

KUBOTA CORP
Form 20-F
September 26, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

OR

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

For the fiscal year ended March 31, 2007

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

Title of each class	Name of each exchange
Common Stock*	on which registered 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.

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Title of Class	Outstanding as of	
	March 31, 2007	March 31, 2007
Common stock	(Tokyo Time)	(New York Time)
American Depositary Shares	1,291,919,180 shares	3,711,419 ADS

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

Yes No

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

Yes No

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

Yes No

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

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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All information contained in this Report is as of or for the 12 months ended March 31, 2007 unless otherwise specified.

Unless otherwise specified, Japanese yen amounts in this Report have been translated for convenience into United States dollars at the rate of ¥118= US\$1, the approximate rate of exchange on March 31, 2007, the date of the most recent balance sheet herein.

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

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on September 4, 2007 was ¥116.21 = US\$1.

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

<Cautionary Statement with Respect to Forward-Looking Statements>

Certain sections of this annual report on Form 20-F contain forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects", "anticipates", "believes", "scheduled", "estimates", variations of these words and similar expressions are intended to identify forward-looking statements which include but are not limited to projections of revenues, earnings, segment performance, cash flows and so forth. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation: general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures, both in public and private sectors, foreign currency exchange rates, continued competitive pricing pressures in the marketplace, as well as the Company's ability to continue to gain acceptance of its products.

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

The information required by this item, in addition to those provided below, appears on page 11 of the Financial Section of the Company's 2007 Annual Report to Shareholders included as an Attachment to this Form 20-F.

A. Selected Financial Data

	Years ended March 31 (millions of yen)				
	2003	2004	2005	2006	2007
Capital stock	78,156	78,156	78,156	84,070	84,070
Capital expenditures	35,845	21,396	26,097	33,805	44,715
Depreciation and amortization	38,804	27,755	25,808	25,821	27,097
R & D expenses	26,405	23,261	21,963	22,731	22,925
Number of shares outstanding (in thousands)	1,345,450	1,340,197	1,300,413	1,299,488	1,291,513

	Years ended March 31				
	2003	2004	2005	2006	2007
Cash dividends declared per depositary share:					
Interim (in yen)	15	15	15	20	25
(in U.S. dollars)	0.121	0.138	0.136	0.165	0.217
Year-end (in yen)	15	15	25	30	35
(in U.S. dollars)	0.125	0.138	0.233	0.258	0.282
Exchange rates (yen amounts per U.S. dollar):					
Year-end	118.07	104.18	107.22	117.48	117.56
Average	121.10	112.75	107.28	113.67	116.55
High	133.40	120.55	114.30	120.93	121.81
Low	115.71	104.18	102.26	104.41	110.07

2007	Mar.	Apr.	May.	Jun.	Jul.	Aug.
High	118.15	119.84	121.79	124.09	123.34	119.76
Low	116.01	117.69	119.77	121.08	118.41	113.81
Period-end	117.56	119.44	121.76	123.39	119.13	115.83

Notes to Selected Financial Data:

- Cash dividends in U.S. dollars are computed based on the exchange rates at each respective payment date.
- Exchange rates are the noon buying rates for cable transfers between the yen and the U.S. dollar in New York City as certified for customs purposes by the Federal Reserve Bank of New York. The rate on September 4, 2007 was ¥116.21 = US\$1.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Industrial and capital goods make up a substantial portion of the Company's products. Accordingly, revenues of the Company may be sensitive to declines in general economic conditions, including private-sector capital expenditure, construction investment, and domestic public investment. In addition, governmental agricultural policies may affect domestic sales of agriculture-related products. In overseas markets, especially those of North America and Europe, sales of the Company's products, such as utility/compact tractors, may also be adversely affected by declines in general economic conditions, including private consumption and residential construction investment in those regions.

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

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

The Company is subject to the risks of international operations.

In some businesses of the Company, substantial overseas operations are conducted. Accordingly, the Company is subject to a number of risks inherent in doing business in those markets. Such risks may affect revenues and profitability of the Company or they may hinder growth of the Company in specific countries. The following risks are important concerns for the Company:

Unexpected changes in international, or in an individual country's, tax regulations;

unexpected legal or regulatory changes in a country;

difficulties in retaining qualified personnel;

underqualified technological skills or instability between management and employee unions in developing countries; and

political instability in those countries.

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

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The Company utilizes estimates on some accounts in the consolidated financial statements, which may require additional accruals due to unanticipated changes in the basis of assumptions.

The Company appropriately records its employee benefit obligations, valuation of inventories, valuation allowances for deferred tax assets, probability of collection of notes and accounts receivable, impairment losses on long-lived assets, and revenue recognition for long-term contracts in the consolidated financial statements based on the information that it has available. However, these are based on various assumptions about future economic results. If actual results differ from any of these assumptions, unanticipated additional accruals may be required.

Strategic alliances, mergers, and acquisitions may not generate successful results as planned.

The Company expects to use strategic alliances, mergers, and acquisitions to seek further growth. The success of these activities depends on such factors as the Company's business environment, the ability of its business counterparts, and whether the Company and its counterparts share common goals. Therefore, if these activities are not successful and returns on related investments are lower than expected, the Company may lose competitiveness in relevant markets. Consequently, the Company's profitability may deteriorate.

The Company may not be able to successfully create new businesses or businesses complementary to the current ones.

As part of its structural renovation, the Company is attempting to cultivate new businesses or businesses that are complementary to the current ones. However, in those markets, there are numerous competitors, and competition will be very harsh. If the Company fails to develop the required personnel or abilities to produce and market appropriate products, subsequent impairment charges may be taken, or there may be a negative impact on the Company's financial position.

Impairment losses on investments in marketable securities may occur as a result of stock market fluctuations.

As of March 31, 2007, the Company owns securities with a fair value of approximately ¥203.7 billion (\$1,726 million). Most of these securities are equity securities, and, accordingly, depending on stock market fluctuations, unrealized and realized losses may occur.

In each of its businesses, Kubota is subject to intensifying competitive pressures. The Company must compete successfully to maintain revenues and profits.

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

The Company may be required to incur significant financial expenses if its products and services are alleged to have serious defects.

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

The Company is subject to various environmental laws and regulations, and may be required to incur considerable expenses in order to comply with such laws and regulations.

The Company is subject to various environmental laws and regulations that apply to its products and activities. If these environmental laws and regulations, such as those that impose carbon dioxide emission controls, emission controls, and usage restrictions for certain materials which are used in the Company's products, are strengthened or newly established in jurisdictions in which the Company conducts its businesses, the Company may be required to incur considerable expenses in order to comply with such laws and regulations. Such expenses may have a material effect on the Company's consolidated results of operations and financial position. To the extent that the Company determines that it is not economical to continue to comply with such laws and regulations, the Company may have to curtail or discontinue its activities in the affected business areas.

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The Company may be required to incur significant expenses in connection with environmental damage its activities may allegedly cause.

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

The Company may be required to incur significant expenses relevant to asbestos-related issues.

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

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

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

Damage by Natural Disasters

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

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

Internal Combustion Engine and Machinery Segment

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

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

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

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

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Pipes, Valves, and Industrial Castings Segment

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

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

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

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

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

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

Environmental Engineering Segment

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

Other Segment

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

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

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

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

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

Principal Capital Expenditures and Divestitures

Capital expenditures in fiscal 2007, 2006 and 2005 amounted to ¥44,715 million, ¥33,805 million, and ¥26,097 million, respectively. The funding requirements for these capital expenditures were mainly provided by internal operations, and partially provided by external debt financing.

The principal capital expenditures in progress as of March 31, 2007, 2006, and 2005 were as follows:

As of March 2007

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

As of March 2006**Estimated amount of****expenditures** **Schedule**

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

Location	Industry segment included	Content	Estimated amount of expenditures	
			(¥ billion)	Schedule
Jackson	Internal Combustion	Production facilities for implements attached to tractors	¥5.0	Nov. 2004
(Georgia, U.S.A.)	Engine and Machinery			
Tsukuba (Ibaraki)	Internal Combustion	Production equipment for vertical diesel engines	¥0.9	Oct. 2004
Sakai (Osaka)	Engine and Machinery			

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

Revenues by Industry Segment

For the year ended March 31, 2007

	Millions of yen		Thousands of U.S. dollars	
	2007		2007	
	¥	%	\$	
Internal Combustion Engine and Machinery	746,808	66.3	6,328,881	
Pipes, Valves, and Industrial Castings	194,224	17.2	1,645,966	
Environmental Engineering	90,613	8.0	767,907	
Other	95,811	8.5	811,958	
Total	1,127,456	100.0	9,554,712	

For the years ended March 31, 2006 and 2005

	Millions of yen			
	2006		2005	
	¥	%	¥	%
Internal Combustion Engine and Machinery	674,087	63.3	594,269	59.7
Pipes, Valves, and Industrial Castings	189,708	17.8	170,629	17.2
Environmental Engineering	109,864	10.3	117,285	11.8
Other	92,077	8.6	112,300	11.3
Total	1,065,736	100.0	994,483	100.0

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Operation of Each Segment

Internal Combustion Engine and Machinery

Internal Combustion Engine and Machinery includes farm equipment, engines and construction machinery. Kubota is Japan's largest manufacturer of farm equipment and small engines for agricultural use based on market share. Revenues 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 revenues of this segment accounted for 65.4% of the total revenues of this segment in fiscal 2007.

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

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

Pipes, Valves, and Industrial Castings

Pipes, Valves, and Industrial Castings is comprised of various kinds of pipes, valves, and industrial castings. Pipes and Valves consists of ductile iron pipes, spiral welded steel pipes, plastic pipes and fittings, 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 11 plants in Japan, and the Company has a manufacturing subsidiary in Canada, and minority equity interest in an overseas manufacturing company.

Environmental Engineering

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

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

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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.

Revenues by Region

	Millions of yen			Thousands of
	2005	2006	2007	U.S. dollars 2007
Japan	¥ 639,402	¥ 632,128	¥ 603,502	\$ 5,114,424
Overseas:				
North America	242,370	284,586	323,092	2,738,068
Other Areas	112,711	149,022	200,862	1,702,220
Subtotal	355,081	433,608	523,954	4,440,288
Total	¥ 994,483	¥ 1,065,736	¥ 1,127,456	\$ 9,554,712

Revenues in Japan in fiscal 2007, 2006, and 2005 amounted to ¥603,502 million (\$5,114,424 thousand), ¥632,128 million and ¥639,402 million, respectively. Revenues in North America in fiscal 2007, 2006, and 2005 amounted to ¥323,092 million (\$2,738,068 thousand), ¥284,586 million and ¥242,370 million, respectively. Revenues in Other areas in fiscal 2007, 2006, and 2005 amounted to ¥200,862 million (\$1,702,220 thousand), ¥149,022 million and ¥112,711 million, respectively.

Overseas Activities

The Company's overseas revenues (which represent revenues to unaffiliated customers outside Japan) in fiscal 2007, 2006, and 2005 amounted to ¥523,954 million (\$4,440,288 thousand), ¥433,608 million and ¥355,081 million, respectively. The ratios of such overseas revenues to consolidated revenues in 2007, 2006, and 2005 were 46.5%, 40.7% and 35.7%, respectively. The revenues of the Company's subsidiaries outside Japan in fiscal 2007, 2006, and 2005 amounted to ¥489,575 million (\$4,148,941 thousand), ¥405,357 million and ¥333,700 million, respectively. Its ratio to consolidated revenues in fiscal 2007, 2006, and 2005 were 43.4%, 38.0% and 33.6%, respectively.

The Company has manufacturing subsidiaries in the U.S.A., Canada, Germany, China, Indonesia and Thailand, and manufacturing affiliates in China. International sales subsidiaries are located in the U.S.A., Canada, France, the U.K., Germany, Spain, Australia, China and South Korea. In addition, 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), Cairo (Egypt), and India (Delhi).

Seasonality of the Company's Businesses

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

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Raw Materials and Source of Supply

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

Marketing Channels

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

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

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

Dependent Contract, License, Patent and Manufacturing Process

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

With respect to licenses or patents, the Company does not rely on specific licenses or patents. As of March 31, 2007, the Company held 5,081 Japanese patent and utility model registrations, and 886 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 2007, royalty income and expenses were ¥723 million (\$6,127 thousand) and ¥136 million (\$1,153 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.

Table of Contents**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.

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

C. Organization Structure

As of March 31, 2007, the group of Kubota Corporation consists of Kubota Corporation, 118 subsidiaries and 24 affiliates. Kubota Corporation plays a leading role in the group. The Company's significant subsidiaries are as follows:

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

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

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

Location	Land area (Square meters)		Floor space (Square meters)		Principal products
	Owned	Leased	Owned	Leased	
<u>Japan</u>					
Amagasaki	462,785	37,798	166,488	122	Ductile iron pipes, Filament winding pipes, Rolls for steel mills
(Hyogo) Funabashi	561,265	18,057	142,920	6,686	Ductile iron pipes, Spiral welded steel pipes
(Chiba) Okajima	88,393	825	56,888		Cast iron products
(Osaka) Sakai	421,386	11,616	145,260	24,608	Farm equipment, Diesel engines
(Osaka) Utsunomiya	145,598		69,998	1,367	Farm equipment
(Tochigi) Tsukuba	334,496	25,907	152,080	15,531	Farm equipment, Diesel engines
(Ibaraki) Sakai	159,956		48,862	1,206	Diesel engines
(Osaka) Hirakata	306,102		143,724	8,112	Construction machinery, Cast steel products, Pumps, Valves
(Osaka) Konan	192,560		51,606		Septic tanks
(Shiga) Yao	38,102		27,469		Electronic machinery, Pulverizing equipment
(Osaka) Ryugasaki	84,795		30,820		Vending machines
(Ibaraki) <u>U.S.A.</u>					
Jackson	611,000		57,282		Lawn and garden tractors
(Georgia) Jefferson	356,000		37,400		Implements for tractors
(Georgia)					

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

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In addition, the Company owns 2,433,430 square meters of land (309,472 square meters of floor space) in Japan, used for the head office, branches, business offices and research facilities, and leases 3,569 square meters of land (56,413 square meters of floor space) used for sales offices, warehousing, employee housing and other purposes.

The Company plans its capital expenditures considering future business demand and cash flows. As of March 2007, the Company has planned to invest approximately ¥43.0 billion (\$364 million) in the fiscal year ending March 31, 2008. The Company intends to fund the investment basically through cash obtained by operating activities, and to also utilize available borrowings from financial institutions. The Company's commitments for capital expenditures are not material.

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Principal plans for new construction, expansion, reforming, and disposition as of March 31, 2007 are as follows:

New Construction

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(Billions of Yen) Total	Amount	Commenced	completed
			amount of	already		To be
Suzhou (Jiangsu, People's Republic of China)	Internal Combustion Engine and Machinery	Building of new production facility for agricultural equipment in China	¥1.7	¥1.5	Oct. 2005	Dec. 2007

Expansion

Location	Industry segment included	Content	Estimated amount of expenditures		Schedule	
			(Billions of Yen) Total	Amount	Commenced	completed
			amount of	already		To be
Sakai (Osaka)	Internal Combustion	Production facilities for vertical diesel engines to increase production and developing new models	¥7.7	¥3.7	Jan. 2006	Mar. 2008
Okajima (Osaka)	Engine and Machinery					
Tsukuba (Ibaraki)						
Hirakata (Osaka)	Internal Combustion Engine and Machinery	Restructuring of production system for construction machinery	¥1.7	¥1.2	Jun. 2006	Mar. 2008

Reforming

No material reforming is planned.

Disposition

No material disposition is planned.

Item 4A. Unresolved Staff Comments

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

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Item 5. Operating and Financial Review and Prospects

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) with the exceptions described in Note 1 of the consolidated financial statements SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES . The preparation of the consolidated financial statements requires management to make estimates and assumptions on the selection and application of significant accounting policies. The Company reviews these estimates and assumptions periodically. Actual results may differ from estimated results. The following critical accounting policies that affect financial conditions and operations require management to make significant estimates and assumptions:

1) Inventory Valuation

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 estimated based on the appraised values in the market. Land to be developed and projects under development are carried at cost unless those assets are impaired. If carrying amounts of those assets exceed the undiscounted future cash flows expected to be realized from them, those assets are considered impaired, and an impairment loss is measured based on the amount by which the carrying value exceeds the fair value of those assets. If the market conditions and demand in the housing business are less favorable than management s projection, additional writedowns may be required.

2) Impairment of Investments

The Company classifies all its debt securities and marketable equity securities as available for sale. When a decline in the value of the marketable security is deemed to be other than temporary, the Company recognizes an impairment loss to the extent of the decline. In determining if and when such a decline in value is other than temporary, the Company evaluates the extent to which cost exceeds market value, the duration of market declines, and other key measures. Other non-marketable securities are stated at cost and reviewed periodically for impairment. If equity markets decline or operating results of the issuer of the security become worse, additional impairment losses may be required in the future.

3) Allowance for Doubtful Receivables

The Company evaluates the collectibility of the notes and accounts receivable, with the estimate based on various judgments, including the customers financial conditions, historical experience, and the current economic circumstances. If the customers financial conditions or current economic circumstances become worse, additional allowances may be required in the future.

4) Deferred Tax Assets

The Company provides a valuation allowance for deferred tax assets with a valuation allowance to adjust the carrying amount when it is more likely than not that the deferred tax assets will not be realized. The valuation of deferred tax assets principally depends on the estimation of future taxable income and tax planning strategies. If future taxable income is lower than expected due to a change in economic circumstances and poor operating results, significant adjustments to deferred tax assets may be required.

5) Impairment of Long-Lived Assets

When events and circumstances indicate that the carrying amount of long-lived assets to be held and used may not be recoverable and the carrying amounts of those assets exceed the undiscounted future cash flows, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived assets. Fair value is determined primarily using anticipated future cash flows discounted at a rate commensurate with the risk involved. If estimates of future cash flows fall below management s projection due to an unexpected change in economic circumstances, additional impairment may be required.

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6) Retirement and Pension Plans

Benefit obligations and periodic benefit cost are valued based on assumptions developed by the Company and used by actuaries in calculating such amounts. These assumptions include the discount rate, retirement rate, timing of estimated average promotion, mortality rate, expected rate of return on plan assets, and other factors. These assumptions are based upon current statistical data and are reviewed every fiscal year.

To determine the discount rate, the Company considers current market interest rates. The Company assumed that the discount rate was 2.5% for the years ended March 31, 2007, 2006, and 2005. A further decrease of 50 basis points in the discount rate would increase the benefit obligations as of March 31, 2007 by approximately ¥8.1 billion (\$69 million).

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. An actual return on plan assets in the past 10 years at March 31, 2007 was 3.4%, and an asset allocation assumption was 55% on fixed income securities with an expected rate of return of 1.0%, and 45% on equity securities with an expected rate of return of 5.5% for the year ended March 31, 2006 and thereafter. The Company assumed that the long-term rate of return on plan assets was 3.0% for the years ended March 31, 2007 and 2006, and 3.5% for the year ended March 31, 2005. A decrease of 50 basis points in the expected rate of return on plan assets would result in an increase of periodic benefit cost for the year ending March 31, 2008 of approximately ¥0.5 billion (\$4 million).

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. Accordingly, significant unrecognized actuarial gains or losses may have a material effect on periodic benefit cost in the next fiscal year.

From the fiscal year ended March 31, 2007, the Company adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R). The Company recognized its underfunded status of the defined benefit postretirement plan as an liability in the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The adoption of the statement has no effect on the consolidated statements of income.

7) Revenue Recognition for Long-Term Contracts

Long-term contracts are accounted for using the percentage of completion method. The Company believes that it is able to develop reasonably dependable estimates of the extent of progress toward completion of individual contracts. Concerning the method of measuring the extent of progress toward completion, the Company uses the cost-to-cost method in measuring the extent of progress toward completion.

Generally, output measures are considered to be the best measures of progress toward completion. But, in the case of the Company, most contracts with customers include the delivery and installation of component units. Accordingly, the extent of progress toward completion cannot be properly measured. The Company deems that the measuring method based on the accrual cost method is the most appropriate. Among the various input measure methods available, the Company believes the cost-to-cost method to be preferable to others, such as labor hours, labor cost, machine hours, or material quantities.

The Company's senior management and the Board of Corporate Auditors had proactive discussions about these critical accounting policies, and they agreed that estimates and assumptions were appropriate in light of the current and expected market conditions, the Company's businesses, and numerous other factors.

New Accounting Standards

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109. This interpretation introduces a new approach that significantly changes how companies recognize and measure tax benefits associated with tax positions and disclose uncertainties related to income tax positions. This interpretation is effective in fiscal years beginning after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's consolidated results of operations and financial position.

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A. Operating Results

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

Revenues

For the year ended March 31, 2007, revenues of the Company increased ¥61.7 billion (5.8%), to ¥1,127.5 billion (\$9,555 million) from the prior year.

In the domestic market, revenues decreased ¥28.6 billion (4.5%), to ¥603.5 billion (\$5,114 million). Revenues in Internal Combustion Engine and Machinery decreased due to lower sales of core farm equipment even though sales of construction machinery and engines increased steadily. Revenues in Pipes, Valves, and Industrial Castings also declined slightly owing to a decrease in sales of industrial castings, while sales of ductile iron pipes and plastic pipes stayed at the same level as in the prior year. Revenues in Environmental Engineering decreased substantially due mainly to severe market conditions. On the contrary, revenues in Other increased chiefly due to sales expansion of vending machines.

On the other hand, revenues in overseas markets increased ¥90.3 billion (20.8%), to ¥524.0 billion (\$4,440 million) from the prior year. In North America, sales of newly introduced mid-size tractors expanded substantially and sales of construction machinery and engines also increased. In Europe, sales of tractors, construction machinery, and engines all increased. In Asia outside Japan, a large increase in sales of farm equipment for rice farming continued. As a consequence, the ratio of overseas revenues to consolidated revenues rose 5.8 percentage points, to 46.5%.

Revenues by industry segment

1) Internal Combustion Engine and Machinery

Revenues in Internal Combustion Engine and Machinery were ¥746.8 billion (\$6,329 million), 10.8% higher than the prior year, comprising 66.3% of consolidated revenues. Domestic revenues decreased 4.1%, to ¥258.3 billion (\$2,189 million), and overseas revenues increased 20.7%, to ¥488.5 billion (\$4,140 million). This segment comprises farm equipment, engines, and construction machinery.

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

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

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

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2) Pipes, Valves, and Industrial Castings

Revenues in Pipes, Valves, and Industrial Castings were ¥194.2 billion (\$1,646 million), 2.4% higher than the prior year, comprising 17.2% of consolidated revenues. Domestic revenues decreased 2.2%, to ¥163.4 billion (\$1,385 million), and overseas revenues increased 36.7%, to ¥30.8 billion (\$261 million). This segment comprises pipes, valves, and industrial castings.

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

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

3) Environmental Engineering

Revenues in Environmental Engineering were ¥90.6 billion (\$768 million), 17.5% lower than the prior year, comprising 8.0% of consolidated revenues. Domestic revenues decreased 17.6%, to ¥86.5 billion (\$733 million), and overseas revenues decreased 16.8 %, to ¥4.1 billion (\$35 million). This segment comprises environmental control plants and pumps.

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

4) Other

Revenues in Other were ¥95.8 billion (\$812 million), 4.1% higher than the prior year, comprising 8.5% of consolidated revenues. Domestic revenues increased 4.9%, to ¥95.3 billion (\$808 million), and overseas revenues decreased 60.0%, to ¥0.5 billion (\$4 million). This segment comprises vending machines, electronically equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

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

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

The cost of revenues increased 5.4% from the prior year, to ¥794.7 billion (\$6,735 million). The cost of revenues as a percentage of consolidated revenues decreased 0.2 percentage point, to 70.5%. The decrease in the ratio was attributable to ongoing activities for cost reductions and controls as well as the increased efficiency of the manufacturing process.

Selling, general, and administrative (SG&A) expenses increased 7.2% from the prior year, to ¥199.4 billion (\$1,689 million). The ratio of SG&A expenses to revenues increased 0.2 percentage point, to 17.7%. This increase was mainly due to increases in overseas subsidiaries' SG&A expenses resulting from sales expansion.

Loss from disposal and impairment of businesses and fixed assets decreased 34.9 % from the prior year, to ¥3.1 billion (\$26 million). This loss arose chiefly from the restructuring of construction businesses.

Operating Income

Operating income climbed ¥9.3 billion (7.7%), to ¥130.3 billion (\$1,105 million) from the prior year, the highest level in the Company's history. By segment, operating income in Internal Combustion Engine and Machinery expanded substantially, supported by the increase in revenues and the positive effect of the weakening of the yen. Pipes, Valves, and Industrial Castings also reported a gain in operating income owing to continued cost cutting, including reductions in fixed expenses, and higher revenues in overseas markets. Environmental Engineering, however, posted a substantial decline in profitability and reported an operating loss accompanying the decline in sales prices. Operating income in Other,

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however, showed steady expansion, as a result of increased sales of vending machines and other products.

Operating income or loss in each industry segment (before elimination of intersegment profits and corporate expenses) was as follows: Internal Combustion Engine and Machinery, operating income of ¥124.9 billion (\$1,059 million), a 12.9% increase; Pipes, Valves, and Industrial Castings, operating income of ¥22.0 billion (\$187 million), a 14.3% increase; Environmental Engineering, operating loss of ¥5.6 billion (\$48 million), as compared to operating income of ¥4.3 billion; and Other, operating income of ¥7.1 billion (\$60 million), a 226.9% increase.

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Other Income

Other income, net, was ¥1.2 billion (\$10 million), a decrease of ¥18.2 billion from the prior year. The reason for this substantial decrease was the absence of a gain of ¥15.9 billion from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings, Inc., in the prior year.

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

Income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies was ¥131.6 billion (\$1,115 million), a decrease of ¥9.0 billion from the prior year.

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

Income taxes decreased 12.7% from the prior year, to ¥49.0 billion (\$415 million). The effective tax rate was 37.2%.

Minority interests in earnings of subsidiaries increased ¥1.3 billion, to ¥6.2 billion (\$53 million). Equity in net income of affiliated companies decreased ¥0.3 billion from the prior year, to ¥1.4 billion (\$11 million). The increase in minority interests in earnings of subsidiaries resulted from the favorable operating performances of overseas subsidiaries.

Income from Continuing Operations

Income from continuing operations was ¥77.7 billion (\$659 million), compared with ¥81.1 billion in the prior year.

Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes, was ¥1.3 billion (\$11 million) in the year under review and ¥0.1 billion in the prior year. This loss resulted from the withdrawal from industrial-waste disposal business and the liquidation of a subsidiary engaged in that business.

Net Income

Due to the factors described above, net income decreased ¥4.6 billion, to ¥76.5 billion (\$648 million). Return on shareholders' equity decreased 2.8 percentage points, to 12.1%, from the prior year.

Income per ADS

Basic net income per ADS (five common shares) was ¥295 (\$2.50), as compared to ¥311 in the prior year.

Dividends

The Company has decided to pay ¥35 per ADS as year-end cash dividends. Accordingly, including the interim dividend of ¥25 per ADS already paid, the total dividends for the entire fiscal year will be ¥60 per ADS, which will be ¥10 per ADS higher than the prior year.

The Company's basic policy for the return of profit to shareholders is to maintain stable dividends or raise dividends together with share buy-backs and the cancellation of treasury stock. For reference's sake, the Company purchased 7.98 million shares outstanding (¥8.5 billion) and retired 7.95 million shares of treasury stock (¥8.5 billion) during the year under review.

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Comprehensive Income

Comprehensive income was ¥67.3 billion (\$570 million), ¥73.0 billion lower from the prior year. This decrease was mainly due to a decrease in unrealized gains on securities.

(The fiscal year ended March 31, 2006 compared with the fiscal year ended March 31, 2005)

Revenues

For the year under review, revenues of the Company rose 7.2%, to ¥1,065.7 billion. In the domestic market, revenues in Internal Combustion Engine and Machinery increased due to steady sales of engines and construction machinery, and revenues in Pipes, Valves, and Industrial Castings increased due to favorable sales of industrial castings and business integration in the plastic pipes business. However, revenues in Environmental Engineering decreased due to severe conditions of the public works related business, and revenues in Other decreased, resulting from a sale of a subsidiary at the beginning of this fiscal year. Total domestic revenues decreased 1.1%, to ¥632.1 billion from the prior year.

On the other hand, revenues in overseas markets increased largely as a result of sustained high growth in the Company's overseas operations in Internal Combustion Engine and Machinery. Revenues in North America increased due to steady sales of tractors and brisk sales of engines and construction machinery. In Europe, sales of tractors, construction machinery, and engines increased largely from the prior year. In Asia, sales of rice-farming equipment rose substantially. As a consequence, overseas revenues increased 22.1%, to ¥433.6 billion from the prior year. The percentage of overseas sales accounted for 40.7% of revenues, 5.0 percentage points higher than in the prior year.

Please refer to next revenues by industry segment for details.

Revenues by industry segment

1) Internal Combustion Engine and Machinery

Revenues in Internal Combustion Engine and Machinery were ¥674.1 billion, 13.4% higher than in the prior year, comprising 63.3% of consolidated revenues. Domestic revenues increased 4.0%, to ¥269.2 billion, and overseas revenues also increased 20.7%, to ¥404.9 billion. This segment consists of farm equipment, engines, and construction machinery.

In the domestic market, sales of farm equipment increased from the prior year. Although the domestic farm equipment market did not report briskness against a background of declining numbers of farmers in Japan and the division of middle-scale farmers into large-scale and small-scale farmers, the Company executed an aggressive sales promotion with finely tuned marketing programs and solution-providing activities for individual farmers in response to the changing environment surrounding Japanese farmers. Additionally, there was an upward trend in the domestic construction machinery market, and sales of construction machinery increased due to expansion of sales for the major rental companies supplying high-quality products in terms of safety and convenience. Sales of engines increased largely due to expansion of sales of existing and new manufacturers of construction machinery and industrial machinery.

In overseas markets, sales of tractors in North America increased steadily due to a sales promotion called the "Thanks a million" campaign, which was carried out after achieving sales of one million tractors in the United States. Sales in European markets increased substantially due to launching new models of garden tractors and utility vehicles (4-wheel multi-purpose vehicles), which achieved a successful outcome in the United States. In Asian markets, sales of rice farming machinery continue to increase, especially tractors in Thailand and combine harvesters in China. As for construction machinery, sales in European markets expanded largely due to the introduction of new products and an increasing market share. Sales of construction machinery in North America increased significantly due to improved recognition of the usefulness of the Company's mini-backhoes. With regard to engines, sales in the North American and European markets increased largely due to brisk business activities of existing major customers, the development of new customers, and the expansion of new applications.

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2) Pipes, Valves, and Industrial Castings

Revenues in Pipes, Valves, and Industrial Castings were ¥189.7 billion, 11.2% higher than in the prior year, comprising 17.8% of consolidated net sales. Domestic revenues increased 7.5%, to ¥167.2 billion, and overseas revenues increased 48.7%, to ¥22.5 billion. This segment consists of pipes, valves, and industrial castings.

In the domestic market, sales of ductile iron pipes decreased due to declining demand. On the other hand, sales of plastic pipes steadily increased due to the business integration with C.I.Kasei Co., Ltd., from April 2005, and sales of industrial castings also increased largely due to the demand related to brisk capital expenditure in the steel and energy industries.

In overseas markets, sales of ductile iron pipes increased from the prior year due to steady sales in the Middle East against a background of raising price of oil, and sales of industrial castings also increased from the prior year for the same reason as the domestic market.

3) Environmental Engineering

Revenues in Environmental Engineering were ¥109.9 billion, 6.3% lower than the prior year, comprising 10.3% of consolidated revenues. Domestic revenues decreased 7.6%, to ¥104.9 billion, and overseas revenues increased 32.4%, to ¥5.0 billion. This segment consists of environmental control plants and pumps.

With regard to the domestic market, the Company operated this business in a difficult market where intensifying competition combined with price declines due to decreasing budgets for public works are in progress. Under such conditions, sales in the Water & Sewage Engineering Division increased, but sales in the Pumps Division slightly decreased and sales in the Waste Engineering Division decreased significantly. In overseas markets, sales of pumps and submerged membrane systems increased steadily.

4) Other

Revenues in Other were ¥92.1 billion, 18.0% lower than the prior year, comprising 8.6% of consolidated revenues. Domestic revenues decreased 18.6%, to ¥90.8 billion, and overseas revenues increased 65.5%, to ¥1.2 billion. This segment consists of vending machines, electronic-equipped machinery, air-conditioning equipment, construction, septic tanks, condominiums, and other business.

Sales of electronic-equipped machinery increased steadily. However, sales of vending machines slightly decreased, and sales of air-conditioning equipment, construction, septic tanks, and condominiums also declined. In particular, the Company coped with selecting and focusing the domain of its construction business and discontinued some part of construction business. In addition, there was a drop in sales due to the sale of a certain subsidiary. As a consequence, revenues of this segment decreased substantially from the prior year.

Operating Income

Operating income also rose, by 28.7%, to ¥121.1 billion, exceeding ¥100 billion for the first time in the history of the Company. The Company achieved higher operating income due to increased revenues in Internal Combustion Engine and Machinery and a reduction in costs of the public works related business. The ratio of operating income to revenues also recorded a new high of 11.4%. 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 ¥110.6 billion, a 28.4% increase; Pipes, Valves, and Industrial Castings, operating income of ¥19.3 billion, a 67.8% increase; Environmental Engineering, operating income of ¥4.3 billion, a 28.6% decrease; and Other, operating income of ¥2.2 billion, a 43.8% decrease.

Although there was a negative impact of high prices of raw materials, profitability of Internal Combustion Engine and Machinery improved from the prior year due to favorable revenues in the European, Asian, and U.S. markets. Profitability of Pipes, Valves, and Industrial Castings improved from the prior year due to rigorous cost controls and the demand related to brisk capital expenditures in the steel and energy industries, while personnel expenses related to employee transfers to a subsidiary were recorded. Profitability in Environmental Engineering deteriorated because the Company is operating this business in a severe market in which intensifying competition together with price declines due to decreasing budgets for public works are in progress. Profitability in Other deteriorated mainly due to personnel expenses related to employee transfers to an affiliated company.

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

The cost of revenues increased 5.2% from the prior year, to ¥754.0 billion. As for material costs, while scrap metal for ductile iron pipes was cheaper than the Company's expectations, steel products for Internal Combustion Engine and Machinery and resin for plastic pipe rose substantially. The cost of revenues as a percentage of consolidated revenues decreased 1.3 percentage points, to 70.7%. The decrease in the ratio was attributable to thoroughgoing activities for cost reductions and controls, increased efficiency of the manufacturing process over past years, and a substantial decrease in pension costs.

Selling, general, and administrative (SG&A) expenses increased 1.9% from the prior year, to ¥186.0 billion. The ratio of SG&A expenses to revenues decreased 0.9 percentage point, to 17.5%. The decrease in pension costs as well as the Company's efforts to control spending in all aspects of business operations contributed to the decrease in the ratio.

Loss from disposal and impairment of businesses and fixed assets increased 233.0% from the prior year, to ¥4.7 billion. This loss increased mainly due to personnel expenses related to employee transfers to a subsidiary and an affiliated company.

Other Income (Expenses)

Other income, net, was ¥19.5 billion, a decrease of ¥42.8 billion from the prior year. While there was a gain of ¥15.9 billion from the nonmonetary exchange of securities of UFJ Holdings, Inc., resulting from the merger of Mitsubishi Tokyo Financial Group, Inc., with UFJ Holdings, Inc., the gain on the transfer of the substitutional portion of the Company's accumulated pension benefit obligations to the Japanese government, which amounted to ¥58.6 billion, was reported in the prior year.

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

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 was ¥140.5 billion, a decrease of ¥15.8 billion from the prior year.

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

Income taxes increased 16.5% from the prior year, to ¥56.1 billion. The increase of net income tax from the prior year was mainly due to the low level of income taxes for the prior year. The effective tax rate was 39.9%.

Minority interests in earnings of subsidiaries increased ¥1.5 billion, to ¥4.9 billion. Equity in net income of affiliated companies decreased ¥0.7 billion from the prior year, to ¥1.6 billion. This decrease was due to a drop of net income of Kubota Matsushitadenko Exterior Works, Ltd. (KMEW). Net income of KMEW for the prior year was extraordinarily high due to the low level of income taxes related to the merger.

Income from Continuing Operations

Due to the factors described previously, net income from continuing operations was ¥81.1 billion, compared with ¥107.1 billion in the prior year.

Income (loss) from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes, was ¥0.1 billion during the year under review. In the prior year, income from discontinued operations, net of taxes, was recorded aggregating ¥10.8 billion.

Net Income

Due to the factors described above, net income was ¥81.0 billion, compared with ¥117.9 billion in the prior year. Return on shareholders' equity decreased 12.1 percentage points, to 14.9%, from the prior year.

Basic net income per ADS (five common shares) was ¥311, as compared to ¥446 in the prior year.

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 ¥30 was approved at the general meeting of shareholders, held on June 23, 2006. The Company also paid a ¥20 per ADS interim dividend to each shareholder.

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Comprehensive Income

Comprehensive income was ¥140.3 billion, a ¥21.0 billion improvement from the prior year. This increase was mainly due to an increase in unrecognized gains on securities against a background of raising price of Japanese shares.

B. Liquidity and Capital Resources

Finance and Liquidity Management

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

Annual interest rates of short-term borrowings ranged primarily from 0.81% to 5.77% at March 31, 2007. The weighted average interest rate on such short-term borrowings was 5.3%. As for long-term debt, interest rates were primarily fixed, and the weighted average interest rate on such long-term debt at March 31, 2007 was 3.6%. With regard to maturity profile of these borrowings, please refer to Item 5.F Tabular Disclosure of Contractual Obligations .

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

Regarding the lines of credit, the Company has established committed lines of credit totaling ¥20.0 billion (\$169 million) with certain Japanese banks. However, the Company currently does not use these lines. In the United States, Europe, and Asia, the Company maintains adequate uncommitted lines of credit with financial institutions. The Company also maintains a CP program allowing for the issuance of CP of up to ¥100.0 billion (\$847 million). There was no outstanding issue of CP as of the end of March 2007.

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

To maintain the strength