year, to ¥199.2 billion. The ratio of SG&A expenses to net sales increased 1.9 percentage points, to 21.4%. The Company continued to reduce SG&A expenses by reducing staff at the corporate headquarters. These efforts were successful and achieved the goal of reduced costs. However, the surge in pension costs (an increase of ¥15.2 billion) resulted in an overall increase in total SG&A expenses.

Loss from Disposal and Impairment of Businesses and Fixed Assets

Loss from disposal and impairment of businesses and fixed assets increased 125.8%, to ¥6.4 billion. The increase was mainly due to recorded impairment loss of the roofing and siding materials business.

Other Income (Expenses)

Other income, net, was ¥5.2 billion, an increase of ¥28.7 billion from the prior year. The valuation losses on short-term and other investments decreased ¥23.7 billion from the prior year, to ¥1.1 billion, and the gain on sales of securities increased by ¥3.2 billion. Interest expense was ¥4.3 billion and has been decreasing over the past 5 consecutive years due to the reduction of interest-bearing debt.

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

Due to the factors above, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies increased 20.5%, to ¥27.9 billion.

Income Taxes

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Income taxes increased 11.4% from the prior year, to ¥13.7 billion. Income tax current was ¥29.3 billion, an increase of ¥7.7 billion, and income tax deferred (benefit) increased ¥6.3 billion, to ¥15.6 billion.

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

Minority interests in earnings of subsidiaries increased ¥0.4 billion, to ¥2.5 billion. Equity in net income of affiliated companies increased ¥0.5 billion from the prior year, to ¥0.8 billion.

Income (Loss) from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes was ¥0.8 billion, as compared to a loss of ¥17.0 billion in the prior year. Most of loss from discontinued operations, net of taxes of the prior year was due to a substantial loss on impairment of fixed assets of a golf course amounting to ¥16.8 billion.

Net Income (Loss)

Due to the aforementioned factors, net income was ¥11.7 billion, compared with a loss of ¥8.0 billion in the prior year. Return on shareholders equity improved 5.6%, to 3.3%, from the prior year.

Income per ADS

Basic net income per ADS (5 common shares) was ¥44, as compared to a loss per ADS of ¥29 in the prior year. The number of shares of treasury stock held by the Company was 69.6 million as of March 31, 2004, and these shares were excluded from the calculation of net income per ADS.

Dividends

The Company's basic policy for the allocation of profit is to maintain or raise dividends. To this end, the Company determines the most appropriate use of retained earnings by considering current business operations as well as the future business environment. A year-end cash dividend per ADS at the rate of ¥15 was approved at the general meeting of shareholders, held on June 25, 2004. The Company also paid a ¥15 per ADS interim dividend to each shareholder. Accordingly, the annual cash dividends per ADS were ¥30.

Comprehensive Income

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Comprehensive income was ¥85.9 billion, ¥142.1 billion improvement from the prior year. This increase was due to the improvement in net income of ¥19.7 billion, an increase in unrealized gains on securities of ¥55.0 billion, and a ¥68.0 billion adjustment to reduce the minimum pension liability from the prior year.

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D. Trend Information

Outlook for the Next Fiscal Year

General Conditions

Although the Japanese economy is expected to break out of its stagnant condition, the prospects are still unpredictable considering current risks, especially considering that the potential for higher prices of raw materials and crude oil may have a negative impact on the world economy. The Company expects the difficult economic conditions to persist.

Medium-Term Management Strategy

The Company formulated the Medium-Term Management Strategy (for the 2 years ending March 31, 2006) in order to further improve profitability and is engaged in a concerted effort to implement the strategy corporate-wide. The key target of the strategy is to create a business structure that can generate operating income of more than 8% of consolidated net sales on a regular basis. In fiscal 2005, the Company attained an operating income ratio of 8.8%, exceeding our target. Building on the progress made in the first year of the strategy, the Company intends to pursue higher levels of achievement and to do its utmost to ensure that the strategy will be implemented with maximum effectiveness, relying on the 3 principal concepts of the strategy: Reforming the business structure and profit structure, Reforming operational systems, and Strengthening the financial position.

Financial Outlook

Under such conditions, the Company expects consolidated net sales for the year ending March 31, 2006 to increase slightly from the prior year. Domestic sales are expected to be almost the same amount as that of the year ended March 31, 2005. Overseas sales are expected to increase steadily due to sales expansion in the Internal Combustion Engine and Machinery segment.

The Company expects a steady improvement in operating income. Although the price increases in raw materials and the appreciation of the yen will result in downward pressure on operating income, increases of overseas sales in the Internal Combustion Engine and Machinery, corporate-wide cost cuts, and a decrease in pension costs are expected to contribute to the increase in operating income. The Company also expects a sharp decrease of net income mainly due to the significant decrease in other income net as a result of a government subsidy recorded during the year ended March 31, 2005.

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.

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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 Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the 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. As of this filing date, the Company is still in the process of the hearing procedures.

The Company's action in response to issues in connection with the health hazard of asbestos

Until 1995, the Company's plant in Amagasaki, Hyogo Prefecture, which is now a company office, had produced asbestos-containing products. In April 2005, the Company was advised that some residents who lived near the former plant suffered from mesothelioma, a form of lung cancer and is said to be mainly caused by aspiration of asbestos. After discussing this issue with those patients and their private support groups, and deliberating internally and consulting with outside advisors, the Company announced on June 30, 2005 that it would pay consolation payments to three patients. Subsequently, such payments were made. The Company stated in its announcement that, although the causal relationship between the Company's manufacturing activities of asbestos-containing products and the contraction of diseases such as mesothelioma was not clear, it reached this decision because of the need to act quickly to economically assist these long-suffering patients, who had incurred certain medical expenses, from the viewpoint of social responsibility. The Company also stated that it would react seriously and faithfully if it learned of asbestos-related health hazards that occurred near its other plants.

Subsequent to the Company's announcement, in accordance with the Company's policies and procedures, the Company decided to make consolation payments to additional patients with mesothelioma who lived near the former plant during a specified period and to the families of residents who died from mesothelioma.

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

The Company expenses payments to residents and current and former employees when the Company determines that a payment is warranted based on the medical condition of the individual concerned and in consideration of the Company's policy. During the years ended March 31, 2005, 2004 and 2003, the Company made payments aggregating ¥210 million (\$1,963 thousand), ¥433 million and ¥142 million, respectively, to current and former employees affected by asbestos contamination. Although the Company has not been involved in any lawsuits up to the present time related to the asbestos-related health hazards of employees (including former employees) who engaged in the manufacturing of asbestos-containing products, and residents who lived near the Company's plants at which asbestos-containing products were produced, the Company may face lawsuits related to this issue. The Company believes that it is not possible at this time to reasonably estimate its total exposure and the related liability to current and former employees and residents related to this matter that might ultimately be incurred in the future. No liability for this contingency has been recorded in the Company's accompanying consolidated balance sheets as of March 31, 2005 and 2004.

Subsequent event

On May 13, 2005, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2005 of ¥5 per common share (¥25 per 5 common shares) or a total of ¥7 billion (\$61million). The resolution to pay the cash dividend was approved at the general meeting held on June 24, 2005.

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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/A.

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 (\$66,093 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 Anti-Monopoly Law, upon initiation of the procedures the surcharge order lost effect. In addition, Section 7-2 of the 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. As of March 31, 2005 the Company is still in the process of the hearing procedures.

Patent Infringement

In July 2003, Etesia, which manufactures mowers in France, filed a patent infringement lawsuit and a noise regulation infringement lawsuit against the Company to the French district court. The district court rendered a verdict in favor of the Company in January 2005.

Policy on Dividends Distributions

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The Company's basic policy for the allocation of profit is to maintain or raise 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.

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PART II

Item 15. Controls and Procedures

In connection with the original filing of the Form 20-F, 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) under the U.S. Securities Exchange Act of 1934) as of March 31, 2005. Based on that evaluation, the Company's chief executive and chief financial officers concluded that the Company's disclosure controls and procedures were effective as of that date.

In connection with the filing of this Form 20-F/A, the Company's management, with the participation of its chief executive and chief financial officers, reevaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2005. This reevaluation included examination of the process and procedures for gathering and summarizing the information relating to the sale by the Company of a subsidiary, which operated a golf course, during the fiscal year ended March 31, 2005, for which restatements have been made to the Company's consolidated financial statements in response to a comment from the staff of the U.S. Securities and Exchange Commission. In the consolidated financial statements included in the Form 20-F, the results of operations of the subsidiary were not accounted for as a discontinued operation as required by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). The Company's management determined that the failure to ensure the correct application of that Statement with respect to the reporting of results of operation of the subsidiary was attributable to a material weakness in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934). Based on the reevaluation mentioned above, the Company's chief executive and chief financial officers concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2005 solely due to such material weakness in its internal control over financial reporting.

To remediate the above-mentioned material weakness in the Company's internal control over financial reporting, the Company has taken, or is taking, the following measures:

The Company is currently formulating an accounting staff's checklist to ensure the correct application of SFAS 144 with respect to discontinued operations. With this checklist, the Company's management will check whether there are any operations to be accounted for as a discontinued operation, and if there is any such discontinued operation, whether it is appropriately accounted for in accordance with SFAS 144.

The Company is currently preparing to implement management's additional oversight controls to review and approve accounting treatment and related documentation to ensure SFAS 144 is appropriately applied with respect to discontinued operations.

The disclosure committee of the Company will monitor and confirm whether the discontinued operations are accounted for correctly in accordance with SFAS 144 when the committee reviews the Company's financial statements and its disclosures.

These changes in the Company's internal control over financial reporting have occurred, or are occurring, during the Company's current fiscal year ending March 31, 2007.

No change in the Company's internal control over financial reporting occurred during the year ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 17. Financial Statements

See Consolidated Financial Statements attached hereto.

Item 18. Financial Statements

Not applicable

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Item 19. Exhibits

Documents filed as exhibits to this Form 20-F/A are as follows:

The consolidated financial statements of this Form 20-F/A

| | Pages in the consolidated financial statements |
|--|---|
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| Five-Year Financial Summary of Operations | 1 |
| [Information with respect to Item 3 is included] | |
| Segment Information | 2 to 3 |
| Consolidated Financial Statements as indicated in accompanying Index to Consolidated Financial Statements | 4 to 31 |
| Independent Auditors Report | 32 |
| | |
| 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 | |
| | |
| 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 | |

* Previously filed with the Securities and Exchange Commission on September 26, 2005.

(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/A and that it has duly caused and authorized the undersigned to sign this amendment to the annual report on its behalf.

KUBOTA CORPORATION

Date: June 23, 2006

By /s/ Hirokazu Nara
Hirokazu Nara
Director
(Principal Financial and Accounting Officer)

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Kubota Corporation and Subsidiaries

Consolidated Financial Statements

and Financial Statements Schedule Comprising

Item 17 of the consolidated financial statements of Form 20-F/A

to Securities and Exchange Commission

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for the Years Ended March 31, 2005, 2004, and 2003,

and Independent Auditors Report

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Consolidated Financial Statements and Independent Auditors Report Included in the Consolidated Financial Statements of 20-F/A Attached Hereto and Incorporated by Reference:

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| <u>Five-Year Financial summary</u> | 1 |
| <u>Segment Information (Years Ended March 31, 2005 and 2004)</u> | 2 and 3 |
| <u>Consolidated Balance Sheets (as of March 31, 2005 and 2004 (as restated))</u> | 4 and 5 |
| <u>Consolidated Statements of Income (Years Ended March 31, 2005, 2004, and 2003)</u> | 6 |
| <u>Consolidated Statements of Comprehensive Income (Loss) (Years Ended March 31, 2005, 2004, and 2003)</u> | 7 |
| <u>Consolidated Statements of Shareholders' Equity (Years Ended March 31, 2005, 2004, and 2003)</u> | 7 |
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| Financial Statement Schedule and Other Supplemental Information: | |
| <u>Schedule II : Valuation and Qualifying Accounts (Years Ended March 31, 2005, 2004, and 2003)</u> | A |
| <u>Supplemental Note to Consolidated Financial Statements with Respect to Income Taxes to Conform with Regulation S-X</u> | B |
| All other schedules and supplemental information are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or in notes thereto. | |
| <u>Independent Auditors' Report</u> | C |

Table of Contents**FIVE-YEAR FINANCIAL SUMMARY**

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, 2003, 2002, and 2001

| | Millions of Yen (Except Per Share Information) | | | | | Thousands of U.S. Dollars (Except Per Share Information) (Note 1) |
|---|---|-----------|-----------|-----------|-----------|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 | 2005 |
| For the year | | | | | | |
| Net sales | ¥ 983,226 | ¥ 929,876 | ¥ 925,788 | ¥ 965,429 | ¥ 984,385 | \$ 9,189,028 |
| Percentage of previous year | 105.7% | 100.4% | 95.9% | 98.1% | 101.1% | |
| Cost of sales | 713,312 | 701,718 | 695,543 | 729,834 | 742,487 | 6,666,468 |
| Selling, general, and administrative expenses | 181,727 | 199,189 | 180,857 | 188,112 | 197,912 | 1,698,383 |
| Loss from disposal and impairment of businesses and fixed assets | 1,414 | 6,359 | 2,816 | 12,788 | 468 | 13,215 |
| Operating income | 86,773 | 22,610 | 46,572 | 34,695 | 43,518 | 810,962 |
| Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 156,035 | 27,892 | 23,155 | 28,991 | 61,141 | 1,458,271 |
| Cumulative effect of an accounting change | | | | | (21,559) | |
| Net income (loss): | 117,901 | 11,700 | (8,004) | 9,530 | 9,795 | 1,101,879 |
| Percentage of previous year | 1,007.7% | | | 97.3% | 59.6% | |
| Percentage of net sales | 12.0% | 1.3% | (0.9)% | 1.0% | 1.0% | |
| Net income (loss) per common share (Yen and U.S. Dollars): | | | | | | |
| Basic | ¥ 89.11 | ¥ 8.72 | ¥ (5.84) | ¥ 6.78 | ¥ 6.95 | \$ 0.83 |
| Diluted | 86.83 | 8.53 | (5.84) | 6.67 | 6.83 | 0.81 |
| Net income (loss) per 5 common shares (Yen and U.S. Dollars): | | | | | | |
| Basic | ¥ 446 | ¥ 44 | ¥ (29) | ¥ 34 | ¥ 35 | \$ 4.17 |
| Diluted | 434 | 43 | (29) | 33 | 34 | 4.06 |
| Pro forma amounts assuming accounting change was applied retroactively: | | | | | | |
| Net income | | | | | ¥ 31,354 | |
| Net income per common share (Yen): | | | | | | |
| Basic | | | | | ¥ 22 | |
| Diluted | | | | | 21 | |
| Net income per 5 common shares (Yen): | | | | | | |
| Basic | | | | | ¥ 111 | |
| Diluted | | | | | 104 | |
| Cash dividends per common share (Yen and U.S. Dollars): | | | | | | |
| | ¥ 6 | ¥ 6 | ¥ 6 | ¥ 6 | ¥ 6 | \$ 0.06 |
| | 30 | 30 | 30 | 30 | 30 | 0.28 |

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Cash dividends per 5 common shares (Yen and U.S. Dollars):

| At year-end | | | | | | |
|--|--------------------|-------------|-------------|-------------|-------------|----------------------|
| Total assets | ¥ 1,193,056 | ¥ 1,124,225 | ¥ 1,139,011 | ¥ 1,200,117 | ¥ 1,290,756 | \$ 11,150,056 |
| Working capital | 171,326 | 199,747 | 159,221 | 169,428 | 162,644 | 1,601,178 |
| Long-term debt | 117,488 | 144,845 | 155,966 | 167,850 | 182,238 | 1,098,019 |
| Total shareholders' equity | 481,019 | 391,082 | 315,443 | 394,970 | 434,979 | 4,495,505 |
| Shareholders' equity per common share outstanding (Yen and U.S. Dollars): | ¥ 369.90 | ¥ 291.81 | ¥ 234.45 | ¥ 284.07 | ¥ 308.54 | \$ 3.46 |
| Shareholders' equity per 5 common shares outstanding (Yen and U.S. Dollars): | ¥ 1,849 | ¥ 1,459 | ¥ 1,172 | ¥ 1,420 | ¥ 1,543 | \$ 17.28 |

- Notes:
1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107=US\$1. See Note 1 to the consolidated financial statements.
 2. The Company has not accounted for a nonmonetary security exchange transaction 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. Pro forma data reflect the effect of an accounting change in retirement and pension costs to account for actuarial gains and losses in accordance with its current policy as described in Note 6 to the consolidated financial statements.
 6. Working capital is the amount of total current assets less total current liabilities in the consolidated balance sheets. Working capital from 2001 through 2004 was restated as described in Note 17 to the consolidated financial statements.
 7. 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 17 to the consolidated financial statements.

Table of Contents**SEGMENT INFORMATION**

The following segment information for the years ended March 31, 2005 and 2004, which is required under the regulations of the Securities and Exchange Law of Japan, is not consistent with accounting principles generally accepted in the United States of America.

In December 2003, the Company transferred the building materials business to one of its affiliated companies. Accordingly, the Building Materials & Housing segment was considered immaterial, and was included in the Other segment. The industry segment information for the year ended March 31, 2004 has been reclassified to conform with the industry segment information for the year ended March 31, 2005.

Industry Segments

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

| Millions of Yen | | | | | | | |
|--------------------------------------|---|--|------------------------------|----------------|----------------|--------------------------------|----------------|
| Year Ended March 31, 2004 | Internal Combustion Engine & Machinery | Pipes, Valves, & Industrial Castings | Environmental Engineering | Other | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | | |
| Unaffiliated customers | ¥ 501,551 | ¥ 175,178 | ¥ 115,721 | ¥ 137,426 | ¥ 929,876 | ¥ | ¥ 929,876 |
| Intersegment | 32 | 6,923 | 696 | 16,581 | 24,232 | (24,232) | |
| Total | 501,583 | 182,101 | 116,417 | 154,007 | 954,108 | (24,232) | 929,876 |
| Cost of sales and operating expenses | 447,559 | 187,783 | 116,286 | 161,058 | 912,686 | (5,420) | 907,266 |

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| | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|------------|-------------|
| Operating income | ¥ 54,024 | ¥ (5,682) | ¥ 131 | ¥ (7,051) | ¥ 41,422 | ¥ (18,812) | ¥ 22,610 |
| Identifiable assets at March 31, 2004 | ¥ 512,885 | ¥ 204,764 | ¥ 101,086 | ¥ 109,829 | ¥ 928,564 | ¥ 195,661 | ¥ 1,124,225 |
| Depreciation | 12,713 | 7,440 | 927 | 3,777 | 24,857 | 2,397 | 27,254 |
| Capital expenditures | 13,096 | 2,504 | 2,711 | 2,117 | 20,428 | 968 | 21,396 |

Thousands of U.S. Dollars

| Year Ended March 31, 2005 | Internal Combustion Engine & Machinery | Pipes, Valves, & Industrial Castings | Environmental Engineering | Other | Total | Corporate & Eliminations | Consolidated |
|---------------------------------------|---|--|------------------------------|------------------|-------------------|--------------------------------|-------------------|
| Net sales: | | | | | | | |
| Unaffiliated customers | \$ 5,445,458 | \$ 1,594,664 | \$ 1,099,374 | \$ 1,049,532 | \$ 9,189,028 | \$ | \$ 9,189,028 |
| Intersegment | 823 | 76,981 | 2,327 | 139,776 | 219,907 | (219,907) | |
| Total | 5,446,281 | 1,671,645 | 1,101,701 | 1,189,308 | 9,408,935 | (219,907) | 9,189,028 |
| Cost of sales and operating expenses | 4,706,505 | 1,564,402 | 1,048,290 | 1,153,028 | 8,472,225 | (94,159) | 8,378,066 |
| Operating income | \$ 739,776 | \$ 107,243 | \$ 53,411 | \$ 36,280 | \$ 936,710 | \$ (125,748) | \$ 810,962 |
| Identifiable assets at March 31, 2005 | \$ 5,739,467 | \$ 1,781,953 | \$ 989,626 | \$ 942,748 | \$ 9,453,794 | \$ 1,696,262 | \$ 11,150,056 |
| Depreciation | 132,280 | 59,514 | 8,692 | 15,682 | 216,168 | 21,851 | 238,019 |
| Capital expenditures | 163,383 | 17,037 | 3,346 | 12,972 | 196,738 | 47,159 | 243,897 |

Note: In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the results of operations related to discontinued operations are eliminated from Other , Total , and Consolidated .

Table of Contents**Geographic Segments**

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

| Millions of Yen | | | | | | |
|---------------------------------------|-----------------|-----------------|----------------|------------------|--------------------------------|-----------------|
| Year Ended March 31, 2004 | Japan | North America | Other Areas | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ 675,081 | ¥ 188,767 | ¥ 66,028 | ¥ 929,876 | ¥ | ¥ 929,876 |
| Intersegment | 154,741 | 2,656 | 1,949 | 159,346 | (159,346) | |
| Total | 829,822 | 191,423 | 67,977 | 1,089,222 | (159,346) | 929,876 |
| Cost of sales and operating expenses | 814,036 | 172,195 | 63,338 | 1,049,569 | (142,303) | 907,266 |
| Operating income | ¥ 15,786 | ¥ 19,228 | ¥ 4,639 | ¥ 39,653 | ¥ (17,043) | ¥ 22,610 |
| Identifiable assets at March 31, 2004 | ¥ 752,041 | ¥ 177,163 | ¥ 44,290 | ¥ 973,494 | ¥ 150,731 | ¥ 1,124,225 |

| Thousands of U.S. Dollars | | | | | | |
|--------------------------------------|------------------|------------------|----------------|-------------------|--------------------------------|------------------|
| Year Ended March 31, 2005 | Japan | North America | Other Areas | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | |
| Unaffiliated customers | \$ 6,161,524 | \$ 2,169,486 | \$ 858,018 | \$ 9,189,028 | \$ | \$ 9,189,028 |
| Intersegment | 1,806,000 | 28,037 | 26,094 | 1,860,131 | (1,860,131) | |
| Total | 7,967,524 | 2,197,523 | 884,112 | 11,049,159 | (1,860,131) | 9,189,028 |
| Cost of sales and operating expenses | 7,274,879 | 2,009,757 | 815,019 | 10,099,655 | (1,721,589) | 8,378,066 |

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| | | | | | | |
|---------------------------------------|--------------|--------------|------------|---------------|--------------|---------------|
| Operating income | \$ 692,645 | \$ 187,766 | \$ 69,093 | \$ 949,504 | \$ (138,542) | \$ 810,962 |
| Identifiable assets at March 31, 2005 | \$ 6,977,822 | \$ 2,422,598 | \$ 605,019 | \$ 10,005,439 | \$ 1,144,617 | \$ 11,150,056 |

Note: In accordance with SFAS No. 144, the results of operations related to discontinued operations are eliminated from Japan, Total, and Consolidated.

Sales by Region

| Years Ended March 31, 2005 and 2004 | Millions of Yen | | | | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|--------|-----------|--------|---------------------------|
| | 2005 | | 2004 | | 2005 |
| Japan | ¥ 637,902 | 64.9% | ¥ 642,985 | 69.1% | \$ 5,961,701 |
| Overseas: | | | | | |
| North America | 232,631 | 23.6 | 189,273 | 20.4 | 2,174,121 |
| Other Areas | 112,693 | 11.5 | 97,618 | 10.5 | 1,053,206 |
| Subtotal | 345,324 | 35.1 | 286,891 | 30.9 | 3,227,327 |
| Total | ¥ 983,226 | 100.0% | ¥ 929,876 | 100.0% | \$ 9,189,028 |

Notes: 1. Sales by region represent sales to unaffiliated customers based on the customers' locations.
 2. In accordance with SFAS No. 144, sales from discontinued operations are eliminated from Japan and Total.

Table of Contents**CONSOLIDATED BALANCE SHEETS**

Kubota Corporation and Subsidiaries March 31, 2005 and 2004

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|--------------------|----------------------------------|--|
| | 2005 | 2004 As Restated (Note 17) | 2005 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 74,563 | ¥ 81,221 | \$ 696,850 |
| Short-term investments (Note 4) | | 3,001 | |
| Notes and accounts receivable (Notes 1, 3, 5 and 15): | | | |
| Trade notes | 72,517 | 73,834 | 677,729 |
| Trade accounts | 248,338 | 227,021 | 2,320,916 |
| Less: Allowance for doubtful notes and accounts receivable | (2,257) | (2,408) | (21,093) |
| Short-term finance receivables net (Notes 1, 5 and 15) | 50,921 | 26,876 | 475,897 |
| Inventories (Note 2) | 155,146 | 142,973 | 1,449,963 |
| Other current assets (Notes 9 and 15) | 76,143 | 61,909 | 711,617 |
| Total current assets | 675,371 | 614,427 | 6,311,879 |
| Investments and long-term finance receivables: | | | |
| Investments in and advances to affiliated companies (Note 3) | 11,808 | 12,982 | 110,355 |
| Other investments (Notes 4 and 5) | 146,979 | 148,482 | 1,373,636 |
| Long-term finance receivables net (Notes 1, 5 and 15) | 80,725 | 47,964 | 754,439 |
| Total investments and long-term finance receivables | 239,512 | 209,428 | 2,238,430 |
| Property, plant, and equipment (Note 5): | | | |
| Land | 83,031 | 81,671 | 775,990 |
| Buildings | 200,173 | 200,535 | 1,870,776 |
| Machinery and equipment | 359,659 | 364,572 | 3,361,299 |
| Construction in progress | 4,499 | 2,313 | 42,047 |
| Total | 647,362 | 649,091 | 6,050,112 |
| Accumulated depreciation | (427,612) | (426,345) | (3,996,374) |
| Net property, plant, and equipment | 219,750 | 222,746 | 2,053,738 |
| Other assets (Notes 1 and 9) | 58,423 | 77,624 | 546,009 |
| Total | ¥ 1,193,056 | ¥ 1,124,225 | \$ 11,150,056 |

See notes to consolidated financial statements.

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| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|--------------------|--------------------|--|
| | 2004 | | |
| | As Restated | | |
| | 2005 | (Note 17) | 2005 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings (Note 5) | ¥ 119,802 | ¥ 85,999 | \$ 1,119,645 |
| Trade notes payable | 33,675 | 35,309 | 314,720 |
| Trade accounts payable | 183,367 | 158,397 | 1,713,710 |
| Advances received from customers | 4,104 | 6,026 | 38,355 |
| Notes and accounts payable for capital expenditures | 9,094 | 7,747 | 84,991 |
| Accrued payroll costs | 23,616 | 23,519 | 220,710 |
| Accrued expenses | 24,998 | 21,545 | 233,626 |
| Income taxes payable | 12,223 | 15,179 | 114,234 |
| Other current liabilities (Note 14) | 26,289 | 25,101 | 245,691 |
| Current portion of long-term debt (Note 5) | 66,877 | 35,858 | 625,019 |
| Total current liabilities | 504,045 | 414,680 | 4,710,701 |
| Long-term liabilities: | | | |
| Long-term debt (Note 5) | 117,488 | 144,845 | 1,098,019 |
| Accrued retirement and pension costs (Note 6) | 65,836 | 143,679 | 615,290 |
| Other long-term liabilities (Note 9) | 3,093 | 14,293 | 28,906 |
| Total long-term liabilities | 186,417 | 302,817 | 1,742,215 |
| Commitments and contingencies (Note 14) | | | |
| Minority interests | 21,575 | 15,646 | 201,635 |
| Shareholders equity (Notes 7 and 11): | | | |
| Common stock, authorized 1,931,000,000 shares and 2,000,000,000 shares in 2005 and 2004, respectively outstanding 1,300,413,082 shares and 1,340,197,124 shares in 2005 and 2004, respectively | 78,156 | 78,156 | 730,430 |
| Additional paid-in capital | 87,263 | 87,263 | 815,542 |
| Legal reserve | 19,539 | 19,539 | 182,607 |
| Retained earnings | 290,187 | 204,156 | 2,712,028 |
| Accumulated other comprehensive income | 27,507 | 26,075 | 257,075 |
| Treasury stock (40,395,896 shares and 69,611,854 shares in 2005 and 2004, respectively), at cost | (21,633) | (24,107) | (202,177) |
| Total shareholders equity | 481,019 | 391,082 | 4,495,505 |
| Total | ¥ 1,193,056 | ¥ 1,124,225 | \$ 11,150,056 |

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME**

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, and 2003

| | As Restated (Note 17) | | | Thousands of |
|--|-----------------------|-----------|-----------|---------------------|
| | Millions of Yen | | | U.S. Dollars |
| | 2005 | 2004 | 2003 | (Note 1) 2005 |
| Net sales (Note 3) | ¥ 983,226 | ¥ 929,876 | ¥ 925,788 | \$ 9,189,028 |
| Cost of sales | 713,312 | 701,718 | 695,543 | 6,666,468 |
| Selling, general, and administrative expenses | 181,727 | 199,189 | 180,857 | 1,698,383 |
| Loss from disposal and impairment of businesses and fixed assets (Note 13) | 1,414 | 6,359 | 2,816 | 13,215 |
| Operating income | 86,773 | 22,610 | 46,572 | 810,962 |
| Other income (expenses): | | | | |
| Interest and dividend income | 9,488 | 7,264 | 7,622 | 88,673 |
| Interest expense | (4,699) | (4,252) | (4,778) | (43,916) |
| Valuation losses on short-term and other investments | (423) | (1,083) | (24,822) | (3,953) |
| Subsidy from the government (Note 6) | 58,571 | | | 547,393 |
| Other net (Note 8) | 6,325 | 3,353 | (1,439) | 59,112 |
| Other income (expenses), net | 69,262 | 5,282 | (23,417) | 647,309 |
| Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 156,035 | 27,892 | 23,155 | 1,458,271 |
| Income taxes (Note 9): | | | | |
| Current | 34,491 | 29,255 | 21,538 | 322,346 |
| Deferred | 13,625 | (15,554) | (9,242) | 127,337 |
| Total income taxes | 48,116 | 13,701 | 12,296 | 449,683 |
| Minority interests in earnings of subsidiaries | 3,442 | 2,476 | 2,097 | 32,168 |
| Equity in net income of affiliated companies (Note 3) | 2,324 | 780 | 233 | 21,720 |
| Income from continuing operations | 106,801 | 12,495 | 8,995 | 998,140 |
| Income (loss) from discontinued operations, net of taxes (Note 18) | 11,100 | (795) | (16,999) | 103,739 |
| Net income (loss) | ¥ 117,901 | ¥ 11,700 | ¥ (8,004) | \$ 1,101,879 |

Yen

U.S. Dollars

| | | | | (Note 1) |
|--|----------------|---------------|-----------------|----------------|
| Net income (loss) per common share (Note 10): | | | | |
| Basic: | | | | |
| Continuing operations | ¥ 80.72 | ¥ 9.31 | ¥ 6.56 | \$ 0.75 |
| Discontinued operations | 8.39 | (0.59) | (12.40) | 0.08 |
| Net income (loss) | ¥ 89.11 | ¥ 8.72 | ¥ (5.84) | \$ 0.83 |
| Diluted: | | | | |
| Continuing operations | ¥ 78.67 | ¥ 9.09 | ¥ 6.56 | \$ 0.73 |
| Discontinued operations | 8.16 | (0.56) | (12.40) | 0.08 |
| Net income (loss) | ¥ 86.83 | ¥ 8.53 | ¥ (5.84) | \$ 0.81 |

See notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, and 2003

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|--------------------------|------------------|-------------------|--|
| | 2005 | 2004 | 2003 | 2005 |
| | Net income (loss) | ¥ 117,901 | ¥ 11,700 | ¥ (8,004) |
| Other comprehensive income (loss), net of tax (Note 11): | | | | |
| Foreign currency translation adjustments | (1,468) | (7,535) | (6,366) | (13,720) |
| Unrealized gains (losses) on securities | 517 | 43,368 | (11,602) | 4,832 |
| Minimum pension liability adjustment | 3,492 | 37,565 | (30,386) | 32,636 |
| Unrealized gains (losses) on derivatives | (1,109) | 772 | 131 | (10,365) |
| Other comprehensive income (loss) | 1,432 | 74,170 | (48,223) | 13,383 |
| Comprehensive income (loss) | ¥ 119,333 | ¥ 85,870 | ¥ (56,227) | \$ 1,115,262 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, and 2003

| | Millions of Yen | | | | | | |
|-------------------------------------|--|-----------------|----------------------------------|------------------|----------------------|--|------------------------------|
| | Shares of Common Stock Outstanding (Thousands) | Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost |
| | Balance, March 31, 2002 | 1,390,419 | ¥ 78,156 | ¥ 87,263 | ¥ 19,539 | ¥ 216,810 | ¥ 128 |
| Net loss | | | | | (8,004) | | |
| Other comprehensive loss | | | | | | (48,223) | |
| Cash dividends, ¥6 per common share | | | | | (8,289) | | |
| Purchases of treasury stock | (44,969) | | | | | | (15,011) |

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| | | | | | | | |
|-------------------------------------|-----------|----------|----------|----------|-----------|----------|------------|
| Balance, March 31, 2003 | 1,345,450 | 78,156 | 87,263 | 19,539 | 200,517 | (48,095) | (21,937) |
| Net income | | | | | 11,700 | | |
| Other comprehensive income | | | | | | 74,170 | |
| Cash dividends, ¥6 per common share | | | | | (8,061) | | |
| Purchases of treasury stock | (5,253) | | | | | | (2,170) |
| Balance, March 31, 2004 | 1,340,197 | 78,156 | 87,263 | 19,539 | 204,156 | 26,075 | (24,107) |
| Net income | | | | | 117,901 | | |
| Other comprehensive income | | | | | | 1,432 | |
| Cash dividends, ¥6 per common share | | | | | (7,989) | | |
| Purchases of treasury stock | (39,784) | | | | | | (21,407) |
| Retirement of treasury stock | | | | | (23,881) | | 23,881 |
| Balance, March 31, 2005 | 1,300,413 | ¥ 78,156 | ¥ 87,263 | ¥ 19,539 | ¥ 290,187 | ¥ 27,507 | ¥ (21,633) |

Thousands of U.S. Dollars (Note 1)

| | Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost |
|---|-----------------|----------------------------------|------------------|----------------------|--|------------------------------|
| Balance, March 31, 2004 | \$ 730,430 | \$ 815,542 | \$ 182,607 | \$ 1,908,000 | \$ 243,692 | \$ (225,299) |
| Net income | | | | 1,101,879 | | |
| Other comprehensive income | | | | | 13,383 | |
| Cash dividends, \$0.06 per common share | | | | (74,664) | | |
| Purchases of treasury stock | | | | | | (200,065) |
| Retirement of treasury stock | | | | (223,187) | | 223,187 |
| Balance, March 31, 2005 | \$ 730,430 | \$ 815,542 | \$ 182,607 | \$ 2,712,028 | \$ 257,075 | \$ (202,177) |

See notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, and 2003

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------|-----------|---|
| | 2005 | 2004 | 2003 | 2005 |
| Operating activities: | | | | |
| Net income (loss) | ¥ 117,901 | ¥ 11,700 | ¥ (8,004) | \$ 1,101,879 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 25,808 | 27,755 | 38,804 | 241,196 |
| Provision for doubtful receivables | 79 | 783 | 961 | 738 |
| Provision for (reversal of) accrued retirement and pension costs | (7,306) | 48,516 | (4,416) | (68,280) |
| Subsidy from the government | (58,571) | | | (547,393) |
| Loss (gain) on sales of securities | (1,604) | (3,161) | 5 | (14,991) |
| Valuation losses on short-term and other investments | 423 | 1,083 | 24,822 | 3,953 |
| Loss on disposals of fixed assets | 1,341 | 4,122 | 2,484 | 12,533 |
| Impairment loss on fixed assets | 1,095 | 1,263 | 17,403 | 10,234 |
| Equity in net income of affiliated companies | (2,324) | (780) | (233) | (21,720) |
| Deferred income taxes | 13,625 | (15,554) | (9,242) | 127,337 |
| Change in assets and liabilities, net of effects from sales and transfer of businesses: | | | | |
| (Increase) decrease in notes and accounts receivable | (19,540) | 48,241 | 36,917 | (182,617) |
| (Increase) decrease in inventories | (8,129) | 6,954 | 2,455 | (75,972) |
| Increase in other current assets | (15,159) | (15,812) | (5,637) | (141,673) |
| Increase (decrease) in trade notes and accounts payable | 22,404 | (9,521) | (20,315) | 209,383 |
| Increase (decrease) in income taxes payable | (3,363) | 5,195 | (2,332) | (31,430) |
| Increase (decrease) in other current liabilities | 3,151 | 310 | (3,340) | 29,449 |
| Other | (2,923) | (1,519) | (1,038) | (27,318) |
| Net cash provided by operating activities | 66,908 | 109,575 | 69,294 | 625,308 |
| Investing activities: | | | | |
| Purchases of fixed assets | (20,818) | (26,493) | (33,838) | (194,561) |
| Purchases of investments and change in advances | (495) | 9,257 | (2,056) | (4,626) |
| Proceeds from sales of property, plant, and equipment | 2,769 | 3,129 | 1,803 | 25,878 |
| Proceeds from sales of investments | 2,981 | 8,182 | 5,153 | 27,860 |
| Proceeds from sale of business | 1,117 | 2,562 | | 10,439 |
| Increase in finance receivables | (119,878) | (115,117) | (73,487) | (1,120,355) |
| Collection of finance receivables | 53,575 | 31,192 | 27,554 | 500,701 |
| Sales of finance receivables | 5,208 | 50,019 | 40,892 | 48,673 |
| Net (increase) decrease in short-term investments | 3,001 | (2,991) | 1,384 | 28,047 |
| Cash transferred in sale of a business | (6,048) | | | (56,523) |
| Other | 360 | (117) | (39) | 3,364 |
| Net cash used in investing activities | (78,228) | (40,377) | (32,634) | (731,103) |

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| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Financing activities: | | | | |
| Proceeds from issuance of long-term debt | 39,582 | 37,128 | 65,627 | 369,925 |
| Repayments of long-term debt | (39,081) | (74,171) | (45,447) | (365,243) |
| Net increase (decrease) in short-term borrowings | 34,453 | (7,489) | (26,548) | 321,991 |
| Cash dividends | (7,989) | (8,061) | (8,289) | (74,664) |
| Purchases of treasury stock | (21,451) | (2,223) | (15,011) | (200,476) |
| Other | (1,006) | (281) | (341) | (9,402) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) financing activities | 4,508 | (55,097) | (30,009) | 42,131 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Effect of exchange rate changes on cash and cash equivalents | 154 | (242) | (272) | 1,439 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net increase (decrease) in cash and cash equivalents | (6,658) | 13,859 | 6,379 | (62,225) |
| Cash and cash equivalents, beginning of year | 81,221 | 67,362 | 60,983 | 759,075 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents, end of year | ¥ 74,563 | ¥ 81,221 | ¥ 67,362 | \$ 696,850 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kubota Corporation and Subsidiaries Years Ended March 31, 2005, 2004, and 2003

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 19 plants in Japan and at 6 overseas plants located in the United States and certain other countries. Farm equipment, construction machinery, ductile iron pipe, and certain other products are not only sold in Japan but are also sold in 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, also has been omitted.

Certain reclassifications have been made to the consolidated financial statements for 2004 and 2003 to conform with classifications used in 2005.

Translation into United States Dollars

The parent company and its domestic subsidiaries maintain their accounts in Japanese yen, the currency of the country in which they are incorporated and principally operate. The United States dollar amounts included herein represent a translation using the approximate exchange rate at March 31, 2005 of ¥107=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 entities (VIEs) as defined by the FASB Interpretation No. 46 (revised December 2003) are included in the consolidated financial statements, if applicable. Intercompany items have been eliminated in consolidation.

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

Revenue Recognition

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

Sales of environmental and other plant and equipment are recorded when the installation of plant and equipment is completed and accepted by the customer. For long-term contracts, such sales are recorded under the percentage-of-completion method of accounting. 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. Estimated losses on sales contracts are recorded in the period in which they are identified.

In the case of finance receivables in which the face amount includes finance charges (principally retail financing), income is recorded over the terms of the receivables using the interest method.

Foreign Currency Translation

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

Finance Receivables

Finance receivables arise from sales of farm equipment and construction machinery to customers under retail finance agreements. The term of the receivables varies from one to eight years, with interest at rates ranging from 0.0% to 14.5% per annum.

Allowance for Doubtful Receivables

The Company provides an allowance for doubtful notes and receivables. The allowance for doubtful receivables is based on historical collection trends and management's judgment 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.

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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 other comprehensive income item of shareholders' equity. The fair values of those securities are determined based on quoted market prices.

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

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 Tokyo Financial Group, Inc.) 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 loss would have increased by ¥545 million for the year ended March 31, 2003 and net income would have increased by ¥3,081 million for the year ended March 31, 1997. There would have been no impact on operating results for the years ended March 31, 2005, and 2004. Retained earnings would have decreased by ¥380 million (\$3,551 thousand) at March 31, 2005, 2004, and 2003, with a corresponding increase in accumulated other comprehensive income. These amounts primarily reflect the unrecognized gain on the initial nonmonetary exchange in 1997 and subsequent losses on sales and impairment of the investment through 2003.

Property, Plant, and Equipment

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

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

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities and tax loss and other carryforwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to

the amount that management believes will more likely than not be realized.

Consideration Given by a Vendor to a Customer

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

Research and Development and Advertising

Research and development and advertising costs are expensed as incurred.

Shipping and Handling Costs

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

Net Income per Common Share

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

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

Derivative Financial Instruments

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

On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Company formally documents all

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relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. The Company considers all hedges to be highly effective in offsetting changes in cash flows of hedged items, because the currency, index of interest rates, amount, and terms of the derivatives correspond to those of the hedged items in accordance with the Company's policy.

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

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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.

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, 2005, 2004, and 2003, time deposits with original maturities of three months or less amounting to ¥3,333 million (\$31,150 thousand), ¥7,866 million, and ¥14,945 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥4,401 million (\$41,131 thousand), ¥4,459 million, and ¥4,759 million, and for income taxes amounted to ¥32,092 million (\$299,925 thousand), ¥24,030 million, and ¥24,117 million in 2005, 2004, and 2003, respectively.

In June 2004, the Company retired treasury stock of ¥23,881 million (\$ 223,187 thousand).

Use of Estimates in the Preparation of the Financial Statements

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

Discontinued Operations

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

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

New Accounting Standards

In March 2004, EITF reached a consensus on EITF Issue No. 03-1 (EITF 03-1), The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and non-marketable equity securities accounted for under the cost method. FASB issued FASB Staff Position EITF Issue 03-1-1 in September 2004 which delayed the effective date of the recognition and measurement of provisions of EITF 03-1. The adoption of EITF 03-1 is not expected to have a material effect on the Company's consolidated results of operations and financial position.

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

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

Reclassification of Retail Finance Receivables in the Consolidated Statements of Cash Flows and in the Consolidated Balance Sheet

Activity related to the retail finance receivables in the consolidated statements of cash flows was previously classified into operating activities as (Increase) decrease in notes and accounts receivable. The Company reconsidered its classification of the cash flow activity related to loans provided by finance subsidiaries to customers of independent dealers of the Company's products and currently classifies such activity into investing activities pursuant to the FASB No. 95, Statement of Cash Flows and in consideration of industry standards as Increase in finance receivables, Collection of finance receivables, and Sales of finance receivables in the consolidated statements of cash flows.

Additionally, the Company previously reflected loans provided by a finance subsidiary to customers of Company-owned dealers as Finance receivables in its consolidated balance sheet. The Company reconsidered its classification and currently presents the current portion of such receivables as Trade accounts receivable and the long-term portion as Other assets as such receivables consist of balances due from direct customers of the Company in connection with the sale of the Company's products. The remaining balance in the current and long-term portion of Finance receivables, after such reclassification, is comprised of loans provided by finance subsidiaries to customers of independent dealers of the

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Company's products. The reclassification has been made to the presentation of the prior years' balance sheet and the statements of cash flows to conform with classifications used for the year ended March 31, 2005.

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The impact of the reclassification of the affected line items in the consolidated statements of cash flows with respect to the years ended March 31, 2004 and 2003 is as follows:

Consolidated Statements of Cash Flows

| | Millions of Yen | | | | | |
|---|-------------------------|------------------|-----------------|-------------------------|------------------|-----------------|
| | 2004 | | | 2003 | | |
| | Previous Classification | Reclassification | As Reclassified | Previous Classification | Reclassification | As Reclassified |
| Provision for doubtful receivables | ¥ 728 | ¥ 55 | ¥ 783 | ¥ 817 | ¥ 144 | ¥ 961 |
| Decrease in notes and accounts receivable | 13,439 | 34,802 | 48,241 | 31,649 | 5,268 | 36,917 |
| Other | (568) | (951) | (1,519) | (667) | (371) | (1,038) |
| Net cash provided by operating activities | 75,669 | 33,906 | 109,575 | 64,253 | 5,041 | 69,294 |
| Increase in finance receivables | | (115,117) | (115,117) | | (73,487) | (73,487) |
| Collection of finance receivables | | 31,192 | 31,192 | | 27,554 | 27,554 |
| Sales of finance receivables | | 50,019 | 50,019 | | 40,892 | 40,892 |
| Net cash used in investing activities | (6,471) | (33,906) | (40,377) | (27,593) | (5,041) | (32,634) |

The impact of the reclassification of the affected line items in the consolidated balance sheet at March 31, 2004 is disclosed in Note 17.

2. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
| | 2005 | 2004 | 2005 |
| Manufacturing: | | | |
| Finished products | ¥ 93,576 | ¥ 85,434 | \$ 874,542 |
| Spare parts | 18,516 | 17,547 | 173,047 |
| Work in process | 21,658 | 20,640 | 202,411 |
| Raw materials and supplies | 17,362 | 14,865 | 162,262 |
| Subtotal | 151,112 | 138,486 | 1,412,262 |
| Real estate: | | | |
| Completed projects, land to be developed, and projects under development | 4,034 | 4,487 | 37,701 |

¥ 155,146 **¥ 142,973** **\$ 1,449,963**

The Company wrote down the value of completed projects, land to be developed, and projects under development by ¥363 million in 2004, due to the slumping real estate market in Japan. This amount was included in cost of sales in the consolidated statement of income.

Table of Contents**3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES**

Investments in and advances to affiliated companies at March 31, 2005 and 2004 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------|-----------------|-----------------|------------------------------|
| | 2005 | 2004 | 2005 |
| | Investments | ¥ 11,558 | ¥ 12,385 |
| Advances | 250 | 597 | 2,336 |
| | ¥ 11,808 | ¥ 12,982 | \$ 110,355 |

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

| At March 31, 2005 and 2004 | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|-----------------|-----------------|------------------------------|
| | 2005 | 2004 | 2005 |
| | Current assets | ¥ 66,245 | ¥ 77,416 |
| Noncurrent assets | 54,342 | 62,084 | 507,869 |
| Total assets | 120,587 | 139,500 | 1,126,981 |
| Current liabilities | 63,076 | 70,944 | 589,495 |
| Noncurrent liabilities | 29,102 | 37,162 | 271,981 |
| Net assets | ¥ 28,409 | ¥ 31,394 | \$ 265,505 |

| Years ended March 31, 2005, 2004, and 2003 | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|-----------|-----------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| | Net sales | ¥ 222,753 | ¥ 153,819 | ¥ 174,233 |
| Cost of sales | 165,050 | 115,154 | 133,671 | 1,542,523 |
| Other income net | 722 | 995 | 1,860 | 6,748 |
| Net income | 4,886 | 2,236 | 1,711 | 45,664 |

Trade notes and accounts receivable from affiliated companies at March 31, 2005 and 2004 were ¥22,729 million (\$212,421 thousand) and ¥23,875 million, respectively.

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Sales to affiliated companies aggregated ¥64,465 million (\$602,477 thousand), ¥74,886 million, and ¥82,433 million for the years ended March 31, 2005, 2004, and 2003, respectively.

Cash dividends received from affiliated companies were ¥28 million (\$262 thousand), ¥486 million, and ¥523 million for the years ended March 31, 2005, 2004, and 2003, respectively.

4. SHORT-TERM AND OTHER INVESTMENTS

The cost, fair value, and gross unrealized holding gains and losses for securities by major security type at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | | | | | | |
|---|-----------------|------------------|--------------------------------|---------------------------------|-----------------|------------------|--------------------------------|---------------------------------|
| | 2005 | | | | 2004 | | | |
| | Cost | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Cost | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses |
| Short-term investments: | | | | | | | | |
| Available-for-sale: | | | | | | | | |
| Corporate debt securities | ¥ | ¥ | ¥ | ¥ | ¥ 3,001 | ¥ 3,001 | ¥ | ¥ |
| Other investments: | | | | | | | | |
| Available-for-sale: | | | | | | | | |
| Equity securities of financial institutions | 22,040 | 87,232 | 65,193 | 1 | 22,307 | 89,682 | 67,375 | |
| Other equity securities | 19,812 | 47,423 | 27,717 | 106 | 19,431 | 44,463 | 25,289 | 257 |
| Government debt securities | | | | | 795 | 845 | 50 | |
| Corporate debt securities | 813 | 820 | 12 | 5 | 813 | 850 | 37 | |
| | ¥ 42,665 | ¥ 135,475 | ¥ 92,922 | ¥ 112 | ¥ 46,347 | ¥ 138,841 | ¥ 92,751 | ¥ 257 |

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| Thousands of U.S. Dollars | | | | |
|---|-------------------|---------------------|---|--|
| 2005 | | | | |
| | Cost | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses |
| Short-term investments: | | | | |
| Available-for-sale: | | | | |
| Corporate debt securities | \$ | \$ | \$ | \$ |
| Other investments: | | | | |
| Available-for-sale: | | | | |
| Equity securities of financial institutions | 205,981 | 815,252 | 609,280 | 9 |
| Other equity securities | 185,159 | 443,205 | 259,037 | 991 |
| Government debt securities | | | | |
| Corporate debt securities | 7,598 | 7,664 | 113 | 47 |
| | <u>\$ 398,738</u> | <u>\$ 1,266,121</u> | <u>\$ 868,430</u> | <u>\$ 1,047</u> |

Gross unrealized holding losses and fair values on available-for-sale securities at March 31, 2005 and 2004 aggregated by the length of time that individual securities have been in a continuous unrealized loss position were as follows:

| Millions of Yen | | | | | | | | | | |
|---|----------------|--|------------|--|---------------------|--|----------------|--|------------|--|
| 2005 | | | | | | | | | | |
| 2004 | | | | | | | | | | |
| | | | | | | | | | | |
| Less than 12 months | | | | | 12 months or longer | | | | | |
| Less than 12 months | | | | | Less than 12 months | | | | | |
| 12 months or longer | | | | | 12 months or longer | | | | | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| Other investments: | | | | | | | | | | |
| Available-for-sale: | | | | | | | | | | |
| Equity securities of financial institutions | ¥ 9 | ¥ 1 | ¥ | ¥ | ¥ | ¥ | ¥ | ¥ | ¥ | ¥ |
| Other equity securities | 1,865 | 106 | | | 328 | 26 | 1,103 | 231 | | |
| Corporate debt securities | 0 | 5 | | | | | | | | |
| | <u>¥ 1,874</u> | <u>¥ 112</u> | <u>¥</u> | <u>¥</u> | <u>¥ 328</u> | <u>¥ 26</u> | <u>¥ 1,103</u> | <u>¥ 231</u> | | |

Thousands of U.S. Dollars

2005

| | Less than 12 months | | 12 months or longer | |
|---|---------------------|---------------------------------|---------------------|---------------------------------|
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| Other investments: | | | | |
| Available-for-sale: | | | | |
| Equity securities of financial institutions | \$ 84 | \$ 9 | \$ | \$ |
| Other equity securities | 17,430 | 991 | | |
| Corporate debt securities | 0 | 47 | | |
| | <u>\$ 17,514</u> | <u>\$ 1,047</u> | <u>\$</u> | <u>\$</u> |

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, 2005, 2004, and 2003 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|-----------------------|-----------------|---------|---------|---------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Proceeds from sales | ¥ 2,981 | ¥ 8,182 | ¥ 5,153 | \$ 27,860 |
| Gross realized gains | 1,821 | 3,228 | 654 | 17,019 |
| Gross realized losses | (217) | (67) | (659) | (2,028) |

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At March 31, 2005, the cost of debt securities classified as available-for-sale was ¥800 million (\$7,477 thousand) and such securities mature in 2011.

Investments in non-traded and unaffiliated companies, for which there is no readily determinable fair value, were stated at cost of ¥11,504 million (\$107,514 thousand) and ¥12,642 million at March 31, 2005 and 2004, respectively.

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

For the years ended March 31, 2005, 2004, and 2003, valuation losses on short-term and other investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥423 million (\$3,953 thousand), ¥1,083 million, and ¥24,822 million, respectively.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2005 consisted of notes payable to banks of ¥113,802 million (\$1,063,570 thousand) and commercial paper of ¥6,000 million (\$56,075 thousand). Short-term borrowings at March 31, 2004 consisted of notes payable to banks. Stated annual interest rates of short-term borrowings ranged primarily from 0.02% to 2.70% and from 0.29% to 1.68% at March 31, 2005 and 2004, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2005 and 2004 were 1.7% and 0.9%, respectively.

Available lines of credit with certain banks totaled ¥30,000 million (\$280,374 thousand) at March 31, 2005 and 2004, respectively. The Company had no outstanding balances as of March 31, 2005 and 2004 related to lines of credit.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | Due in Years Ending March 31 | Millions of Yen | | Thousands of U.S. Dollars |
|---|------------------------------|-----------------|----------|------------------------------|
| | | 2005 | 2004 | 2005 |
| Unsecured bonds: | | | | |
| 1.8% yen bonds | 2006 | ¥ 10,000 | ¥ 10,000 | \$ 93,458 |
| Unsecured convertible bonds: | | | | |
| 0.85% yen bonds | 2005 | | 19,513 | |
| 0.9% yen bonds | 2006 | 18,627 | 18,627 | 174,084 |
| Loans, principally from banks and insurance companies, maturing on various dates through 2015: | | | | |
| Collateralized | | 16,662 | | 155,720 |

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| | | | |
|----------------------------------|------------------|------------------|---------------------|
| Unsecured | 134,235 | 128,773 | 1,254,533 |
| Capital lease obligations | 4,841 | 3,790 | 45,243 |
| Total | 184,365 | 180,703 | 1,723,038 |
| Less current portion | (66,877) | (35,858) | (625,019) |
| | ¥ 117,488 | ¥ 144,845 | \$ 1,098,019 |

The interest rates on unsecured bonds and unsecured convertible bonds were fixed. The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2005 and 2004 were 1.6% and 1.4%, respectively.

Annual maturities of long-term debt at March 31, 2005 were as follows:

| Years ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|------------------------|-----------------|---------------------------|
| 2006 | ¥ 66,877 | \$ 625,019 |
| 2007 | 34,784 | 325,084 |
| 2008 | 38,021 | 355,337 |
| 2009 | 20,138 | 188,206 |
| 2010 | 17,956 | 167,813 |
| 2011 and thereafter | 6,589 | 61,579 |
| Total | ¥ 184,365 | \$ 1,723,038 |

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

| | Millions of Yen | Thousands of U.S. Dollars |
|--------------------------------|-----------------|------------------------------|
| Trade notes | ¥ 1,299 | \$ 12,140 |
| Trade accounts | 688 | 6,430 |
| Finance receivables | 53,868 | 503,439 |
| Other investments | 9 | 84 |
| Property, plant, and equipment | 9,919 | 92,701 |
| Total | ¥ 65,783 | \$ 614,794 |

The above assets were pledged against the following liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|------------------------------|
| Short-term borrowings | ¥ 38,462 | \$ 359,458 |
| Current portion of long-term debt | 10,056 | 93,981 |
| Long-term debt | 6,606 | 61,739 |
| Total | ¥ 55,124 | \$ 515,178 |

The conversion price of the unsecured yen convertible bonds is ¥769 per share, which exceeded the fair value of the stock on the debt issuance date, and the number of shares into which outstanding bonds were convertible at March 31, 2005 totaled 24,222 thousand shares.

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.

6. 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.

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Among them, the parent company has an unfunded severance indemnity plan which covers substantially all of its employees. Employees who terminate their employment receive benefits in the form of lump-sum payments. Benefits to be received under the plan were previously determined based on the rate of pay at the time of termination, length of service, and certain other factors. Effective April 2003, the Company introduced a point-based benefits system, under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and performance.

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

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

In accordance with EITF No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, the Company recognized the difference of ¥58,571 million (\$547,393 thousand) between the substitutional portion of accumulated benefit obligation settled and the related plan assets transferred to the Japanese government as a government subsidy in Other income (expenses) in the 2005 consolidated statement of income. The Company also recognized

derecognition of previously accrued salary progression of ¥11,111 million (\$103,841 thousand) and a settlement loss for the proportionate amount of the net unrecognized loss attributable to the substitutional portion of ¥13,366 million (\$124,916 thousand). The net amount of ¥2,255 million (\$21,075 thousand) of derecognition of previously accrued salary progression and the settlement loss was allocated to cost of sales of ¥1,511 million (\$14,121 thousand) and selling, general, and administrative expenses of ¥744 million (\$6,953 thousand).

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

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

Net periodic benefit cost for the unfunded severance indemnity plan, the Contributory Plan, and the Non-contributory Plan of the parent company and for the unfunded severance indemnity plans and noncontributory defined benefit pension plans of certain subsidiaries for the years ended March 31, 2005, 2004, and 2003 consisted of the following components:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|----------|----------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| | Service cost | ¥ 8,343 | ¥ 9,458 | ¥ 10,128 |
| Interest cost | 7,457 | 8,502 | 9,600 | 69,691 |
| Expected return on plan assets | (3,129) | (4,999) | (5,862) | (29,243) |
| Amortization of transition obligation | | 1,124 | 1,615 | |
| Amortization of prior service benefit | (522) | (230) | (797) | (4,878) |
| Recognized actuarial loss | 2,047 | 52,141 | 5,591 | 19,131 |
| Derecognition of previously accrued salary progression | (11,111) | | | (103,841) |
| Settlement loss | 13,366 | | | 124,916 |
| Actuarial periodic benefit cost | 16,451 | 65,996 | 20,275 | 153,748 |
| Employee contributions | | | (1,005) | |
| Net periodic benefit cost | ¥ 16,451 | ¥ 65,996 | ¥ 19,270 | \$ 153,748 |

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

| | 2005 | 2004 | |
|----------------------------------|------|------|------|
| Benefit obligations at March 31: | | | |
| Discount rate | 2.5% | 2.5% | |
| Rate of compensation increase | 6.5% | 6.5% | |
| | 2005 | 2004 | 2003 |

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

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To determine the expected rate of return on plan assets, the Company considers actual returns in the past 5 to 10 years, the current and expected components of plan assets, and anticipated market trends. The Company anticipates that the plan's investments will generate long-term returns of 3.5%, which is based on an asset allocation assumption of 45% of debt securities, with an expected rate of return of 1.0%, and 55% of equity securities, with an expected rate of return of 5.5%. The Company believes that 3.5% is a reasonable long-term rate of return despite an actual return on plan assets in the past 10 years of 2.3%, as significant losses on plan assets were incurred from fiscal 2001 to 2003 caused by the recent market downturn. Based on current economic conditions, the Company expects better returns on its plan assets in the future.

During the year ended March 31, 2005, the Company reviewed the components of plan assets and adopted an asset allocation of 55% on fixed income securities and 45% on equity securities to secure stable returns.

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

| | 2005 | 2004 |
|---|---------------|---------------|
| Equity securities | 43.6% | 31.5% |
| Debt securities | 54.4% | 22.7% |
| Cash related to the transfer of the substitutional portion of employee pension fund liabilities | % | 45.1% |
| Other | 2.0% | 0.7% |
| | 100.0% | 100.0% |

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

Plan assets at March 31, 2004 consisted of a significant amount of cash to be transferred to the government in connection with the transfer to the Japanese government of the substitutional portion of employee pension fund liabilities and assets.

Employer contributions to pension plans for the year ending March 31, 2006 are expected to be ¥14,105 million (\$131,822 thousand).

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

| Years ending March 31, | Thousands of | |
|------------------------|-----------------|--------------|
| | Millions of Yen | U.S. Dollars |
| 2006 | ¥ 11,140 | \$ 104,112 |
| 2007 | 12,556 | 117,346 |
| 2008 | 12,932 | 120,860 |

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| | | |
|-----------|--------|---------|
| 2009 | 13,015 | 121,636 |
| 2010 | 13,278 | 124,093 |
| 2011 2015 | 60,054 | 561,252 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-------------------|--------------------|---------------------------------|
| | 2005 | 2004 | 2005 |
| Change in benefit obligations: | | | |
| Benefit obligations at beginning of year | ¥ 354,418 | ¥ 353,138 | \$ 3,312,318 |
| Service cost, less employee contributions | 8,343 | 9,458 | 77,972 |
| Interest cost | 7,457 | 8,502 | 69,691 |
| Amendments | (3,420) | | (31,963) |
| Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities | (155,466) | | (1,452,953) |
| Actuarial (gain) loss | (9,821) | 1,480 | (91,785) |
| Benefits paid (settlement) | (14,792) | (4,538) | (138,243) |
| Benefits paid (other) | (10,611) | (13,806) | (99,168) |
| Foreign currency exchange rate changes | 142 | 184 | 1,327 |
| | <u>¥ 176,250</u> | <u>¥ 354,418</u> | <u>\$ 1,647,196</u> |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | ¥ 191,817 | ¥ 155,989 | \$ 1,792,682 |
| Actual return on plan assets | 4,344 | 37,641 | 40,598 |
| Employer contributions | 14,035 | 12,647 | 131,168 |
| Transfer to the Japanese government of the substitutional portion of employee pension fund liabilities | (85,784) | | (801,720) |
| Benefits paid (settlement) | (5,868) | (801) | (54,841) |
| Benefits paid (other) | (10,611) | (13,806) | (99,168) |
| Foreign currency exchange rate changes | 127 | 147 | 1,187 |
| | <u>¥ 108,060</u> | <u>¥ 191,817</u> | <u>\$ 1,009,906</u> |
| Plans funded status at end of year: | | | |
| Funded status | ¥ (68,190) | ¥ (162,601) | \$ (637,290) |
| Unrecognized actuarial loss | 11,284 | 37,733 | 105,458 |
| Unrecognized prior service benefit | (8,248) | (5,350) | (77,084) |
| | <u>¥ (65,154)</u> | <u>¥ (130,218)</u> | <u>\$ (608,916)</u> |
| Amounts recognized in the consolidated balance sheets: | | | |
| Accrued retirement and pension costs | ¥ (65,836) | ¥ (143,679) | \$ (615,290) |
| Prepaid expenses for benefit plans, included in other assets | 682 | 601 | 6,374 |
| Intangible assets, included in other assets | | 6,869 | |
| Accumulated other comprehensive income | | 5,991 | |
| | <u>¥ (65,154)</u> | <u>¥ (130,218)</u> | <u>\$ (608,916)</u> |
| Accumulated benefit obligations: | | | |
| Accumulated benefit obligations at end of year | ¥ 167,954 | ¥ 322,944 | \$ 1,569,664 |

| Retirement and pension plans with accumulated benefit obligations in excess of plan assets: | | | |
|--|-----------|-----------|--------------|
| Projected benefit obligations | ¥ 174,549 | ¥ 353,015 | \$ 1,631,299 |
| Accumulated benefit obligations | 166,253 | 321,541 | 1,553,766 |
| Fair value of plan assets | 106,227 | 190,328 | 992,776 |

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

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

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7. SHAREHOLDERS EQUITY

Japanese companies are subject to the Japanese Commercial Code (the Code).

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

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

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

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

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

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

Under the Code, the amount available for dividends is based on retained earnings, less treasury stock, as recorded on the books of the parent company. Certain adjustments, not recorded on the parent company's books, are reflected in the consolidated financial statements. At March 31, 2005, retained earnings, less treasury stock, recorded on the parent company's books of account were ¥178,097 million (\$1,664,458 thousand).

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

At the general shareholders meeting held on June 25, 2004, the articles of incorporation were amended to authorize the Board of Directors to repurchase treasury stock. Approximately 40 million shares amounting to ¥21,407 million (\$200,065 thousand) and 5 million shares amounting to ¥2,170 million were purchased during the years ended March 31, 2005 and 2004, respectively.

The Company retired 69 million shares amounting to ¥23,881 million (\$223,187 thousand) of treasury stock by resolution of the Board of Directors on May 14, 2004.

On May 13, 2005, the Board of Directors resolved to retire 39 million shares of treasury stock on June 30, 2005.

8. OTHER INCOME (EXPENSES), NET

Other net as shown in other income (expenses) for the years ended March 31, 2005, 2004, and 2003 consisted of the following:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|---------|-----------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Gain (loss) on sales of securities net | ¥ 1,604 | ¥ 3,161 | ¥ (5) | \$ 14,991 |
| Foreign exchange (loss) gain net | 3,597 | (1,534) | (2,482) | 33,617 |
| Other net | 1,124 | 1,726 | 1,048 | 10,504 |
| | ¥ 6,325 | ¥ 3,353 | ¥ (1,439) | \$ 59,112 |

Table of Contents**9. INCOME TAXES**

The approximate effects of temporary differences and tax loss and credit carryforwards that gave rise to deferred tax balances at March 31, 2005 and 2004 were as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|--|---------------------|--------------------------|---------------------|--------------------------|---------------------------|---------------------|
| | 2005 | | 2004 | | 2005 | |
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Assets |
| Allowance for doubtful receivables | ¥ 1,645 | ¥ 55 | ¥ 2,010 | ¥ 47 | \$ 15,374 | \$ 514 |
| Intercompany profits | 9,305 | | 8,664 | | 86,963 | |
| Adjustments of investment securities | 15,465 | 37,692 | 11,889 | 37,597 | 144,533 | 352,262 |
| Write-downs of inventories and fixed assets | 6,145 | | 13,541 | | 57,430 | |
| Enterprise tax | 948 | | 1,226 | | 8,860 | |
| Accrued bonus | 6,250 | | 6,193 | | 58,411 | |
| Retirement and pension costs | 29,340 | | 57,261 | | 274,205 | |
| Unremitted earnings of foreign subsidiaries and affiliates | | 4,403 | | 3,203 | | 41,149 |
| Other temporary differences | 11,322 | 3,987 | 11,056 | 3,696 | 105,813 | 37,262 |
| Tax loss and credit carryforwards | 9,602 | | 10,950 | | 89,738 | |
| Subtotal | 90,022 | 46,137 | 122,790 | 44,543 | 841,327 | 431,187 |
| Less valuation allowance | 3,824 | | 22,913 | | 35,738 | |
| | ¥ 86,198 | ¥ 46,137 | ¥ 99,877 | ¥ 44,543 | \$ 805,589 | \$ 431,187 |

Net deferred tax balances at March 31, 2005 and 2004 were reflected in the accompanying consolidated balance sheets under the following captions:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------|----------------------|----------|---------------------------|
| | 2005 | 2004 | 2005 |
| | Other current assets | ¥ 21,322 | ¥ 22,047 |
| Other assets | 19,728 | 33,961 | 184,374 |
| Other long-term liabilities | (989) | (674) | (9,243) |
| Net deferred tax assets | ¥ 40,061 | ¥ 55,334 | \$ 374,402 |

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In March 2003, an amendment to Japanese tax regulation was enacted and the normal statutory tax rate was decreased from 42.0% to 40.6% effective April 1, 2004.

The provision for income taxes for the year ended March 31, 2003 included a ¥1,789 million adjustment to record the impact on deferred tax assets and liabilities expected to be realized subsequent to April 1, 2004 for the change in the enacted tax rate.

A valuation allowance is recorded against the deferred tax assets for items which may not be realized. The net changes in the valuation allowance for the years ended March 31, 2005, 2004, and 2003 were a decrease of ¥19,089 million (\$178,402 thousand), an increase of ¥2,154 million, and an increase of ¥4,881 million, respectively. Such changes were due primarily to the realization or nonrealization of tax benefits regarding operating losses of subsidiaries.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse and/or the tax losses and credits are carried forward, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances at March 31, 2005.

At March 31, 2005, the tax loss carryforwards in the aggregate amounted to approximately ¥23,000 million (\$214,953 thousand), which are available to offset future taxable income, and will expire in the period from 2006 through 2010.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2005 differed from the normal Japanese statutory tax rates as follows:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|-------------------|
| 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% | 42.0% | 42.0% |
| Increase (decrease) in tax rates resulting from: | | | |
| Increase (decrease) in valuation allowance | (8.5) | 12.2 | (1.7) |
| Permanently nondeductible expenses | 0.4 | 3.6 | 3.7 |
| Nontaxable dividend income | (0.1) | (0.4) | (0.8) |
| Inhabitant tax per capita | 0.1 | 0.7 | 0.8 |
| Change in tax rate | | (0.7) | 7.7 |
| Extra tax deduction on expenses for research and development | (1.3) | (7.9) | |
| Other net | (0.4) | (0.4) | 1.4 |
| | <u> </u> | <u> </u> | <u> </u> |
| Effective income tax rates on income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 30.8% | 49.1% | 53.1% |
| | <u> </u> | <u> </u> | <u> </u> |

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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.

10. 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, 2005, 2004, and 2003 was as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|------------------|------------------|------------------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Basic net income (loss): | | | | |
| Income from continuing operations | ¥ 106,801 | ¥ 12,495 | ¥ 8,995 | \$ 998,140 |
| Income (loss) from discontinued operations, net of taxes | 11,100 | (795) | (16,999) | 103,739 |
| Net income (loss) | ¥ 117,901 | ¥ 11,700 | ¥ (8,004) | \$ 1,101,879 |
| Effect of dilutive convertible bonds | ¥ 188 | ¥ 337 | ¥ | \$ 1,757 |
| Diluted net income (loss): | | | | |
| Income from continuing operations | ¥ 106,989 | ¥ 12,832 | ¥ 8,995 | \$ 999,897 |
| Income (loss) from discontinued operations, net of taxes | 11,100 | (795) | (16,999) | 103,739 |
| Net income (loss) | ¥ 118,089 | ¥ 12,037 | ¥ (8,004) | \$ 1,103,636 |
| Number of Shares (Thousands) | | | | |
| Weighted average common shares outstanding | 1,323,068 | 1,342,386 | 1,370,382 | |
| Effect of dilutive convertible bonds | 36,910 | 68,944 | | |
| Diluted common shares outstanding | 1,359,978 | 1,411,330 | 1,370,382 | |

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2005, 2004, and 2003 are as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|--|----------------------|--------------------------|----------------------|---------------------------|--------------------------|----------------------|
| | 2005 | | | 2005 | | |
| | Before-Tax Amount | Tax Benefit (Expense) | Net-of-Tax Amount | Before-Tax Amount | Tax Benefit (Expense) | Net-of-Tax Amount |
| Foreign currency translation adjustments: | | | | | | |
| Foreign currency translation adjustments arising during period | ¥ (1,628) | ¥ 103 | ¥ (1,525) | \$ (15,215) | \$ 962 | \$ (14,253) |
| Reclassification adjustment for losses realized in net income | 57 | | 57 | 533 | | 533 |
| | <u>(1,571)</u> | <u>103</u> | <u>(1,468)</u> | <u>(14,682)</u> | <u>962</u> | <u>(13,720)</u> |
| Unrealized gains on securities: | | | | | | |
| Unrealized gains on securities arising during period | 2,046 | (827) | 1,219 | 19,121 | (7,729) | 11,392 |
| Reclassification adjustment for gains realized in net income | (1,181) | 479 | (702) | (11,037) | 4,477 | (6,560) |
| | <u>865</u> | <u>(348)</u> | <u>517</u> | <u>8,084</u> | <u>(3,252)</u> | <u>4,832</u> |
| Minimum pension liability adjustment | <u>5,991</u> | <u>(2,499)</u> | <u>3,492</u> | <u>55,991</u> | <u>(23,355)</u> | <u>32,636</u> |
| Unrealized losses on derivatives: | | | | | | |
| Unrealized losses on derivatives arising during period | (1,429) | 591 | (838) | (13,355) | 5,523 | (7,832) |
| Reclassification adjustments for gains realized in net income | (456) | 185 | (271) | (4,262) | 1,729 | (2,533) |
| | <u>(1,885)</u> | <u>776</u> | <u>(1,109)</u> | <u>(17,617)</u> | <u>7,252</u> | <u>(10,365)</u> |
| Other comprehensive income | <u>¥ 3,400</u> | <u>¥ (1,968)</u> | <u>¥ 1,432</u> | <u>\$ 31,776</u> | <u>\$ (18,393)</u> | <u>\$ 13,383</u> |

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

| | Millions of Yen | | |
|--|----------------------|--------------------------|----------------------|
| | 2003 | | |
| | Before-Tax Amount | Tax Benefit (Expense) | Net-of-Tax Amount |
| Foreign currency translation adjustments: | | | |
| Foreign currency translation adjustments arising during period | ¥ (6,482) | ¥ 316 | ¥ (6,166) |
| Reclassification adjustment for gains realized in net income | (200) | | (200) |
| | (6,682) | 316 | (6,366) |
| Unrealized losses on securities: | | | |
| Unrealized losses on securities arising during period | (44,827) | 18,825 | (26,002) |
| Reclassification adjustment for losses realized in net income | 24,827 | (10,427) | 14,400 |
| | (20,000) | 8,398 | (11,602) |
| Minimum pension liability adjustment | (52,389) | 22,003 | (30,386) |
| Unrealized gains on derivatives: | | | |

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| | | | |
|---|-------------------|-----------------|-------------------|
| Unrealized gains on derivatives arising during period | 1,043 | (442) | 601 |
| Reclassification adjustments for gains realized in net income | (811) | 341 | (470) |
| | <u>232</u> | <u>(101)</u> | <u>131</u> |
| Other comprehensive loss | ¥ (78,839) | ¥ 30,616 | ¥ (48,223) |

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

| | Millions of Yen | | | | |
|-------------------------|--|--------------------------------------|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gains on Securities | Minimum Pension Liability Adjustment | Unrealized Gains (Losses) on Derivatives | Accumulated Other Comprehensive Income |
| Balance, April 1, 2004 | ¥ (11,445) | ¥ 40,499 | ¥ (3,492) | ¥ 513 | ¥ 26,075 |
| Current period change | (1,468) | 517 | 3,492 | (1,109) | 1,432 |
| Balance, March 31, 2005 | ¥ (12,913) | ¥ 41,016 | ¥ | ¥ (596) | ¥ 27,507 |

| | Thousands of U.S. Dollars | | | | |
|-------------------------|--|--------------------------------------|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gains on Securities | Minimum Pension Liability Adjustment | Unrealized Gains (Losses) on Derivatives | Accumulated Other Comprehensive Income |
| Balance, April 1, 2004 | \$ (106,962) | \$ 378,495 | \$ (32,636) | \$ 4,795 | \$ 243,692 |
| Current period change | (13,720) | 4,832 | 32,636 | (10,365) | 13,383 |
| Balance, March 31, 2005 | \$ (120,682) | \$ 383,327 | \$ | \$ (5,570) | \$ 257,075 |

12. FINANCIAL INSTRUMENTS

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

Market Risk Management**Market Risk Exposures**

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

Foreign Currency Exchange Risks

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

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2005, which was translated into Japanese yen at the year-end currency exchange rate.

Foreign Exchange Forward Contracts and Currency Swaps

| Maturities, Years Ending March 31 | | Millions of | Thousands of |
|-----------------------------------|---------|-------------|--------------|
| | | Yen | U.S. Dollars |
| | | 2006 | 2006 |
| Sell U.S. Dollar, buy Yen | Receive | ¥ 37,377 | \$ 349,318 |
| | Pay | 38,306 | 358,000 |
| Sell Euro, buy Yen | Receive | 11,201 | 104,682 |
| | Pay | 11,437 | 106,888 |
| Sell Sterling Pound, buy Euro | Receive | 1,375 | 12,850 |
| | Pay | 1,340 | 12,523 |
| Sell Baht, buy Yen | Receive | 875 | 8,178 |
| | Pay | 883 | 8,252 |
| Sell Baht, buy U.S. Dollar | Receive | 222 | 2,075 |
| | Pay | 225 | 2,103 |
| Sell Yen, buy U.S. Dollar | Receive | 102 | 953 |
| | Pay | 102 | 953 |

Table of Contents**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 5. In order to hedge these risks, the Company uses interest rate swap contracts to change the characteristics of its fixed and variable rate exposures.

The following table provides information, by maturity date, about the Company's interest rate swap contracts. The table represents notional principal amounts and weighted average interest rates by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts as of March 31, 2005, which are translated into Japanese yen at the year-end currency exchange rate.

Interest Rate Swap Contracts

| Maturities, Years Ending March 31, | Weighted Average Rate | | Notional Amount | |
|------------------------------------|-----------------------|-------|-----------------|---------------------------|
| | Receive | Pay | Millions of Yen | Thousands of U.S. Dollars |
| 2006 | 1.43% | 1.74% | ¥ 33,997 | \$ 317,729 |
| 2007 | 1.06 | 1.58 | 19,353 | 180,869 |
| 2008 | 0.44 | 1.01 | 8,573 | 80,121 |
| 2009 | 0.20 | 0.81 | 4,500 | 42,056 |

Cash Flow Hedges

Changes in the fair value of foreign exchange contracts and interest rate swap agreements designated and qualifying as cash flow hedges are reported in other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expense) in the same period as the hedged items affect earnings. For most forward exchange contracts, the amounts are reclassified when products related to hedged transactions are sold from overseas subsidiaries to customers. In the case of interest rate swaps, the amounts are reclassified when the related interest expense is recognized. Substantially all of the unrecognized net losses on derivatives included in accumulated other comprehensive loss of ¥596 million (\$5,570 thousand) at March 31, 2005 will be reclassified into earnings within the next 12 months.

Equity Price Risks

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

Fair Value of Financial Instruments

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The Company had the following financial instruments at March 31, 2005 and 2004:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|-----------------|------------|----------------|------------|---------------------------|--------------|
| | 2005 | | 2004 | | 2005 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | | | |
| Finance receivables net | ¥ 131,646 | ¥ 126,164 | ¥ 74,840 | ¥ 68,788 | \$ 1,230,336 | \$ 1,179,103 |
| Financial liabilities: | | | | | | |
| Long-term debt | (179,524) | (178,584) | (176,913) | (176,384) | (1,677,794) | (1,669,009) |
| Derivative financial instruments recorded as (liabilities) assets: | | | | | | |
| Foreign exchange instruments | (902) | (902) | 1,006 | 1,006 | (8,430) | (8,430) |
| Interest rate swaps and other instruments | (98) | (98) | (131) | (131) | (916) | (916) |

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

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

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

Concentration of Credit Risks

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

Table of Contents**13. SUPPLEMENTAL EXPENSE INFORMATION****Selling, General, and Administrative Expenses**

Amounts of certain costs and expenses for the years ended March 31, 2005, 2004, and 2003 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|----------|----------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Research and development expenses | ¥ 21,963 | ¥ 23,261 | ¥ 26,405 | \$ 205,262 |
| Advertising costs | 9,586 | 9,621 | 9,517 | 89,589 |
| Shipping and handling costs | 40,412 | 39,137 | 37,725 | 377,682 |

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, 2005 includes a loss of ¥1,095 million (\$10,234 thousand) resulting from the impairment of long-lived assets and a gain of ¥1,022 million (\$9,551 thousand) resulting mainly from the sale of a subsidiary. The Company recorded a gain of ¥1,573 million (\$14,701 thousand) related to the sale of a company which is involved in a rental computer server service.

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

14. COMMITMENTS AND CONTINGENCIES**Commitments**

Commitments for capital expenditures outstanding at March 31, 2005 approximated ¥1,155 million (\$10,794 thousand).

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

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Future minimum lease payments required under capital and noncancelable operating leases that have initial or remaining lease term in excess of one year as of March 31, 2005 were as follows:

| Years ending March 31, | Millions of Yen | | Thousands of U.S. Dollars | |
|--|-----------------|------------------|---------------------------|------------------|
| | Capital Leases | Operating Leases | Capital Leases | Operating Leases |
| 2006 | ¥ 2,428 | ¥ 334 | \$ 22,692 | \$ 3,121 |
| 2007 | 1,302 | 267 | 12,168 | 2,496 |
| 2008 | 957 | 246 | 8,944 | 2,299 |
| 2009 | 114 | 162 | 1,065 | 1,514 |
| 2010 | 75 | 83 | 701 | 776 |
| 2011 and thereafter | 50 | 386 | 467 | 3,607 |
| Total minimum lease payments | 4,926 | ¥ 1,478 | 46,037 | \$ 13,813 |
| Less: amounts representing interest | (85) | | (794) | |
| Present value of net minimum capital lease payments | ¥ 4,841 | | \$ 45,243 | |

Capital lease obligations are included in current portion of long-term debt and long-term debt in the consolidated balance sheets. Rental expenses under operating leases for the years ended March 31, 2005, 2004, and 2003 were ¥7,029 million (\$65,692 thousand), ¥8,553 million, and ¥8,182 million, respectively.

Table of Contents**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 is also contingently liable as guarantor of the housing loans of employees. 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 and of 1 year to 20 years for employees with housing loans.

Maximum potential amounts of undiscounted future payments of these financial guarantees as of March 31, 2005 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|------------------------------|
| Borrowings of distributors and customers | ¥ 1,224 | \$ 11,439 |
| Housing loans of employees | 1,755 | 16,402 |
| Total | ¥ 2,979 | \$ 27,841 |

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, 2005 and 2004 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|----------------|------------------------------|
| | 2005 | 2004 | 2005 |
| Balance at beginning of year | ¥ 2,209 | ¥ 1,748 | \$ 20,645 |
| Addition | 3,663 | 4,978 | 34,234 |
| Utilization | (3,138) | (3,293) | (29,327) |
| Other | (16) | (1,224) | (150) |
| Balance at end of year | ¥ 2,718 | ¥ 2,209 | \$ 25,402 |

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

Legal Proceedings

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

In connection with this investigation, on December 24, 1999, the Company received a surcharge order of ¥7,072 million from the FTCJ. The Company has challenged this order and filed a petition for the initiation of hearing procedures that were started in March 2000 and continued through the year ended March 31, 2005. Under Section 49 of the Anti-Monopoly Law, upon the initiation of the procedures, the surcharge order lost effect. In addition, Section 7-2 of the law stipulates that surcharges are imposed in cases where price cartels or cartels that influence prices by curtailing the volume of supply are carried out. The Company believes that the alleged share cartel does not meet the requirement of Section 7-2 and has not established any provision for the ultimate liability, if any, which may result from the settlement of this matter.

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

Asbestos-Related Matters

The Company previously manufactured and sold asbestos-containing products such as asbestos-pipes and building materials (roofing and siding materials). In April 2005, the Company was advised that some residents who lived near the Company's plant once called Kanzaki Plant in Amagasaki, Hyogo Prefecture suffered from mesothelioma, a form of lung cancer and 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. Additionally, in accordance with its policies and procedures, the Company has made compensation payments to current and former employees, who suffered, or currently suffering, from asbestos-related disease.

The Company expenses payments to residents and current and former employees when the Company determines that a payment is warranted based on the medical condition of the individual concerned and in the consideration of the Company's policy. During the years ended March 31, 2005, 2004 and 2003, the Company made payments aggregating ¥210 million (\$1,963 thousand), ¥433 million and ¥142 million, respectively, to current and former employees affected by asbestos contamination. Although the Company has not been involved in any lawsuits up to the present time related to the asbestos-related health hazards of employees (including former employees) who engaged in the manufacturing of asbestos-containing products, and residents who lived near the Company's plants at which asbestos-containing products were produced, the Company may face lawsuits related to this issue. The Company believes that it is not possible at this time to reasonably estimate its total exposure and the related liability to current and former employees and residents related to this matter that might ultimately be incurred in the future. No liability for this contingency has been recorded in the Company's accompanying consolidated balance sheets as of March 31, 2005 and 2004.

Table of Contents**15. SALE OF ACCOUNTS RECEIVABLE**

The Company sells trade and finance receivables to investors through bankruptcy-remote independent revolving-period securitization trusts. As of March 31, 2005, the Company has agreements to sell up to ¥33,740 million (\$315,327 thousand) of trade receivables and an unspecified amount of finance receivables, subject to the approval of the trusts.

The Company sold trade receivables, net of loss reserves, totaling ¥84,504 million (\$789,757 thousand), ¥69,218 million and ¥37,746 million during the years ended March 31, 2005, 2004, and 2003, respectively. The Company sold finance receivables, net of loss reserves, totaling ¥5,752 million (\$53,757 thousand), ¥50,338 million and ¥43,840 million during the years ended March 31, 2005, 2004, and 2003, respectively.

The Company did not recognize any gains or losses from the sale of trade receivables for the years ended March 31, 2005, 2004, and 2003. The Company's sales of financial receivables resulted in a net gain of ¥129 million (\$1,206 thousand), ¥902 million and ¥752 million during the years ended March 31, 2005, 2004, and 2003, respectively.

Under the terms of the agreements, new receivables are added to the pool as collections reduce previously sold accounts receivable. At the time the receivables are sold under the securitization program, the balances are removed from the consolidated balance sheet of the Company. In determining the gain or loss for each qualifying sale of receivables, 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 Company retains a residual interest in sold receivables, which represents residual payments received in excess of payments due to the investor. Retained interests are recorded at fair value based on the net present value of future anticipated cash flows, which is calculated by analyzing yield, estimated credit losses, contractual servicing rates and the average life of the transferred receivables.

The Company's residual interest in trade and financial receivables at March 31, 2005 and 2004 was as follows:

| | Millions of Yen | | Thousands of |
|--|-----------------|----------|--------------|
| | 2005 | 2004 | U.S. Dollars |
| Residual interest in trade receivables | ¥ 37,332 | ¥ 23,080 | \$ 348,897 |
| Residual interest in finance receivables | 6,376 | 6,262 | 59,589 |

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.

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

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| | 2005 | 2004 |
|--------------------------------|-------|-------|
| Trade receivables: | | |
| Weighted average life (months) | 6.5 | 6.5 |
| Expected credit losses | 0.2% | 0.2% |
| Expected net dilution | 9.4% | 4.2% |
| Finance receivables: | | |
| Weighted-average life (months) | 50.4 | 49.6 |
| Expected credit losses | 0.1% | 0.1% |
| Discount rate | 10.1% | 10.2% |

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

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|----------|---------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Trade receivables: | | | | |
| Proceeds from revolving period sales | ¥ 13,555 | ¥ 10,908 | ¥ 5,985 | \$ 126,682 |
| Servicing fees received | 270 | 231 | 189 | 2,523 |
| Finance receivables: | | | | |
| Proceeds from revolving period sales | | 38,367 | 33,389 | |
| Servicing fees received | 210 | 279 | 387 | 1,963 |
| Cash flows received on retained interests in securitizations | 359 | 662 | 1,200 | 3,355 |

The Company has determined that a change of up to 25% in any of the above economic assumptions on trade receivables would not have a material impact on the consolidated financial statements of the Company.

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The following depicts the sensitivity of the fair value of retained interests in finance receivables at March 31, 2005 to adverse changes in the key economic assumptions used to measure fair value:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|-----------------|------------------------------|
| Finance receivables: | | |
| Fair value of retained interest | ¥ 11,061 | \$ 103,374 |
| Expected credit losses (annual rate) | 0.07% | |
| Impact on fair value of 10% adverse change | 1 | 9 |
| Impact on fair value of 20% adverse change | 2 | 19 |
| Residual cash flows discount rate (annual rate) | 10.13% | |
| Impact on fair value of 10% adverse change | 88 | 822 |
| Impact on fair value of 20% adverse change | 178 | 1,664 |

Considerable judgment is required in interpreting market data to develop estimates of fair values, so the above estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities. In addition, the above-estimated amounts generated from the sensitivity analysis include estimates 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 estimates should not be considered to be projections by the Company of future events or losses.

16. SUBSEQUENT EVENT

On May 13, 2005, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on March 31, 2005 of ¥5 per common share (¥25 per 5 common shares) or a total of ¥6,504 million (\$60,785 thousand). The resolution to pay the cash dividend is subject to shareholders' approval at the general meeting to be held on June 24, 2005.

17. RESTATEMENT**Restatement of Retail Finance Receivables in the Consolidated Balance Sheet**

Retail finance receivables were previously classified as current assets in the consolidated balance sheet at March 31, 2004.

Subsequent to the issuance of the Company's 2004 financial statements, the Company reconsidered its classification of these receivables considering Chapter 3, Section A, "Current Assets and Current Liabilities" of Accounting Research Bulletins No. 43, "Restatement and Revision of Accounting Research Bulletins." In accordance with such guidance, the Company has restated its consolidated balance sheet at March 31, 2004 to reflect amounts expected to be collected one year after the balance sheet date as a long-term asset.

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The impact of the restatement of the affected line items in the consolidated balance sheet at March 31, 2004 is as follows:

| Millions of Yen | | | | |
|--|---------------------------|-------------|------------------|---------------------------------|
| 2004 | | | | |
| | As Previously Reported | Restatement | Reclassification | As Restated and Reclassified |
| Notes and accounts receivable: | | | | |
| Trade accounts | ¥ 206,609 | ¥ | ¥ 20,412 | ¥ 227,021 |
| Finance receivables net | 114,713 | (67,267) | (47,446) | |
| Allowance for doubtful notes and accounts receivable | (3,054) | 488 | 158 | (2,408) |
| Short-term finance receivables net | | | 26,876 | 26,876 |
| Other current assets | 62,105 | (196) | | 61,909 |
| Total current assets | 681,402 | (66,975) | | 614,427 |
| Long-term finance receivables net | | 66,779 | (18,815) | 47,964 |
| Other assets | 58,613 | 196 | 18,815 | 77,624 |

A description of the Reclassification is disclosed in Note 1.

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Restatement of Discontinued Operations in the Consolidated Statements of Income

SFAS No. 144 requires that the results of operations of a component of an entity either has been disposed of or is classified as held for sale (discontinued operations) shall be separately reported from those of ongoing operations in the consolidated statements of income.

During the year ended March 31, 2005, the Company sold a subsidiary which operated a golf course but the results of its operations were not separated from the results of the ongoing operations, previously. The Company reconsidered its accounting treatment for this operation in accordance with SFAS No. 144 and then has restated its consolidated statements of income for the years ended March 31, 2005, 2004, and 2003.

The impact of the restatement of the affected line items in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|---|------------------------|-------------|-------------|---------------------------|-------------|-------------|
| | 2005 | | | 2005 | | |
| | As Previously Reported | Restatement | As Restated | As Previously Reported | Restatement | As Restated |
| Loss (gain) from disposal and impairment of businesses and fixed assets | ¥ (4,112) | ¥ 5,526 | ¥ 1,414 | \$ (38,430) | \$ 51,645 | \$ 13,215 |
| Operating income | 92,299 | (5,526) | 86,773 | 862,607 | (51,645) | 810,962 |
| Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 161,561 | (5,526) | 156,035 | 1,509,916 | (51,645) | 1,458,271 |
| Income taxes: | | | | | | |
| Current | 28,917 | 5,574 | 34,491 | 270,252 | 52,094 | 322,346 |
| Total income taxes | 42,542 | 5,574 | 48,116 | 397,589 | 52,094 | 449,683 |
| Income from continuing operations | 117,901 | (11,100) | 106,801 | 1,101,879 | (103,739) | 998,140 |
| Income from discontinued operations, net of taxes | | 11,100 | 11,100 | | 103,739 | 103,739 |

| | Millions of Yen | | | | | |
|--|------------------------|-------------|-------------|------------------------|-------------|-------------|
| | 2004 | | | 2003 | | |
| | As Previously Reported | Restatement | As Restated | As Previously Reported | Restatement | As Restated |
| Net sales | ¥ 930,237 | ¥ (361) | ¥ 929,876 | ¥ 926,145 | ¥ (357) | ¥ 925,788 |
| Cost of sales | 701,727 | (9) | 701,718 | 695,571 | (28) | 695,543 |
| Selling, general, and administrative expenses | 199,768 | (579) | 199,189 | 181,353 | (496) | 180,857 |
| Loss from disposal and impairment of businesses and fixed assets | 6,893 | (534) | 6,359 | 19,608 | (16,792) | 2,816 |
| Operating income | 21,849 | 761 | 22,610 | 29,613 | 16,959 | 46,572 |
| Other income (expenses): | | | | | | |
| Interest expenses | (4,286) | 34 | (4,252) | (4,818) | 40 | (4,778) |

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| | | | | | | |
|---|--------|-------|--------|----------|----------|----------|
| Other income (expenses), net | 5,248 | 34 | 5,282 | (23,457) | 40 | (23,417) |
| Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies | 27,097 | 795 | 27,892 | 6,156 | 16,999 | 23,155 |
| Income from continuing operations | 11,700 | 795 | 12,495 | (8,004) | 16,999 | 8,995 |
| Loss from discontinued operations, net of taxes | | (795) | (795) | | (16,999) | (16,999) |

Table of Contents**18. DISCONTINUED OPERATIONS**

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

Operating results of the discontinued operations for the years ended March 31, 2005, 2004, and 2003 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|-----------------|----------------|-------------------|------------------------------|
| | 2005 | 2004 | 2003 | 2005 |
| Net sales | ¥ | ¥ 361 | ¥ 357 | \$ |
| Loss from discontinued operations before income taxes | | 795 | 16,999 | |
| Gain from disposal of business | 5,526 | | | 51,645 |
| Income taxes | 5,574 | | | 52,094 |
| Income (loss) from discontinued operations | ¥ 11,100 | ¥ (795) | ¥ (16,999) | \$ 103,739 |

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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, 2005 and 2004, 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, 2005, 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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.

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. The Company has disclosed the effects of the departure and other relevant information in Note 1 to the consolidated financial statements.

In our opinion, except for the omission of segment and other information required by SFAS No. 131 and the effect of not properly recording a nonmonetary security exchange transaction, 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, the accompanying consolidated 2005, 2004 and 2003 financial statements have been restated.

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 3, 2005 (August 24, 2005, as to Asbestos-related matters described in Note 14, Commitments and Contingencies, and June 23, 2006 as to the restatement discussed in Note 17, Restatement of Discontinued Operations in the Consolidated Statements of Income)

Table of Contents**Schedule II : Valuation and Qualifying Accounts****Kubota Corporation and Subsidiaries March 31, 2005, 2004, and 2003**

| Millions of Yen | | | | | |
|---|-------------------------------|--|-----------------------------------|---|-------------------------|
| <u>Column A</u> | <u>Column B</u> | <u>Column C</u> | <u>Column D</u> | | |
| Description | Balance, Beginning of Year | Additions- Charged to Costs and Expenses | Deductions Actual Write-Off | Translation Adjustments and Other | Balance, End of Year |
| Allowance for doubtful notes and accounts receivable : | | | | | |
| Year ended March 31, 2005 | ¥ 3,054 | ¥ 79 | ¥ 175 | ¥ (701) | ¥ 2,257 |
| Year ended March 31, 2004 | ¥ 4,089 | ¥ 728 | ¥ 1,040 | ¥ (723) | ¥ 3,054 |
| Year ended March 31, 2003 | ¥ 4,052 | ¥ 817 | ¥ 722 | ¥ (58) | ¥ 4,089 |
| <u>Column A</u> | <u>Column B</u> | <u>Column C</u> | <u>Column D</u> | | |
| Description | Balance, Beginning of Year | Additions | Deductions | | |
| Valuation on deferred tax assets : | | | | | |
| Year ended March 31, 2005 | ¥ 22,913 | ¥ 2,466 | ¥ 21,555 | | |
| Year ended March 31, 2004 | ¥ 20,759 | ¥ 2,508 | ¥ 354 | | |
| Year ended March 31, 2003 | ¥ 15,878 | ¥ 7,572 | ¥ 2,691 | | |

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Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies for the years ended March 31, 2005, 2004, and 2003 were comprised of the following :

| | Millions of Yen | | |
|--|------------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 |
| Parent company and domestic subsidiaries | ¥ 123,461 | ¥ (643) | ¥ (934) |
| Foreign subsidiaries | 32,574 | 28,535 | 24,089 |
| Total | ¥ 156,035 | ¥ 27,892 | ¥ 23,155 |

Provisions for income taxes for the years ended March 31, 2005, 2004, and 2003 were comprised of the following :

| | Millions of Yen | | |
|--|-----------------|-------------------|------------------|
| | 2005 | 2004 | 2003 |
| Income tax current : | | | |
| Parent company and domestic subsidiaries | ¥ 21,780 | ¥ 16,519 | ¥ 12,871 |
| Foreign subsidiaries | 12,711 | 12,736 | 8,667 |
| | ¥ 34,491 | ¥ 29,255 | ¥ 21,538 |
| Income tax deferred : | | | |
| Parent company and domestic subsidiaries | ¥ 14,503 | ¥ (13,607) | ¥ (9,858) |
| Foreign subsidiaries | (878) | (1,947) | 616 |
| | ¥ 13,625 | ¥ (15,554) | ¥ (9,242) |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Kubota Corporation (Kabushiki Kaisha Kubota):

We have audited the consolidated financial statements of Kubota Corporation (Kabushiki Kaisha Kubota) and subsidiaries as of March 31, 2005 and 2004, and for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen, and have issued our report thereon dated June 3, 2005, except for Asbestos-related matters described in Note 14, as to which the date is August 24, 2005, and Restatement of Discontinued Operations in the Consolidated Statements of Income discussed in Note 17, as to which the date is June 23, 2006 (which report expresses a qualified opinion regarding the omission of segment information required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, and the effect of not properly recording 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); such consolidated financial statements and report are included in your 2005 Annual Report to Shareholders and are included in Item 17 of this Form 20-F.

Our audits also included the supplemental note to the consolidated financial statements to conform with regulation S-X and the financial statement schedule of Kubota Corporation and subsidiaries, listed in the index to consolidated financial statements and schedule. The consolidated financial statement supplemental note and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, such consolidated financial statement supplemental note and schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte Touche Tohmatsu

Osaka, Japan

June 3, 2005 (August 24, 2005, as to Asbestos-related matters described in Note 14, Commitments and Contingencies, and June 23, 2006 as to the restatement discussed in Note 17, Restatement of Discontinued Operations in the Consolidated Statements of Income)

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