# KUBOTA Corporation

Annual Report 2000

## PROFILE

Since its founding, Kubota Corporation has continued to manufacture various products with the aim of promoting harmony between people and the earth's environment, including water and soil, to contribute to a better future for people, society, and the earth. In accordance with this basic philosophy, Kubota is continually anticipating the needs of society as it vigorously engages in businesses that contribute to the betterment of society. Today, Kubota's products in business domains related to people's lives and culture—soil, water, and other areas of the environment as well as cities and housing—are widely used and have earned extensive acclaim worldwide. In the future, by continuing to offer people-friendly and earth-friendly products, Kubota aims to create an abundant living environment and contribute to the protection of the earth's environment.

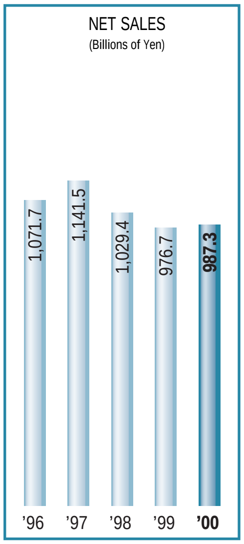
## CONTENTS

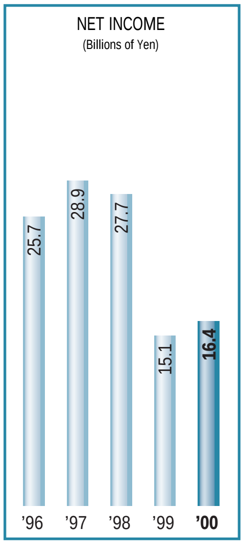
## FINANCIAL HIGHLIGHTS

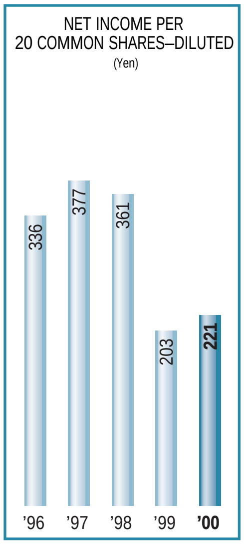
Kubota Corporation and Subsidiaries    Years Ended March 31, 2000, 1999, and 1998

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| Net sales | **¥987,265** | ¥976,652 | ¥1,029,437 | **$9,313,821** |
| Percentage of previous year | **101.1%** | 94.9% | 90.2% | |
| Net income | **16,428** | 15,106 | 27,683 | **154,981** |
| Percentage of previous year | **108.8%** | 54.6% | 95.6% | |
| Percentage of net sales | **1.7%** | 1.5% | 2.7% | |
| Net income per 20 common shares (in Yen and U.S. Dollars): | | | | |
| Basic | **¥233** | ¥214 | ¥393 | **$2.20** |
| Diluted | **221** | 203 | 361 | **2.08** |
| Cash dividends per 20 common shares (in Yen and U.S. Dollars) | **120** | 120 | 120 | **1.13** |
| Capital expenditures | **¥ 39,294** | ¥ 44,073 | ¥ 54,055 | **$ 370,698** |
| Depreciation | **44,149** | 42,742 | 37,000 | **416,500** |
| R&D expenses | **33,148** | 36,759 | 37,848 | **312,717** |
| Number of shareholders (at year-end) | **63,484** | 64,304 | 62,818 | |

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106=US$1. See Note 1 to the consolidated financial statements.



Osamu Okamoto
Chairman and Representative Director

Yoshikuni Dobashi
President and Representative Director

**SUMMARY OF RESULTS**

In fiscal 2000, ended March 31, 2000, consolidated net sales by Kubota Corporation increased 1.1% from the previous fiscal year, to ¥987.3 billion ($9,314 million).

By product group, sales in Internal Combustion Engine and Machinery expanded smoothly, thanks to an increase in replacement demand for farm equipment in the domestic market and robust sales of tractors and engines in overseas markets, primarily in North America. Sales in Industrial Products and Engineering declined owing to sluggish private-sector capital investment and curtailments in public works expenditures in Japan. On the other hand, sales in Building Materials and Housing advanced amid a recovery in housing demand, although intense competition in the industry persisted.

Operating income increased 8.7%, to ¥35.7 billion ($337 million), while net income rose 8.8%, to ¥16.4 billion ($155 million). Diluted net income per 20 common shares increased to ¥221 ($2.08), from ¥203 in fiscal 1999. Kubota plans to pay year-end cash dividends per share of ¥3, or ¥60 per 20 common shares. Together with interim cash dividends, cash dividends per share for the entire fiscal year amounted to ¥6, or ¥120 per 20 common shares.

**STRATEGIES FOR THE FUTURE**

During the 110 years since the Company's founding, Kubota has carried out its business operations in a wide range of fields, including those related to the public, private, and agricultural sectors. Amid significant changes in the business environment and intensifying competition in Japan and overseas, Kubota has businesses that are maintaining and enhancing their competitiveness and generating strong profits as well as those that have been slow to respond to changes and have recorded sluggish profits. In view of this situation, Kubota plans to "shape up" or streamline its business structure as it rapidly reforms its operations to further raise competitiveness. More detailed explanations of these efforts are provided in the interview with the president in the section of this report that follows.

In closing, we ask our shareholders and friends for their continued support.

June 2000

***One year has passed since you assumed the duties of president. Looking back, how would you assess your first year?***

Since it was expected that the Company's results of operations would worsen drastically accompanying a prolonged sluggish economy and other reasons, we have set a target to streamline all the Company's operations, which is to be accomplished within the three years from the year ended March 31, 2000 to the year ending March 31, 2002. Through such efforts, the Company is progressing to recover profitability and to strengthen its financial structure. To put it concretely, we have been implementing short-term measures aimed at securing profits and strengthening our business structure. These measures include reducing the number of employees, partly through such steps as implementing a system of extraordinary additional payments for voluntary early retirement as well as reducing general and administrative costs.

First, we have worked to reduce personnel expenses—which significantly affect fixed costs—focusing these efforts on employee reductions. In our non-consolidated operations, our immediate target is to trim our workforce by 2,000 employees, from 15,500 as of April 1999 to 13,500 by April 2002. Our employee-reduction plan is progressing smoothly, and we are on target to reach our objective through the recently introduced early retirement special payment system. On a consolidated basis, as well, each company in the Kubota Group is making similar employee reductions, based on their own management plans. As our workforce is streamlined, it is imperative that the remaining personnel, especially in administrative divisions, work more efficiently to compensate for these staff reductions. Although we require no additional personnel at the moment, we are nonetheless hiring a small number of new employees to invigorate our operations internally.

Regarding general and administrative costs, we are progressing to achieve our target of a 30% reduction in total costs by extensively reviewing our business affairs.

Through these two measures—reducing our workforce and administrative costs—we aim to prune costs by ¥5.0 billion annually over the three-year period spanning fiscal 2000 to fiscal 2002, reducing costs by a total of ¥15 billion compared with fiscal 1999 levels.

***Many Japanese companies are carrying out their operations in accordance with the theme "selectivity and concentration." With Kubota involved in a particularly diverse range of business activities, what are your views on the Company's future business composition, particularly from the perspective of raising asset efficiency and enhancing enterprise value?***

As you just mentioned, Kubota is engaged in an extremely diverse range of businesses. The Company boasts a relatively balanced business composition consisting of activities in the public, private, and agricultural sectors. To the present, this business composition has provided Kubota with a strong structure that can withstand changes in the economic environment. In recent years, however, the business landscape has evolved at a pace never seen before, and Kubota is now operating in an era in which achieving growth in every business category is unlikely. In view of this reality, Kubota must discard such past notions as protecting every one of its diversified businesses and raising its overall capabilities and instead focus on "shaping up," or streamlining its business structure. In line with these efforts, I have divided the Company's businesses into three categories, which will allow the mission of each business category to be clarified and enable the Company to prioritize the methods of allocating management resources. We intend to implement the most effective measures for each of the three business categories.

***Could you provide specific details on these three business categories?***

The first is our "Core Businesses" category, which primarily encompasses our domestic farm equipment, ductile iron pipe and other pipe-related businesses, and pumps. Although the markets for these products are unlikely to experience rapid growth in the years ahead, Kubota is extremely competitive in these fields, which serve as a foundation for stable revenues. By maintaining or further enhancing its competitiveness in these fields, Kubota will work to generate stable income and expand its cash flows. These "Core Businesses" will also function as a base for achieving growth in our "Strategic Businesses" as well as for rebuilding our "Reviving Businesses," which I will now discuss.

The second is our "Strategic Businesses" category, which mainly includes the overseas operations for tractors and engines as well as our environmental control plant business, fields in which Kubota is highly competitive. Markets in these business sectors are also expected to grow sharply in the future, and we plan to strengthen our operations in these fields, viewing them as "Strategic Businesses" and thereby expand our profits. Businesses in this category will serve as the driving force of Kubota's growth. For a more in-depth discussion about Kubota's businesses in these sectors, please refer to the interviews with the general managers of these sectors contained in this annual report.

Last is our "Reviving Businesses" category, primarily building materials and housing as well as industrial castings. These businesses are encountering harsh business conditions because of increasing competition. Nonetheless, we will undertake extensive measures to quickly revive these businesses with Companywide support.

Yoshikuni Dobashi
President and Representative Director

***We hear that you have also categorized the Company's operations from a different perspective. Would you please explain these categories?***

From the perspective of production methods, I also categorize our businesses as "assembly-type" and "process-type" businesses. Representative of our assembly-type businesses are our farm equipment operations. Because these businesses have had to overcome such challenges as harsh competition from overseas companies and the appreciation of the yen, productivity in these sectors is rising to extremely high levels. In contrast, such process-type businesses as pipe and fluid systems engineering as well as building materials and housing are relatively less productive and thus offer ample latitude for improvements. With this in mind, I have therefore directed process-type businesses to implement various measures for achieving a 20% increase in productivity over a two-year period without making large-scale investments. These efforts are already yielding important results, and I am confident that enhanced competitiveness in these businesses will translate into higher productivity Companywide.

### *Could you outline the specific measures you are taking as you aggressively reduce interest-bearing debt?*

We began reducing our interest-bearing debt with the purpose of raising our credit rating. Although Kubota currently boasts a credit rating of $A^+$ from a domestic credit rating institute, the Company aims to improve this rating to the previously held AA, which will enable funds to be raised on even more advantageous conditions. To attain this objective, we are taking such measures as improving the efficiency of funds for the parent company and its major domestic subsidiaries through Group financing; selling marketable securities; shrinking inventories; constraining capital expenditures; and decreasing cash and cash equivalents (concurrently establishing a line of credit with certain banks to secure liquidity). By downsizing our assets in this manner, we plan to reduce interest-bearing debt by ¥100 billion, from ¥430 billion at the end of March 1999 to ¥330 billion at the end of March 2002.



### *Japan will shift from non-consolidated to consolidated accounting standards. What impact will this have on Kubota's management approach?*

Kubota has been preparing its consolidated financial statements in accordance with United States Generally Accepted Accounting Principles for about 30 years, and we believe that continuing to do so in the future is essential. Our management approach will thus emphasize fortifying consolidated operations. In our consolidated operations, for example, we are strengthening inventory management and pruning overall distribution costs, while achieving speedy decision making by rapidly obtaining information from subsidiaries. We also aim to raise the enterprise value of the entire Kubota Group by increasing synergies among our businesses in each field, including subsidiaries. Turning to finance, in February 2000 we began Group financing for the principal domestic Kubota Group companies and are reducing fund-raising costs for the entire Group as well as lowering interest-bearing debt, both as just mentioned previously.

***You have explained management issues, countermeasures, and the outlook for Kubota's businesses. In terms of management style, what areas will you emphasize in the future?***

I will emphasize speed in carrying out operations. Specifically, we plan to redefine the functions of our Innovation and Strategy Committee, which is composed of a small number of senior Board of Directors' members, in line with efforts aimed at "speedy decision making." This committee will deliberate such important issues as the restructuring of our businesses as well as large-scale capital investment. Kubota will also revamp the structures and fortify the functions of the administrative departments at Company headquarters and raise "implementation speed" by building a flat organization. In addition, we will reshuffle administrative departments that can better provide strategic advice to the top management and more accurately support each business division. For the research and development headquarters, we will establish a structure to more effectively support our business divisions. Based on the idea of undertaking R&D close to our business sectors, we will establish stringent research areas and delivery periods.

***Finally, as the next century approaches, how are you planning to change Kubota into an ideal company in the future? To attain this goal, what approach should be taken by the management and employees of Kubota?***

As I stated previously, by prioritizing the allocation of management resources in each business category and strengthening and speeding up our consolidated management, we aim to become a company that can respond flexibly to the evolving needs of the times and provide high enterprise value for our shareholders. To achieve such objectives, I believe it is essential that each manager and employee reform his or her Company awareness and I have formulated five basic policies for doing so. These will function as the Company's path in the next century, and I will serve as the starter. I hope each manager and employee implements these measures from a comprehensive perspective. We are working to realize "Active Kubota, Changing Kubota" by combining the potential power of all members of the Kubota Group.

1. Aim to become a company acclaimed by society
2. Continue to respond promptly and accurately to customer needs
3. Approach all situations from a future-oriented perspective
4. Create a free and generous workplace environment
5. Value people in the true sense of the word by implementing a fair and stringent ability-based culture

**Kubota is one of the world market leaders in compact tractors, small-sized industrial diesel engines, and mini excavators. Today, we are going to ask Mr. Mikio Kinoshita, who is in charge of the Internal Combustion Engine and Machinery Group, to explain their characteristics and strengths as well as the future strategy and outlook for such businesses.**

***Kubota is recording brisk sales in overseas markets. Could you outline the current status and strengths of the Company's farm and industrial machinery business?***

Mikio Kinoshita, Executive Managing Director

Kubota has high expectations for growth in overseas markets. Looking at tractors, for example, over the past five years Kubota has recorded an approximately 50% increase in exports from Japan on a customs-clearance unit basis while steadily expanding local production of lawn and garden tractors in the United States. These robust exports and overseas production are more than compensating for the long-term downtrend in domestic demand. Our strength in the machinery business stems from our ability to develop new products with advanced technologies developed in advance of our competitors. Such technologies include our innovative Glide Shift transmission, and the integrated cabin, which is incorporated into compact tractors. In vertical diesel engines, Kubota is reporting further sharp growth in exports of these diesel engines through its aggregate production in Japan and well focused responses to the needs of leading U.S. and European industrial equipment manufacturers. Regarding horizontal diesel engines on the other hand, Kubota has shifted production from its manufacturing bases in Japan to Thailand and Indonesia, aiming to maintain its competitiveness by basing production in locations close to the markets.

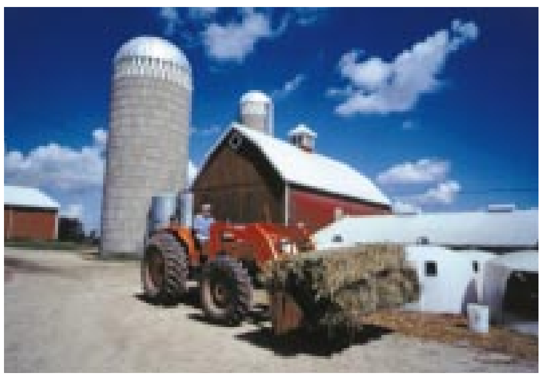
***Kubota is a world market leader in compact below-40hp tractors. How will you fortify your market position in the future?***

Kubota's core business in tractors is the compact below-40hp tractors. The Company continues to work on strengthening its product development to establish overwhelming capabilities that are superior to those of its competitors. Recently, Kubota has also made efforts to develop basic-type tractors, in addition to its top-of-the-line models that draw on the Company's technological capabilities. Through these efforts, Kubota is able to carry out dual-product-line sales, mainly in North America, and thereby cover an even wider spectrum of customer segments. Recently, Kubota has also developed sub-compact tractors that combine the performance of a compact utility tractor with the size of a garden tractor, thereby creating a new concept tractor market.

*Sub-compact tractor Model: BX2200D*

***There is also a large world market for tractors in the above-40hp class. How does Kubota view this market?***

Our competitors, which are called “majors” in the industry, enjoy an overwhelmingly higher name recognition in the market for above-40hp tractors, which creates a difficult environment for us in this market. Drawing on its extensive technologies in compact tractors, Kubota has developed a new type of lightweight, maneuverable tractor with outstanding traction and versatility by improving the body-balance, which is comparable to that of the highly acclaimed tractors of competitors in this market. In the 40-to-100hp class of tractors, there has been a rapid rise in demand for Kubota tractors, and sales are rising sharply.



*Mid-size tractor Model: M9000DT*

*Mid-size tractor Model: M6800DT*

***There is a worldwide direction toward a strengthening of regulations on exhaust emissions for engines, and only those manufacturers able to accurately respond to tighter regulations will survive. How is Kubota responding to these stricter regulations on exhaust emissions?***

Kubota has been a front-runner in responding to the implementation of necessary measures for exhaust-emission controls. As a prime example, in 1993 Kubota became the world’s first company to obtain a certificate of approval from the California Air Resources Board for compliance with the Utility, Lawn and Garden Equipment (ULGE) regulation on 25hp-and-below diesel engines. Exhaust-emission regulations—including those set by the Environmental Protection Agency (EPA) in the United States, the European Union (EU) in Europe, and the Ministry of Construction in Japan—have been implemented worldwide and are scheduled to be tightened incrementally. To clear the EPA Tier 2 standards that will start in 2004 and the coming tougher future regulations of the EPA and other organizations, Kubota has invested in an R&D facility that specializes in engines and installed emission-monitoring facilities, thus enabling the Company to set up a sophisticated organization to meet these regulations. This structure plays a key role in speeding up our engine development activities in response to more stringent regulations and enables us to develop further upgraded engines with minimum changes in dimensions, to assist in complying with the emission regulations, while keeping Kubota diesel engines compact and powerful. Therefore, we will be able to continue to provide our customers with Kubota engines for their agricultural and industrial machinery, with the advantage that they can develop and introduce new machinery smoothly, using the new engines that clear the stricter regulations as well as maintaining high performance while avoiding big design changes to their machines.

### *The European and North American markets for small-sized construction machinery are expanding. Could you describe Kubota's strengths and strategies as well as the prospects for growth in these markets?*

In small-sized construction machinery, overseas markets for mini excavators have steadily expanded, as evidenced by an approximately 40% increase in the size of the European market over the four-year period to 1999 and a threefold expansion in the U.S. market during the same period. In Europe, mini excavators were introduced more than 20 years ago, and Kubota established a top-class position there by making an early entry into this market, which included quickly setting up a production base in Germany. In the United States, the utility of Kubota's mini excavators versus large-sized construction equipment has not yet been fully realized, due to the vast size of that country's landmass. Nevertheless, there has been a large increase in the size of the market for our small construction equipment, thanks to rising acclaim for the outstanding work performance of this equipment and for its convenience in small work spaces. Kubota plans to expand sales of mini excavators by using its appropriately located production bases in Europe and Japan as well as its existing strong sales network.

*Mini excavators in Europe*

### *Please describe Kubota's strengths as a manufacturer of farm and construction equipment that also engages in the production of engines.*

In the development of products, Kubota basically carries out integrated design and manufacture of the principal components for bodies, engines, transmissions, and axles. This also includes implements, which are major components of tractors. By taking this approach, Kubota aims to manufacture products that ensure the highest level of quality for customers. In particular, Kubota has created an internal work environment where engine engineers and product development engineers can meet and have discussions anytime. This provides a significant advantage, namely allowing detailed engine specifications to be determined while progressing with development of the machinery. Thus, carrying out the in-house development and production of engines—the heart of our machinery—is an extremely significant factor that enables us to distinguish our products from those of competitors.

**Kubota engages in a wide spectrum of environmental control plant businesses, ranging from water treatment to solid waste treatment and recycling plants. Today, we are going to discuss the characteristics and strengths as well as the future strategies and outlook of each of these businesses with Mr. Takeshi Oka, who is responsible for Kubota's overall environmental control plant business.**

***First, can you provide an overview of the present status and outlook for the environmental control plant business in Japan?***

One of the chief characteristics of the environmental control plant business in Japan is that this sector has been government-driven. Although private-sector-led environmental control plant businesses are highly advanced in Europe and the United States, the private sector in Japan still plays an extremely limited role in this field. Even in Japan, however, private-sector-led business in various environmental control plant fields is likely to expand, due in part to the implementation of the Japanese Private Finance Initiative Act. Moreover, the environmental control plant field is one of the most promising sectors in Japan. The Japanese government is placing high emphasis on promoting environment-related technologies, along with such sectors as biotechnology and telecommunications, as top growth fields in the 21st century. In addition, the general public is focusing more closely on the quality of the living environment, and demand is growing for outstanding waste treatment technologies. In view of these trends, I believe that the environmental control plant business is likely to be supported at various levels throughout Japan.

Takeshi Oka, Executive Managing Director and Representative Director

***Against this background, what are the characteristics of Kubota's environmental control plant business compared with the industry as a whole?***

Kubota's environmental control plant business can be broadly classified into two categories: water treatment and solid waste treatment. The most notable feature of our environmental control plant business is that water treatment related fields account for about two-thirds of our business revenues. Our water treatment technologies have been so highly acclaimed over the years that the name Kubota has become synonymous with water treatment, and we have built an extremely strong market presence in this field.

***You spoke of Kubota's strength in water treatment. Could you describe Kubota's recent approach to this market?***

Our water treatment business is centered primarily on advanced water purification plants, night-soil treatment plants, and facilities for treating leachate from refuse landfill sites, and we boast top-class capabilities in each of these fields. The new Kubota technologies presently gaining recognition include a system that uses ozone and ultraviolet rays to decompose dioxins and other toxic substances that are possibly contained in leachate from old refuse landfill sites. This system is attracting widespread attention because restrictions on dioxin emissions have been extended to cover dioxins in polluted water.

In night-soil treatment plants, it has become essential to take recycling into consideration, and there has been a shift away from facilities capable of only treating night soil toward the use of facilities that can also process sludge. As a means of cultivating new markets in this field, Kubota is using a methane fermentation system that can process raw garbage and livestock waste material with night soil. The application of this technology also allows bio-gas produced from methane fermentation to be used for generating electric power, thus achieving a valuable means of recycling.

*Dioxin-decomposition system*

***Next, will you briefly explain Kubota's strengths and strategies in the field of solid waste treatment?***

Refuse incineration plants represent the nucleus of our business in solid waste treatment. Refuse incineration methods have been classified into three broad categories. The first is fluidized bed refuse incinerators, which have traditionally accounted for a large share of the market. However, it has been discovered that there is a high possibility of fluidized bed refuse incinerators leading to the creation of dioxins. Accordingly, the use of fluidized bed refuse incinerators will likely decline in the future. It should be noted that Kubota has never used fluidized bed incinerators for refuse incineration. The second method for refuse incineration is the stoker-type refuse incinerator, which is expected to remain the primary treatment method, particularly because it enables stable and easy operation in large-scale incineration plants. Kubota has traditionally used the stoker-type refuse incineration method and has steadily compiled numerous achievements using this method in large-scale facilities. The third method, gasification and melting furnaces, has attracted particular attention, and demand for this type of plant is expected to grow because of its effectiveness in preventing the creation of dioxins. Kubota's gasification and melting furnaces are superior in terms of achieving low total installment costs and having outstanding capabilities for the high-grade melting and detoxification of ash. As these examples illustrate, Kubota is well positioned to cover all the methods expected to be used in refuse incineration plants in the future. From this perspective, Kubota is in a highly advantageous position in this field.

*Gasification and melting furnace*

### *What other new approaches is Kubota making in the field of solid waste treatment?*

One of Kubota's solid waste treatment technologies recently gaining notice is a system that uncovers incinerated ash buried at landfill sites and uses Kubota's independently developed rotating-type surface melting furnace to melt and convert this incinerated ash into slag, for such applications as road aggregate. Amid the nationwide shortage of land for refuse landfill sites, Kubota's revolutionary new system encourages the reuse of refuse landfill sites and the recycling of incinerated ash.

*Pre-treatment facility*

*Rotating-type surface melting furnace*

### *Kubota's environmental control plant business is almost entirely based in Japan. Please describe your strategies for developing this business in overseas markets.*

In our environmental control plant business, we have developed a wastewater treatment unit called the submerged membrane system, a unit product that simplifies membrane filtration technologies. Recently, this product has begun to find applications at sewage treatment plants in the United Kingdom and is attracting notice in continental Europe, home to numerous environmental control plant businesses. Also, Kubota anticipates increased demand for sewage treatment plants—one of the Company's strengths—in the nations of Southeast Asia and other countries as environmental restrictions are tightened in tandem with the economic development of these regions. We are currently considering appropriate methods for cultivating these markets.

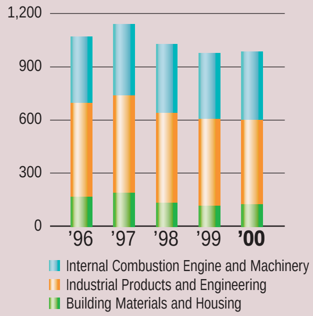
*Submerged membrane system*

### *Finally, on what fields will you focus to increase overall sales in the environmental control plant business?*

We have traditionally maintained a strong foundation in the water treatment business and will make our best efforts to cultivate new fields through the introduction of technologies such as those I have described. Thus, I am confident that the water treatment business will continue to serve as a basis for the future development of our environmental control plant business. In terms of markets, however, we foresee solid waste treatment becoming a large market. Therefore, by further concentrating on this field, we are aiming for higher growth.

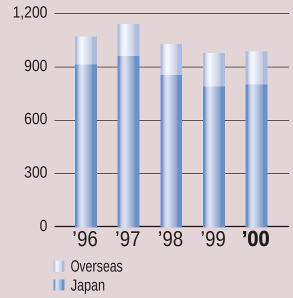
## Net Sales by Product Group

(Billions of Yen)




## Net Sales in Japan and Overseas

(Billions of Yen)



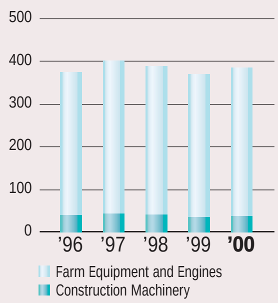

## Internal Combustion Engine and Machinery

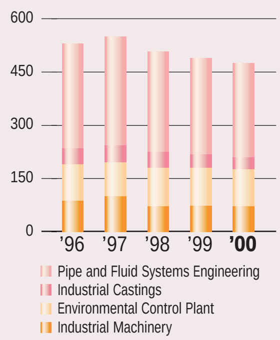
## Industrial Products and Engineering

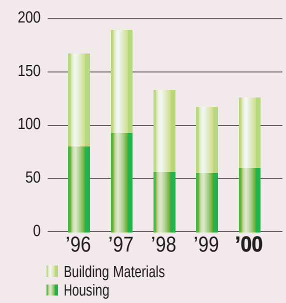
## Building Materials and Housing

### Sales by Sector

(Billions of Yen)

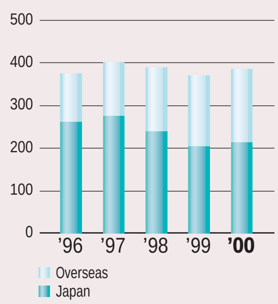


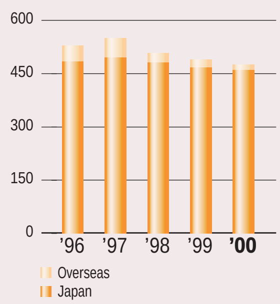



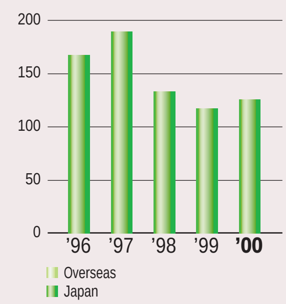




### Sales in Japan and Overseas

(Billions of Yen)




| | | | Billions of Yen | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1996 | 1997 | 1998 | 1999 | **2000** |
| **Net Sales** | | | 1,071.7 | 1,141.5 | 1,029.4 | 976.7 | **987.3** |
| **Internal Combustion Engine and Machinery** | | | 374.8 | 401.9 | 388.7 | 370.0 | **385.8** |
| | Sales by Sector | Farm Equipment and Engines | 335.3 | 358.8 | 348.1 | 334.3 | **348.1** |
| | | Construction Machinery | 39.5 | 43.1 | 40.6 | 35.7 | **37.7** |
| | Sales in Japan and Overseas | Japan | 261.4 | 275.3 | 239.4 | 204.2 | **213.9** |
| | | Overseas | 113.4 | 126.6 | 149.3 | 165.8 | **171.9** |
| **Industrial Products and Engineering** | | | 529.6 | 550.2 | 507.5 | 489.5 | **475.6** |
| | Sales by Sector | Pipe and Fluid Systems Engineering | 295.0 | 306.8 | 282.3 | 271.2 | **265.6** |
| | | Industrial Castings | 45.4 | 47.6 | 45.5 | 38.8 | **34.3** |
| | | Environmental Control Plant | 102.7 | 96.1 | 107.3 | 105.9 | **104.6** |
| | | Industrial Machinery | 86.5 | 99.7 | 72.4 | 73.6 | **71.1** |
| | Sales in Japan and Overseas | Japan | 483.7 | 495.8 | 481.9 | 467.7 | **460.6** |
| | | Overseas | 45.9 | 54.4 | 25.6 | 21.8 | **15.0** |
| **Building Materials and Housing** | | | 167.3 | 189.4 | 133.2 | 117.2 | **125.9** |
| | Sales by Sector | Building Materials | 87.0 | 96.6 | 76.8 | 61.9 | **65.7** |
| | | Housing | 80.3 | 92.8 | 56.4 | 55.3 | **60.2** |
| | Sales in Japan and Overseas | Japan | 167.3 | 189.4 | 133.2 | 117.2 | **125.9** |
| | | Overseas | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |

**Sales in Internal Combustion Engine and Machinery increased 4.3%, to ¥385.8 billion ($3,640 million), making up 39.1% of consolidated net sales. Domestic sales advanced 4.8%, to ¥213.9 billion ($2,018 million), and overseas sales were up 3.7%, to ¥171.9 billion ($1,622 million).**

## FARM EQUIPMENT AND ENGINES

Sales of farm equipment increased from the previous fiscal year.

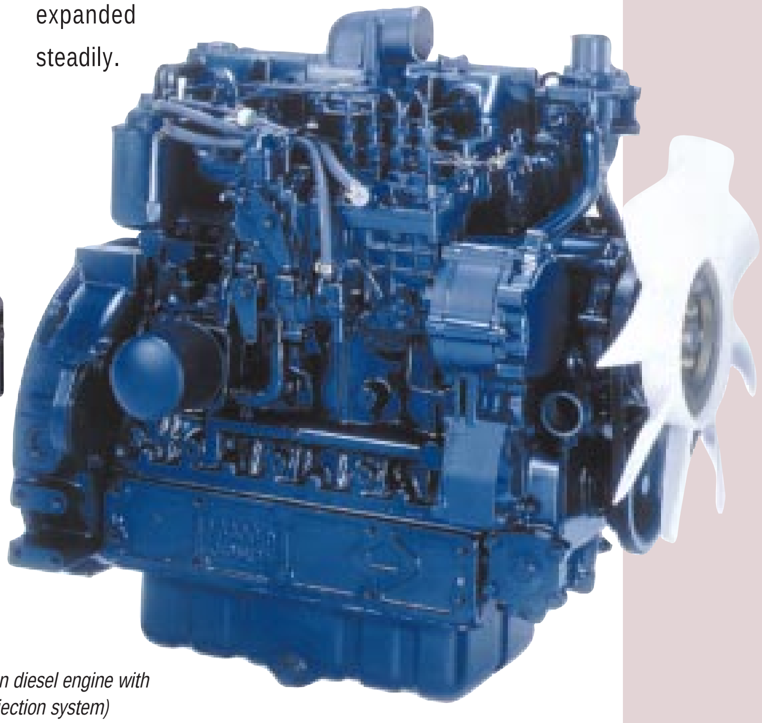
Domestic sales of farm equipment rose, the first increase in three years, reflecting a recovery in replacement demand. The environment for rice production remained clouded by such factors as sluggish rice prices. Nevertheless, the establishment of self-sufficiency food targets under the Japanese Basic Law on Food, Agriculture, and Rural Areas, implemented in July 1999, is expected to prompt a full-fledged conversion to the planting of such agricultural crops as soybeans and wheat, for which Japan has a low rate of self-sufficiency. In addition, the important role in environmental protection played by agricultural areas in mountainous regions has begun to attract interest, and there is a growing movement to provide public support for agriculture to prevent the abandonment of the industry in these regions. Against this background, Kubota further upgraded its lineup of affordably priced farm equipment and stimulated demand from farmers as it concentrated on activating the market. In tractors, Kubota introduced the “KINGWEL” series of tractors—the Company’s first full-model change to its main class of tractors in nine years—which propelled an increase in tractor sales from the previous fiscal year. Within this series, models that provide a sense of affordability and feature upgraded cabin specifications were particularly acclaimed. Also earning high praise in the market were our small-sized rice transplanters with specifications adapted for operation in mountainous regions. There are expectations that “ridable” farm equipment will be introduced for use in extremely narrow and confined agricultural spaces in mountainous regions, where previously only walk-behind-type equipment could be used. Kubota introduced the “Joycom Jr.” series of farm equipment for

*Mid-size tractor Model: M-120DTC*

*Rice transplanter for mountainous regions*

mountainous areas, including a tractor, combine, and rice transplanter, thereby contributing to the development of new markets. Kubota once again focused on strengthening its management structure through such measures as further reducing retail dealers' inventories. In addition to these measures, from April 2000 Kubota commenced such new activities as significantly reorganizing its sales structure as part of efforts to achieve a more-direct and faster response to the market.

In overseas markets, despite a harsh environment that included such factors as the sharp appreciation of the yen, sales of farm equipment increased slightly from the previous fiscal year. In the United States, the market for large-sized farm equipment remained sluggish, along with a slumping grain market. Nevertheless, the market for small and medium-sized tractors—Kubota's target market—expanded amid growth in new housing starts accompanying ongoing buoyant economic conditions. Under these conditions, competition intensified, as other companies took an aggressive approach to the market for small and medium-sized tractors. Nevertheless, the reputation of Kubota tractors for outstanding mobility and superior maneuverability has been rising over the years, a factor enabling the Company to achieve higher tractor sales, particularly of medium-sized models, during fiscal 2000. Also, in the fiscal year under review, Kubota developed a sub-compact tractor that represents a totally new concept in tractors. The development of this sub-compact tractor, which combines the performance of a compact utility tractor with the size of a garden tractor, highlights Kubota's determination to cultivate new demand in the market for small-sized tractors. Kubota started to produce this tractor at a manufacturing base in the United States from the first unit, as the Company progresses with the manufacture of its products in appropriate locations close to its markets. In Europe, Kubota posted healthy sales of tractors, supported by favorable economic conditions in each region. Kubota's G18 with a "Glide Cut" mower, which was introduced in fiscal 2000, has earned extensive acclaim for its revolutionary grass-catching system. In addition, Kubota made progress in efforts launched in fiscal 1999 to attain greater market penetration for its tractors in southern Europe. In China, which is attracting attention as a new market, demand for combine harvesters has expanded steadily.



*V3300-DI Direct Injection diesel engine with E-CDIS (center direct-injection system)*

Through its manufacturing and sales subsidiary in China, Kubota is concentrating on the local manufacture and sale of models appropriate for this market.

Sales of engines increased from the previous fiscal year. In Japan, weak sales of engines to manufacturers of construction and industrial machinery mirrored sluggishness in capital investment accompanying the long-term slump in the domestic economy. However, because of a recovery in sales of engines to farm equipment manufacturers, total domestic sales of engines increased slightly from the previous fiscal year. Overseas, Kubota continued to post robust sales of industrial diesel engines, mainly for construction equipment and freezer units, in its principal markets of the United States and Europe, despite intensifying competition in these markets. Kubota is enhancing its competitiveness, a step ahead of its competitors, by establishing an outstanding structure for responding to the tightening of exhaust emission regulations. In North America, the Company registered healthy sales of generators used in preparation for Y2K-related problems. In Asia, sales of horizontal diesel engines recovered in Thailand, a principal market for these engines, while a sharp recovery in sales of these engines in Indonesia was supported, in part, by robust exports.

Kubota recorded an increase in sales of construction machinery from the previous fiscal year. The domestic market environment is undergoing profound changes, due to continued sluggishness in replacement demand for machinery in the construction industry as well as the trend toward the use of rental equipment. Under these conditions, Kubota enhanced its competitiveness by significantly reducing lead times and pruning total costs. We also worked to cultivate new customers among rental companies, which are large users of construction machinery. Thanks to these efforts, Kubota achieved an increase in domestic sales of construction machinery for the first time in three years. The Company also recorded higher overseas sales of construction machinery. Within Europe, a main market for construction machinery, Kubota posted a rise in sales in such existing markets as the United Kingdom, Germany, and France, while making progress in cultivating new markets, mainly Italy. In the North American market, increased recognition of the utility of Kubota's mini excavators is buoying expectations of growth in sales of these excavators.

*Mini excavator in the domestic market*

**Sales in Industrial Products and Engineering declined 2.8%, to ¥475.6 billion ($4,487 million), accounting for 48.2% of consolidated net sales. Domestic sales were down 1.5%, to ¥460.6 billion ($4,346 million), and overseas sales decreased 31.6%, to ¥15.0 billion ($141 million). Industrial Products and Engineering comprises pipe and fluid systems engineering, industrial castings, environmental control plant, and industrial machinery.**

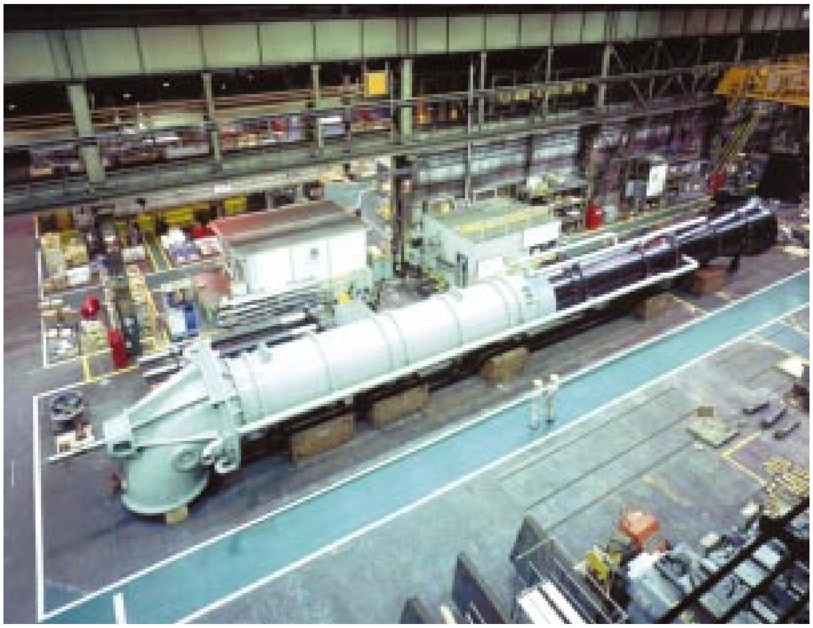
## PIPE AND FLUID SYSTEMS ENGINEERING

Sales in pipe and fluid systems engineering retreated 2.1%, to ¥265.6 billion ($2,505 million). Domestic sales decreased 0.4%, to ¥260.3 billion ($2,455 million), and overseas sales were down 46.8%, to ¥5.3 billion ($50 million).

Domestic sales of ductile iron pipe declined from the previous fiscal year, centering on lower sales to large cities. Such high-functional products as earthquake-resistant pipe with elasticity and separation-resistant functions in the connecting segments as well as pipe with epoxy powder resin-coated interiors, which had been enjoying steady growth in sales, are continuing to earn acclaim for their outstanding capabilities. However, sales of these products as a percentage of total sales of ductile iron pipe declined slightly during the year under review, as users of this pipe placed emphasis on restraining their costs. Sales of ductile iron pipe in gas-related markets continued to decrease, but sales of ductile iron pipe for sewage systems and agricultural use expanded. During fiscal 2000, Kubota established a new consulting company for water supply pipe systems, as part of a structure set up for engaging in a further comprehensive range of water supply related businesses. Overseas, sales of ductile iron pipe decreased, as a result of intensifying competition.

Sales of unplasticized polyvinyl chloride (PVC) pipe decreased from the previous fiscal year. Sales in the principal construction facility market declined. However,

*Ductile iron pipe*



*Pump—ready for shipment from the Hirakata Plant*

in electric power and information-related markets Kubota recorded an increase in sales of "information boxes," owing to the establishment of a telecommunications infrastructure based on the Japanese Ministry of Construction's Information Highway Vision. Information boxes use Rib Pipe, a high-strength PVC pipe with a wave-like surface. Because of its strength, Rib Pipe can be buried at shallow depths beneath roads, thereby reducing construction costs. Thus, there are also high expectations for increased sales of Rib Pipe for use in sewage systems.

Regarding other pipe, Kubota reported lower sales of spiral-welded steel pipe to its primary market, the public sector. On the other hand, sales of filament-winding pipe increased, especially for use in agricultural-related areas.

Kubota Construction Co., Ltd., which derives its sales from the installation of water supply and sewage systems, recorded higher sales than the previous fiscal year. Favorable sales from installing medium-diameter pipe for sewage systems with its minishield technology—a field of particular strength—compensated for lower sales from the installation of water systems and a decline in overseas sales. With the aim of expanding its future business, Kubota Construction will strengthen its engineering business in the water supply and sewage systems sectors while striving vigorously to enter the construction field.

Sales of pumps rose from the previous fiscal year, as higher domestic sales compensated for sluggish overseas sales. Kubota recorded higher domestic sales of pumps, primarily in the market for sewage systems. These pump sales centered on pumps for sewage systems and the prevention of floods from rivers, which were supported by the implementation of the government's supplementary budget. In fluid systems, a peripheral business, sales of both Unihole pumps and wastewater treatment facilities for farming communities edged down slightly from the previous fiscal year. Kubota's first commercial waste-plastics liquefaction plants for converting waste plastics into oil, one of the Company's new businesses, commenced operations during the fiscal year. Kubota is also proceeding with efforts to carry out its waste-plastics liquefaction plant business with various regional organizations. Sales of valves contracted due mainly to sluggishness in the private sector, including the electric power related market. Kubota worked to expand sales by introducing new soft-seal gate valves that respond to rising user emphasis on restraining costs.

*G-piles, cast steel pile for civil engineering*

## INDUSTRIAL CASTINGS

Sales in industrial castings were down 11.5%, to ¥34.3 billion ($324 million). Domestic sales shrank 10.7%, to ¥26.0 billion ($246 million), and overseas sales decreased 13.9%, to ¥8.3 billion ($78 million).

In civil engineering and construction markets, sales of ductile tunnel segments shrank slightly from the previous fiscal year, along with a slump in the number of orders for new subway projects. Nevertheless, in view of an expected increase in demand for ductile tunnel segments used in underground tunnels for regulation ponds as a flood control countermeasure, Kubota will continue to concentrate on its activities to expand sales in this sector. Sales of wastewater pipe and G-columns—cast-steel pipe for construction—decreased due to lackluster investment in construction. However, sales of G-piles—cast-steel pile for civil engineering—jumped sharply from the previous fiscal year, thanks to the implementation of the Japanese government's supplementary budget.

Sales of cast-steel products for steel plants were lower owing to a decrease in exports due to the appreciation of the yen as well as sluggish replacement demand in the domestic market. Kubota posted lower sales of rolls for steel mills because of slumping domestic production of crude steel.

Kubota decided to close the Tokai Plant in September 2000 and discontinue the business of ingot molds and castings produced at the plant.

## ENVIRONMENTAL CONTROL PLANT

Sales in environmental control plant were down 1.3%, to ¥104.6 billion ($987 million). Domestic sales retreated 1.5%, to ¥104.0 billion ($982 million), and overseas sales increased 87.7%, to ¥0.6 billion ($5 million).

In the field of water treatment, Kubota posted growth in sales of its mainstay sewage treatment plants, amid stable demand supported by an expansion of government budgets. However, sales of advanced water purification plants declined as demand for these facilities in large cities has passed for the time being. Sales of facilities for treating leachate from refuse landfill sites also trended downward. However, Kubota expects to record increased sales of a system for decomposing dioxins contained in wastewater, along with the implementation of the Law Concerning Special Measures against Dioxins in Japan, which establishes respective environmental standards for air, water, and soil. Sales of

*Night-soil treatment plant*

*Anaerobic digestion tank in sludge recycling plant*

night-soil treatment plants declined owing to a shrinking market for these facilities as government budgets have shifted their priority to dioxin treatment related facilities. Kubota foresees a steady shift toward sludge-recycling plants that not only treat night soil but that can simultaneously treat organic waste materials, including raw refuse. The Company will offer various new technologies in this field, including its bio-gas and compost technologies.

In the field of solid waste treatment, Kubota recorded a sharp increase in orders for refuse incineration plants. However, sales of these plants retreated in the current fiscal year. In the market for refuse incineration plants, gasification and melting furnaces—a new incineration method—are entering the spotlight as an effective dioxin countermeasure. Kubota will strive to establish a firm market position for its gasification and melting furnaces by appealing to the superiority of its system, which was jointly developed with another company.

## INDUSTRIAL MACHINERY

Sales in industrial machinery fell 3.4%, to ¥71.1 billion ($671 million). Domestic sales were down 1.9%, to ¥70.3 billion ($664 million), and overseas sales declined 59.4%, to ¥0.8 billion ($7 million).

Sales of vending machines were lower as demand turned sluggish after several years of steady growth. Sales of our mainstay vending machines for beverage manufacturers declined, and sales of cigarette vending machines contracted following a sharp rise in sales in the previous fiscal year. The downtrend in vending machine prices persisted along with intensifying competition, while the business tie-ups among beverage manufacturers, the principal users of vending machines, progressed. A number of changes can be seen in the market environment, including rising demand for vending machines that serve as information terminals. Kubota plans to fortify its market presence by engaging in business activities that maximize the Company’s strengths.

Sales of industrial weighing and measuring systems decreased due to curtailments in private-sector capital investment.

*Vending machine*

**Sales in Building Materials and Housing increased 7.4% from the previous fiscal year, to ¥125.9 billion ($1,188 million), making up 12.7% of consolidated net sales. Kubota's sales were favorably influenced by an increase in new housing starts, resulting from policies aimed at promoting home purchases that included implementing tax reductions on housing loans.**

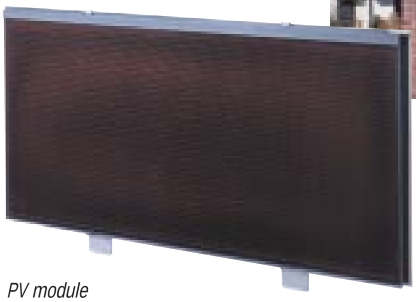
Sales of Kubota's Colorbest series of cement roofing materials increased amid a recovery in demand for housing. In the future, Kubota will strive to expand sales of its cement roofing materials by drawing on its strengths and offering products with distinctive characteristics, including providing a 10-year quality guarantee against rainwater leakage on roofs in response to the Japanese Housing Quality Assurance Act. At the same time, through such measures as cultivating new sales routes, Kubota will work to expand sales of its roof-system fixed photovoltaic (PV) shingles, which have attracted attention from the perspective of environmental protection.

Kubota posted growth in sales of cement siding materials, mainly of its high-value-added materials that feature highly attractive designs. Although price competition is intensifying, Kubota is concentrating on expanding sales through the strength of its products, mainly midrange and top-of-the-line products, which are developed with the Company's emphasis on quality.

In Johkasou Systems (septic tanks), the industry is promoting a shift away from single-use Johkasou Systems that treat only night-soil toward dual-use systems that can also simultaneously treat wastewater resulting from people's everyday living. Kubota was one of the first companies to cease production of single-use Johkasou Systems and switch mainly to sales of dual-use systems. In fiscal 2000, Kubota's sales of Johkasou Systems declined slightly because the fiscal year corresponded with a transitional period for the market penetration of dual-use systems. Kubota anticipates accelerated growth in the market for dual-use Johkasou Systems and expects to record increased sales of these systems.

In line with its emphasis on "selectivity and concentration" of management resources, Kubota has evaluated the future prospects of its unit bathroom business

*Roof-system fixed photovoltaic (PV) shingles: Model "Ecolony"*



*PV module*

*Dual-Use Johkasou System*

from numerous perspectives. Based on this evaluation, Kubota has determined that the outlook for expanding income in this sector would be dim. Thus, the Company has decided to withdraw from the unit bathroom business by March 2001.

Sales of prefabricated houses by Kubota House Co., Ltd., increased amid a recovery in new housing starts. However, sales of condominiums dipped because of the absence of large-scale projects in this market. The outlook for the housing market remains difficult, and a large recovery in demand seems unlikely. Amid this environment, Kubota House will work to significantly enhance the efficiency of its marketing by implementing highly focused marketing strategies for each geographic region, which will include relocating its model house exhibit sites. Kubota House will strive to expand sales further by upgrading its product lineup, centered on the industry's first houses with 20-year guarantees and 60-year annual inspections and such high-value-added products as the "She-BE," that emphasize environmental harmony as a sales point, as well as expanding its product lineup to include energy-efficient products, using a new type of solar energy system.

*Prefabricated house Model: "She-BE"*

## FIVE-YEAR FINANCIAL SUMMARY

Kubota Corporation and Subsidiaries Years Ended March 31, 2000, 1999, 1998, 1997, and 1996

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| | **2000** | 1999 | 1998 | 1997 | 1996 | **2000** |
| **For the year** | | | | | | |
| Net sales | **¥ 987,265** | ¥ 976,652 | ¥1,029,437 | ¥1,141,510 | ¥1,071,682 | **$ 9,313,821** |
| Percentage of previous year | **101.1%** | 94.9% | 90.2% | 106.5% | 105.7% | |
| Cost of sales | **738,838** | 729,488 | 767,588 | 859,711 | 816,679 | **6,970,170** |
| Selling, general, and administrative expenses | **212,757** | 214,361 | 214,345 | 217,710 | 204,716 | **2,007,141** |
| Operating income | **35,670** | 32,803 | 47,504 | 64,089 | 50,287 | **336,510** |
| Net income | **16,428** | 15,106 | 27,683 | 28,945 | 25,708 | **154,981** |
| Percentage of previous year | **108.8%** | 54.6% | 95.6% | 112.6% | 127.9% | |
| Percentage of net sales | **1.7%** | 1.5% | 2.7% | 2.5% | 2.4% | |
| Net income per 20 common shares (in Yen and U.S. Dollars): | | | | | | |
| Basic | **¥233** | ¥214 | ¥393 | ¥411 | ¥365 | **$2.20** |
| Diluted | **221** | 203 | 361 | 377 | 336 | **2.08** |
| **At year-end** | | | | | | |
| Total assets | **¥1,320,605** | ¥1,378,324 | ¥1,431,105 | ¥1,565,666 | ¥1,745,692 | **$12,458,538** |
| Working capital | **226,351** | 237,297 | 218,442 | 220,055 | 186,128 | **2,135,387** |
| Long-term debt | **233,257** | 266,195 | 254,354 | 291,657 | 271,426 | **2,200,538** |
| Total shareholders' equity | **449,647** | 424,443 | 434,481 | 474,166 | 536,079 | **4,241,953** |
| Shareholders' equity per 20 common shares outstanding (in Yen and U.S. Dollars) | **¥6,380** | ¥6,022 | ¥6,164 | ¥6,727 | ¥7,606 | **$60.19** |

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106=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 for the year ended March 31, 1997. See Note 1 to the consolidated financial statements.

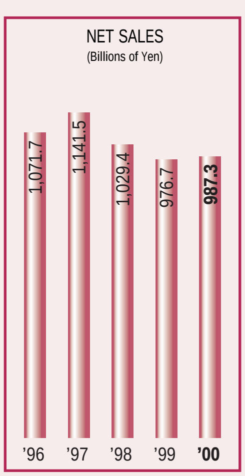
## SALES AND EARNINGS

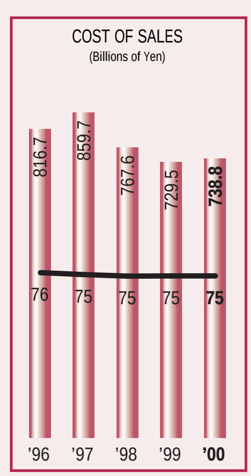
During fiscal 2000, the Japanese economy remained sluggish overall as public investments and housing investments, supported by the government's comprehensive economic stimulus package, slowed down in the latter half of the fiscal year. Consumer spending also showed weakness due to the harsh employment environment and sluggish wage growth. However, there were some signs of recovery in private-sector capital investments in some industries, centering on IT-related industries. Overseas, the U.S. economy continued to grow smoothly while the European economies also showed steady expansion in general. However, the export environment for Japanese companies worsened due to the appreciation of the yen.

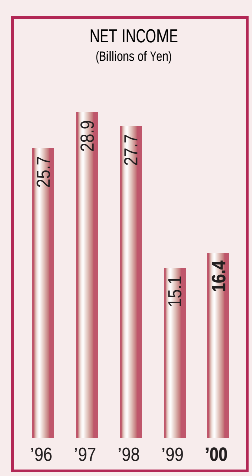
Under such conditions, consolidated net sales of Kubota increased 1.1% from the previous fiscal year, to ¥987.3 billion ($9,314 million). Sales in Internal Combustion Engine and Machinery rose 4.3%, to ¥385.8 billion ($3,640 million). On the other hand, sales in Industrial Products and Engineering decreased 2.8%, to ¥475.6 billion ($4,487 million), while sales in Building Materials and Housing were up 7.4%, to ¥125.9 billion ($1,188 million).

In Japan, Kubota recorded higher sales in Internal Combustion Engine and Machinery. In this group, sales of our mainstay farm equipment increased for the first time in three years due to the introduction of new models and a recovery in replacement demand. Sales of engines and construction machinery also increased. In Industrial Products and Engineering, sales in all four sectors, including pipe and fluid systems engineering, industrial castings, environmental control plant and industrial machinery, decreased. In pipe and fluid systems engineering, sales of pumps and sales from the installation of water supply and sewage systems increased, supported by public works investments. However, sales of mainstay ductile iron pipe declined. In environmental control plant, Kubota registered smooth sales growth of sewage treatment plants, but sales of refuse incineration plants retreated. Sales in Building Materials and Housing increased, centering on cement roofing materials, cement siding materials, and prefabricated houses amid a recovery in housing investment. As a result of these factors, total domestic sales were up 1.4% from the previous fiscal year, to ¥800.4 billion ($7,551 million).

In overseas markets, despite the harsh environment caused by the sharp appreciation of the yen, sales in Internal Combustion Engine and Machinery increased from the previous fiscal year. Sales in Industrial Products and Engineering, centering on pipe and fluid systems engineering, decreased. Reflecting these developments, total overseas sales decreased 0.4%, to



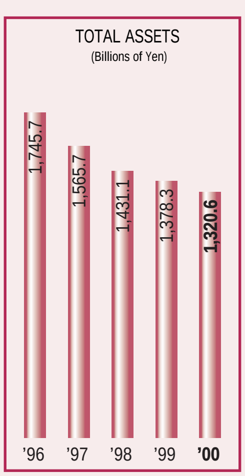



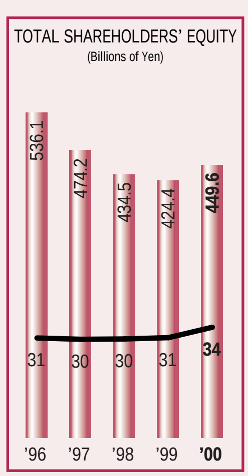
¥186.9 billion ($1,763 million), which as a percentage of net sales represents a 0.3 percentage point fall from the previous fiscal year, to 18.9%.

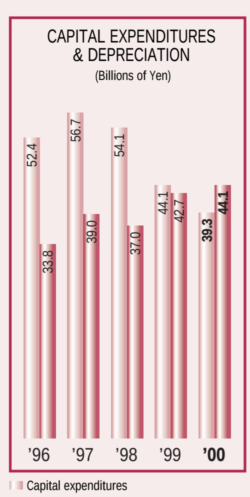
Operating income increased 8.7% from the previous fiscal year, to ¥35.7 billion ($337 million), which as a percentage of net sales represents a 0.2 percentage point rise, to 3.6%. Cost of sales increased ¥9.4 billion, to ¥738.8 billion ($6,970 million). The cost of sales ratio worsened 0.1 percentage point from the previous fiscal year, to 74.8%. On the other hand, selling, general and administrative (SG&A) expenses decreased 0.7%, to ¥212.8 billion ($2,007 million), thanks to Companywide efforts to reduce personnel and administrative costs under our urgent profit-increase measures. SG&A expenses as a percentage of net sales improved 0.3 percentage point, to 21.6%. R&D expenses in fiscal 2000 were down ¥3.6 billion from the previous fiscal year, to ¥33.1 billion ($313 million). As a percentage of net sales, R&D expenses declined 0.4 percentage point, to 3.4%.

Consolidated income before income taxes and equity in net income (loss) of affiliated companies decreased 28.1%, to ¥23.2 billion ($219 million), as other income (expenses) amounted to net expense of ¥12.5 billion ($117 million) compared with net expense of ¥0.5 billion in the previous fiscal year. Interest expense decreased ¥3.9 billion, to ¥10.0 billion ($95 million), due to the reduction of interest-bearing debt. Interest and dividend income fell ¥3.0 billion, to ¥8.6 billion ($81 million), mainly due to the securitization of finance receivables of a U.S. subsidiary. As a result, Kubota's net financial expense was ¥1.4 billion ($13 million), an improvement of ¥0.8 billion from the previous fiscal year. Other—net, in fiscal 2000, worsened ¥12.8 billion, to net expense of ¥11.1 billion ($104 million), due to such factors as the loss from disposition of businesses incurred by the discontinuation of the unit bathroom business, valuation losses of marketable securities, and foreign exchange losses.

Consolidated net income increased 8.8%, to ¥16.4 billion ($155 million). The ratio of net income to net sales increased 0.2 percentage point, to 1.7%. Diluted consolidated net income per 20 common shares amounted to ¥221 ($2.08), an increase from ¥203 in the previous fiscal year. This improvement is mainly owing to such factors as the reduction in the effective tax rates, which resulted in income taxes for the fiscal year decreasing to ¥8.8 billion ($83 million), as well as improvement in the equity in net income (loss) of affiliated companies. The reduction in effective tax rates to 37.8%, from 48.9% in the previous fiscal year, partly reflects the reduction of corporate income tax rates in Japan as well as an evaluation of the realizability of deferred tax assets of subsidiaries. The equity in net



income (loss) of affiliated companies amounted to net income of ¥2.0 billion ($19 million), compared with net loss of ¥1.4 billion in the previous fiscal year, due to the sharp recovery of profits in domestic sales companies related to farm equipment.

## LIQUIDITY AND CAPITAL RESOURCES

Total assets at fiscal year-end amounted to ¥1,320.6 billion ($12,459 million), ¥57.7 billion less than at the previous fiscal year-end. Cash and cash equivalents decreased ¥16.1 billion, due to the effect of such measures as raising the efficiency of funds for the entire Kubota Group through Group financing. Notes and accounts receivable declined ¥35.5 billion, attributable to such factors as the securitization of the wholesale trade receivables of a U.S. subsidiary. Inventories decreased ¥9.4 billion as a result of cutting inventories, mainly in pipe and fluid systems engineering. Therefore, total current assets declined ¥44.2 billion from the previous fiscal year-end. Investments increased primarily due to the increase in the value of marketable securities. Net property, plant, and equipment declined ¥7.5 billion owing to the curtailment of capital expenditures and normal depreciation. Other assets also decreased ¥10.8 billion, due to the decline of intangible pension assets.

On the liabilities side, total liabilities amounted to ¥871.0 billion ($8,217 million), down ¥82.9 billion compared with the previous fiscal year-end, due mainly to a reduction of ¥30.2 billion in short-term borrowings and a decrease of ¥32.9 billion in long-term debt. Both decreases derived from the improved efficiency in financial assets. In addition, accrued retirement and pension costs decreased ¥28.9 billion.

Working capital at the fiscal year-end decreased ¥10.9 billion from the previous fiscal year-end, to ¥226.4 billion ($2,135 million), due mainly to reductions in cash and cash equivalents as well as accounts receivable. The current ratio, however, was up 0.9 percentage points from the previous fiscal year-end, to 146.9%. During the fiscal year under review, the Company established a line of credit with certain banks, totaling ¥20.0 billion ($189 million), to secure liquidity.

Because of an ¥8.0 billion increase in retained earnings and a ¥17.2 billion increase in accumulated other comprehensive income, total shareholders’ equity expanded ¥25.2 billion, to ¥449.6 billion ($4,242 million). Based on the number of shares outstanding at the fiscal year-end, shareholders’ equity per 20 common shares increased ¥358 from the previous fiscal year-end, to ¥6,380 ($60.19). The shareholders’ equity ratio increased 3.2 percentage points, to 34.0%.

## CASH FLOWS

Cash and cash equivalents at fiscal year-end decreased ¥16.1 billion from the previous fiscal year-end, to ¥78.6 billion ($742 million), which includes the negative effect of exchange rate changes on cash and cash equivalents of ¥0.9 billion ($8 million).

Net cash provided by operating activities decreased ¥9.7 billion, to ¥79.3 billion ($748 million). This decrease primarily reflected an increase in income taxes paid, from ¥4.8 billion to ¥23.6 billion ($223 million), offset by an even greater decrease in accounts receivable than the prior year.

Net cash used in investing activities increased ¥1.7 billion from the previous fiscal year, to ¥29.2 billion ($275 million). Demand for capital investment has passed its peak for the time being, therefore capital expenditures on an accrual-basis in this fiscal year decreased. However, cash-expenditures for fixed assets increased by ¥2.2 billion. Proceeds from the sales of investments also decreased ¥5.1 billion.

Net cash used in financing activities amounted to ¥65.3 billion ($616 million), compared with ¥46.7 billion in the previous fiscal year, owing mainly to a reduction in long-term debt while curtailing new issuances.

## DERIVATIVES

To minimize or avoid currency and interest rate fluctuation risks, the Company uses various types of derivatives, including foreign exchange forward contracts, currency swaps, and interest rate swaps. As a basic policy, Kubota conducts its derivatives transactions within the range of its outstanding credits and obligations, and the Company does not engage in speculative derivatives transactions. Because the counterparties for derivatives transactions are financial institutions with high creditability, the Company does not anticipate any credit risk for such transactions. For more specific details, please refer to Note 12 to the consolidated financial statements.

## CONTINGENCIES

For discussion of the Company's violation of the Anti-Monopoly Law relating to the sale of ductile iron straight pipe in Japan, please refer to Note 14 to the consolidated financial statements.

## RECENT EVENT

Certain directors and employees of the Company are under investigation by the authorities in connection with an alleged criminal liability in violation of the Japanese Commercial Code. The future outcome of this incident is difficult to state since the investigation is currently in progress.

## SEGMENT INFORMATION

The following segment information for the years ended March 31, 2000 and 1999, 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.

### *Industry Segments*

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| **Year Ended March 31, 2000** | Internal Combustion Engine & Machinery | Industrial Products & Engineering | Building Materials & Housing | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | |
| Unaffiliated customers | **¥385,799** | **¥475,575** | **¥125,891** | **¥ 987,265** | **¥ —** | **¥ 987,265** |
| Intersegment | **10** | **10,518** | **187** | **10,715** | **(10,715)** | **—** |
| Total | **385,809** | **486,093** | **126,078** | **997,980** | **(10,715)** | **987,265** |
| Cost of sales and operating expenses | **348,401** | **457,128** | **129,611** | **935,140** | **16,455** | **951,595** |
| Operating income (loss) | **¥ 37,408** | **¥ 28,965** | **¥ (3,533)** | **¥ 62,840** | **¥ (27,170)** | **¥ 35,670** |
| Identifiable assets at March 31, 2000 | **¥424,194** | **¥504,531** | **¥123,740** | **¥1,052,465** | **¥268,140** | **¥1,320,605** |
| Depreciation | **13,987** | **22,633** | **4,552** | **41,172** | **2,977** | **44,149** |
| Capital expenditures | **14,964** | **19,713** | **2,526** | **37,203** | **2,091** | **39,294** |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| Year Ended March 31, 1999 | Internal Combustion Engine & Machinery | Industrial Products & Engineering | Building Materials & Housing | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥369,943 | ¥489,519 | ¥117,190 | ¥ 976,652 | ¥ — | ¥ 976,652 |
| Intersegment | 67 | 10,855 | 320 | 11,242 | (11,242) | — |
| Total | 370,010 | 500,374 | 117,510 | 987,894 | (11,242) | 976,652 |
| Cost of sales and operating expenses | 330,235 | 469,249 | 128,554 | 928,038 | 15,811 | 943,849 |
| Operating income (loss) | ¥ 39,775 | ¥ 31,125 | ¥ (11,044) | ¥ 59,856 | ¥ (27,053) | ¥ 32,803 |
| Identifiable assets at March 31, 1999 | ¥419,565 | ¥553,767 | ¥133,510 | ¥1,106,842 | ¥271,482 | ¥1,378,324 |
| Depreciation | 13,472 | 21,281 | 5,034 | 39,787 | 2,955 | 42,742 |
| Capital expenditures | 19,609 | 20,041 | 3,203 | 42,853 | 1,220 | 44,073 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| **Years Ended March 31, 2000** | Internal Combustion Engine & Machinery | Industrial Products & Engineering | Building Materials & Housing | Total | Corporate & Eliminations | Consolidated |
| Net sales: | | | | | | |
| Unaffiliated customers | **$3,639,613** | **$4,486,557** | **$1,187,651** | **$9,313,821** | **$ —** | **$ 9,313,821** |
| Intersegment | **95** | **99,226** | **1,764** | **101,085** | **(101,085)** | **—** |
| Total | **3,639,708** | **4,585,783** | **1,189,415** | **9,414,906** | **(101,085)** | **9,313,821** |
| Cost of sales and operating expenses | **3,286,802** | **4,312,528** | **1,222,745** | **8,822,075** | **155,236** | **8,977,311** |
| Operating income (loss) | **$ 352,906** | **$ 273,255** | **$ (33,330)** | **$ 592,831** | **$ (256,321)** | **$ 336,510** |
| Identifiable assets at March 31, 2000 | **$4,001,830** | **$4,759,726** | **$1,167,359** | **$9,928,915** | **$2,529,623** | **$12,458,538** |
| Depreciation | **131,953** | **213,519** | **42,943** | **388,415** | **28,085** | **416,500** |
| Capital expenditures | **141,170** | **185,972** | **23,830** | **350,972** | **19,726** | **370,698** |

## *Geographic Segments*

| Year Ended March 31, 2000 | Millions of Yen Japan | North America | Other Areas | Total | Corporate & Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Unaffiliated customers | **¥821,031** | **¥118,660** | **¥47,574** | **¥ 987,265** | **¥ —** | **¥ 987,265** |
| Intersegment | **115,780** | **1,651** | **613** | **118,044** | **(118,044)** | **—** |
| Total | **936,811** | **120,311** | **48,187** | **1,105,309** | **(118,044)** | **987,265** |
| Cost of sales and operating expenses | **887,238** | **109,690** | **44,609** | **1,041,537** | **(89,942)** | **951,595** |
| Operating income | **¥ 49,573** | **¥ 10,621** | **¥ 3,578** | **¥ 63,772** | **¥ (28,102)** | **¥ 35,670** |
| Identifiable assets at March 31, 2000 | **¥921,900** | **¥ 80,340** | **¥38,105** | **¥1,040,345** | **¥280,260** | **¥1,320,605** |

| Year Ended March 31, 1999 | Millions of Yen Japan | North America | Other Areas | Total | Corporate & Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Unaffiliated customers | ¥820,779 | ¥108,942 | ¥46,931 | ¥ 976,652 | ¥ — | ¥ 976,652 |
| Intersegment | 102,575 | 640 | 606 | 103,821 | (103,821) | — |
| Total | 923,354 | 109,582 | 47,537 | 1,080,473 | (103,821) | 976,652 |
| Cost of sales and operating expenses | 881,107 | 94,216 | 44,120 | 1,019,443 | (75,594) | 943,849 |
| Operating income | ¥ 42,247 | ¥ 15,366 | ¥ 3,417 | ¥ 61,030 | ¥ (28,227) | ¥ 32,803 |
| Identifiable assets at March 31, 1999 | ¥954,957 | ¥ 84,697 | ¥40,716 | ¥1,080,370 | ¥297,954 | ¥1,378,324 |

| Year Ended March 31, 2000 | Thousands of U.S. Dollars Japan | North America | Other Areas | Total | Corporate & Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Unaffiliated customers | **$7,745,576** | **$1,119,434** | **$448,811** | **$9,313,821** | **$ —** | **$ 9,313,821** |
| Intersegment | **1,092,264** | **15,575** | **5,783** | **1,113,622** | **(1,113,622)** | **—** |
| Total | **8,837,840** | **1,135,009** | **454,594** | **10,427,443** | **(1,113,622)** | **9,313,821** |
| Cost of sales and operating expenses | **8,370,170** | **1,034,811** | **420,839** | **9,825,820** | **(848,509)** | **8,977,311** |
| Operating income | **$ 467,670** | **$ 100,198** | **$ 33,755** | **$ 601,623** | **$ (265,113)** | **$ 336,510** |
| Identifiable assets at March 31, 2000 | **$8,697,170** | **$ 757,925** | **$359,481** | **$9,814,576** | **$2,643,962** | **$12,458,538** |

## *Sales by Region*

| Years Ended March 31, 2000 and 1999 | Millions of Yen 2000 | | 1999 | | Thousands of U.S. Dollars 2000 |
|---|---|---|---|---|---|
| Japan | **¥800,414** | **81.1%** | ¥789,047 | 80.8% | **$ 7,551,076** |
| Overseas sales | | | | | |
| North America | **121,583** | **12.3** | 116,990 | 12.0 | **1,147,009** |
| Other Areas | **65,268** | **6.6** | 70,615 | 7.2 | **615,736** |
| Subtotal | **186,851** | **18.9** | 187,605 | 19.2 | **1,762,745** |
| Total | **¥987,265** | **100.0%** | ¥976,652 | 100.0% | **$9,313,821** |

Sales by region represent sales to unaffiliated customers based on the customers' locations.

Kubota Corporation and Subsidiaries March 31, 2000 and 1999

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2000** | 1999 | **2000** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 78,642** | ¥ 94,715 | **$ 741,906** |
| Short-term investments (Note 4) | **8,015** | 13,325 | **75,613** |
| Notes and accounts receivable (Note 3): | | | |
| Trade notes | **117,047** | 117,829 | **1,104,217** |
| Trade accounts | **216,777** | 257,822 | **2,045,066** |
| Finance receivables | **68,059** | 61,945 | **642,066** |
| Other | **13,069** | 13,359 | **123,293** |
| Less: Unearned income | **(6,579)** | (5,577) | **(62,066)** |
| Allowance for doubtful receivables | **(3,454)** | (4,940) | **(32,585)** |
| Inventories (Note 2) | **173,080** | 182,455 | **1,632,830** |
| Prepaid expenses and other (Note 9) | **44,454** | 22,382 | **419,377** |
| Total current assets | **709,110** | 753,315 | **6,689,717** |
| **Investments:** | | | |
| Investments in and advances to affiliated companies (Note 3) | **14,072** | 14,135 | **132,755** |
| Other investments (Note 4) | **280,014** | 275,221 | **2,641,641** |
| Total investments | **294,086** | 289,356 | **2,774,396** |
| **Property, plant, and equipment** (Note 5): | | | |
| Land | **85,346** | 83,344 | **805,151** |
| Buildings | **192,142** | 188,349 | **1,812,660** |
| Machinery and equipment | **462,671** | 458,862 | **4,364,821** |
| Construction in progress | **3,905** | 4,903 | **36,840** |
| Total | **744,064** | 735,458 | **7,019,472** |
| Accumulated depreciation | **(453,550)** | (437,470) | **(4,278,774)** |
| Net property, plant, and equipment | **290,514** | 297,988 | **2,740,698** |
| **Other assets** (Note 9) | **26,895** | 37,665 | **253,727** |
| **Total** | **¥1,320,605** | ¥1,378,324 | **$12,458,538** |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2000 | Millions of Yen 1999 | Thousands of U.S. Dollars (Note 1) 2000 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings (Note 5) | **¥ 88,967** | ¥ 119,123 | **$ 839,311** |
| Trade notes payable | **63,365** | 65,612 | **597,783** |
| Trade accounts payable | **155,397** | 152,133 | **1,466,010** |
| Advances received from customers | **10,348** | 10,224 | **97,623** |
| Notes and accounts payable for capital expenditures | **13,456** | 22,627 | **126,943** |
| Accrued payroll costs | **23,945** | 26,083 | **225,896** |
| Income taxes payable | **10,780** | 14,195 | **101,698** |
| Other current liabilities | **67,542** | 61,748 | **637,189** |
| Current portion of long-term debt (Note 5) | **48,959** | 44,273 | **461,877** |
| Total current liabilities | **482,759** | 516,018 | **4,554,330** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 5) | **233,257** | 266,195 | **2,200,538** |
| Accrued retirement and pension costs (Note 6) | **110,095** | 138,997 | **1,038,632** |
| Other long-term liabilities (Note 9) | **44,847** | 32,671 | **423,085** |
| Total long-term liabilities | **388,199** | 437,863 | **3,662,255** |
| **Commitments and contingencies** (Notes 12 and 14) | | | |
| **Shareholders' equity** (Notes 7 and 11): | | | |
| Common stock, ¥50 par value— authorized 2,000,000,000 shares; issued and outstanding 1,409,655,369 shares in 2000 and 1999 | **78,107** | 78,107 | **736,858** |
| Additional paid-in capital | **87,213** | 87,213 | **822,764** |
| Legal reserve | **19,527** | 19,527 | **184,217** |
| Retained earnings | **214,414** | 206,444 | **2,022,774** |
| Accumulated other comprehensive income | **50,386** | 33,152 | **475,340** |
| Total shareholders' equity | **449,647** | 424,443 | **4,241,953** |
| **Total** | **¥1,320,605** | ¥1,378,324 | **$12,458,538** |

Kubota Corporation and Subsidiaries Years Ended March 31, 2000, 1999, and 1998

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| **Net sales** (Note 3) | **¥987,265** | ¥976,652 | ¥1,029,437 | **$9,313,821** |
| **Cost of sales** | **738,838** | 729,488 | 767,588 | **6,970,170** |
| **Selling, general, and administrative expenses** | **212,757** | 214,361 | 214,345 | **2,007,141** |
| Operating income | **35,670** | 32,803 | 47,504 | **336,510** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | **8,635** | 11,680 | 10,969 | **81,462** |
| Interest expense | **(10,021)** | (13,913) | (12,687) | **(94,538)** |
| Other—net (Note 8) | **(11,052)** | 1,728 | (15,653) | **(104,264)** |
| Other expenses, net | **(12,438)** | (505) | (17,371) | **(117,340)** |
| **Income before income taxes and equity in net income (loss) of affiliated companies** | **23,232** | 32,298 | 30,133 | **219,170** |
| **Income taxes** (Note 9): | | | | |
| Current | **20,738** | 23,300 | 9,694 | **195,642** |
| Deferred | **(11,952)** | (7,513) | (6,109) | **(112,755)** |
| Total income taxes | **8,786** | 15,787 | 3,585 | **82,887** |
| **Equity in net income (loss) of affiliated companies** (Note 3) | **1,982** | (1,405) | 1,135 | **18,698** |
| **Net income** | **¥ 16,428** | ¥ 15,106 | ¥ 27,683 | **$ 154,981** |

| | Yen | | | U.S. Dollars (Note 1) |
|---|---|---|---|---|
| **Net income per 20 common shares** (Note 10): | | | | |
| Basic | **¥233** | ¥214 | ¥393 | **$2.20** |
| Diluted | **221** | 203 | 361 | **2.08** |
| **Cash dividends per 20 common shares** | **¥120** | ¥120 | ¥120 | **$1.13** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kubota Corporation and Subsidiaries Years Ended March 31, 2000, 1999, and 1998

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| **Net income** | **¥16,428** | ¥15,106 | ¥ 27,683 | **$154,981** |
| **Other comprehensive income (loss), net of tax (Note 11):** | | | | |
| Foreign currency translation adjustments | **(6,712)** | (3,372) | 1,859 | **(63,321)** |
| Unrealized gains (losses) on securities | **8,571** | (6,973) | (41,536) | **80,859** |
| Minimum pension liability adjustment | **15,375** | (6,341) | (19,233) | **145,047** |
| **Other comprehensive income (loss)** | **17,234** | (16,686) | (58,910) | **162,585** |
| **Comprehensive income (loss)** | **¥33,662** | ¥ (1,580) | ¥(31,227) | **$317,566** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kubota Corporation and Subsidiaries Years Ended March 31, 2000, 1999, and 1998

| | | Millions of Yen | | | | |
|---|---|---|---|---|---|---|
| | Shares of Common Stock Outstanding (Thousands) | Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Accumulated Other Comprehensive Income |
| **Balance, April 1, 1997** | 1,409,655 | ¥78,107 | ¥87,213 | ¥19,527 | ¥180,571 | ¥108,748 |
| Net income | | | | | 27,683 | |
| Other comprehensive loss | | | | | | (58,910) |
| Cash dividends, ¥120 per 20 common shares | | | | | (8,458) | |
| **Balance, March 31, 1998** | 1,409,655 | 78,107 | 87,213 | 19,527 | 199,796 | 49,838 |
| Net income | | | | | 15,106 | |
| Other comprehensive loss | | | | | | (16,686) |
| Cash dividends, ¥120 per 20 common shares | | | | | (8,458) | |
| **Balance, March 31, 1999** | 1,409,655 | 78,107 | 87,213 | 19,527 | 206,444 | 33,152 |
| Net income | | | | | **16,428** | |
| Other comprehensive income | | | | | | **17,234** |
| Cash dividends, ¥120 per 20 common shares | | | | | **(8,458)** | |
| **Balance, March 31, 2000** | **1,409,655** | **¥78,107** | **¥87,213** | **¥19,527** | **¥214,414** | **¥ 50,386** |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Legal Reserve | Retained Earnings | Accumulated Other Comprehensive Income |
| **Balance, March 31, 1999** | $736,858 | $822,764 | $184,217 | $1,947,585 | $312,755 |
| Net income | | | | **154,981** | |
| Other comprehensive income | | | | | **162,585** |
| Cash dividends, $1.13 per 20 common shares | | | | **(79,792)** | |
| **Balance, March 31, 2000** | **$736,858** | **$822,764** | **$184,217** | **$2,022,774** | **$475,340** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Kubota Corporation and Subsidiaries Years Ended March 31, 2000, 1999, and 1998

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| **Operating activities:** | | | | |
| Net income | **¥16,428** | ¥15,106 | ¥27,683 | **$154,981** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **45,164** | 45,636 | 39,746 | **426,075** |
| Provision for (reversal of) doubtful receivables | **(836)** | 403 | (1,396) | **(7,887)** |
| Provision for retirement and pension costs, less payments | **7,742** | 9,944 | 5,084 | **73,038** |
| Gain on sales of securities | **(2,814)** | (4,859) | (18,598) | **(26,547)** |
| Gain on exchange of securities | **—** | (576) | (2,636) | **—** |
| Equity in net (income) loss of affiliated companies, less dividends | **(1,427)** | 1,438 | 205 | **(13,462)** |
| Loss from disposition of subsidiaries | **—** | — | 19,438 | **—** |
| Deferred income taxes | **(11,952)** | (7,513) | (6,109) | **(112,755)** |
| Unrealized foreign exchange (gain) loss—net | **517** | (552) | 1,580 | **4,877** |
| Decrease in notes and accounts receivable | **27,093** | 18,399 | 16,504 | **255,594** |
| Decrease (increase) in inventories | **4,838** | (733) | (5,536) | **45,642** |
| Decrease (increase) in other current assets | **(16,433)** | 244 | (729) | **(155,028)** |
| Increase (decrease) in trade notes and accounts payable | **1,742** | 3,003 | (23,037) | **16,434** |
| Increase (decrease) in income taxes payable | **(3,062)** | 8,603 | (18,464) | **(28,887)** |
| Increase (decrease) in other current liabilities | **6,646** | 775 | (6,675) | **62,698** |
| Other | **5,633** | (316) | 864 | **53,142** |
| Net cash provided by operating activities | **79,279** | 89,002 | 27,924 | **747,915** |
| **Investing activities:** | | | | |
| Purchases of fixed assets | **(45,962)** | (43,769) | (52,723) | **(433,604)** |
| Purchases of investments and change in advances | **384** | (9,771) | (1,173) | **3,622** |
| Proceeds from sales of property, plant, and equipment | **1,802** | 796 | 2,058 | **17,000** |
| Proceeds from sales of investments | **10,138** | 15,271 | 33,470 | **95,642** |
| Proceeds from disposition of subsidiaries | **—** | — | 1,330 | **—** |
| Net decrease in short-term investments | **4,126** | 10,989 | 11,318 | **38,924** |
| Other | **338** | (958) | (346) | **3,189** |
| Net cash used in investing activities | **(29,174)** | (27,442) | (6,066) | **(275,227)** |
| **Financing activities:** | | | | |
| Proceeds from issuance of long-term debt | **12,807** | 60,357 | 35,404 | **120,821** |
| Repayments of long-term debt | **(44,352)** | (74,368) | (38,648) | **(418,415)** |
| Net decrease in short-term borrowings | **(25,303)** | (24,222) | (23,285) | **(238,708)** |
| Cash dividends | **(8,458)** | (8,458) | (8,458) | **(79,792)** |
| Net cash used in financing activities | **(65,306)** | (46,691) | (34,987) | **(616,094)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(872)** | (369) | 1,570 | **(8,226)** |
| **Net increase (decrease) in cash and cash equivalents** | **(16,073)** | 14,500 | (11,559) | **(151,632)** |
| **Cash and cash equivalents, beginning of year** | **94,715** | 80,215 | 91,774 | **893,538** |
| **Cash and cash equivalents, end of year** | **¥78,642** | ¥94,715 | ¥80,215 | **$741,906** |

See notes to consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Financial Statements

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account of Kubota Corporation (the parent company) and subsidiaries (collectively the "Company"), to present these statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") with the exception of FASB Emerging Issues Task Force, Issue No. 91-5, "EITF 91-5, Nonmonetary Exchange of Cost-Method Investments" (see **Investments**). The principal adjustments include: (1) accounting for foreign currency translations, (2) valuation of inventories, (3) accounting for short-term and other investments, (4) accrual of certain expenses, (5) accounting for retirement and pension plans, (6) recognition of warrant values, (7) accounting for stock dividends approved by shareholders in prior years at market value, and (8) recognition of deferred income tax relating to these adjustments. 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 1999 and 1998 to conform to classifications used in 2000.

### 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, 2000 of ¥106=US$1 solely for convenience. 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. Significant intercompany items have been eliminated in consolidation.

Investments mainly in 20%~50%-owned companies (the "affiliated companies") are stated at cost plus equity in undistributed net income from acquisition or formation.

Cost in excess of equity at the date of acquisition that cannot be specifically assigned to individual assets is amortized over a five-year period.

### Revenue Recognition

Sales are recorded when products are shipped to customers.

Sales under long-term contracts are recorded using the percentage-of-completion method of accounting. Estimated losses on 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.

### Inventories

Manufacturing inventories are stated at the lower of cost, substantially determined using the average method, or market. Completed real estate projects are stated at the lower of carrying value or fair value less estimated costs to sell. Land to be developed and projects under development are carried at cost unless an impairment loss is required.

### 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.

Gains and losses on sales of available-for-sale securities are computed on the average-cost method as well as other nonmarketable equity securities which are carried at cost. Losses from other-than-temporary impairment on marketable and nonmarketable securities, if any, are charged to expenses.

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. For purposes of comparability with financial statements under Japanese GAAP, the Company did not account for the exchange under EITF 91-5, which requires recognition of a nonmonetary exchange gain on the common shares of BOT.

If EITF 91-5 had been adopted, net income would have decreased by ¥663 million for the year ended March 31, 1999 and increased by ¥3,081 million for the year ended March 31, 1997, respectively, and retained earnings would have increased by ¥2,418 million ($22,811 thousand) at March 31, 2000 and 1999, respectively, resulting from the unrecognized nonmonetary exchange gain, net of sale of the part of the investment, with a corresponding decrease in accumulated other comprehensive income.

### Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation of plant and equipment is principally computed using the declining-balance method based on the estimated useful lives of the assets.

### 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 or liabilities are computed based on the difference between the financial statement and the income tax basis 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 expected to be realized.

### Advertising

The costs of advertising are expensed as incurred.

### Net Income and Cash Dividends per 20 Common Shares

Per share amounts have been calculated per 20 common shares since each American Depositary Share represents 20 shares of common stock.

Basic net income per 20 common shares excludes dilution and 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 20 common shares 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), and that all dilutive warrants were exercised (less the proceeds using the average market price of the Company’s common shares).

Cash dividends per 20 common shares are based on dividends paid during the year.

### Derivative Financial Instruments

Interest differentials on swaps and other interest-related agreements designated as hedges of exposures to interest rate risk, which are associated with short- or long-term debt financings, are recorded as adjustments to interest expense over the contract period. Gains and losses on forward contracts are recognized based on changes in exchange rates and are offset against foreign exchange gains or losses on the hedged financing obligations and accounts receivable or payable.

### Risks and Uncertainties

The Company is 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 plant, prefabricated houses, and housing materials and equipment.

The manufacturing operations of the Company are conducted primarily at 23 plants in Japan and at 5 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.

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 has not experienced any significant uncollectibility. Additionally, transactions associated with country risk are limited. Management believes that such concentrations are not significantly unfavorable.

The variety and breadth of the Company’s products and customers significantly mitigate the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply, or composition of its markets. Additionally, such diversification enables the Company to significantly minimize the risk of loss associated with an environmental disaster or political crisis in one of the countries in which the Company manufactures or sells its products. The Company has also established a quality control program designed to ensure the safety of the Company’s products. The Company believes that the quality control program reduces the risk of product liability claims, on which the Company has not experienced any significant losses. As a result, it is unlikely that any one event would have a severe impact on the Company’s consolidated financial position, results of operations, or cash flows.

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, valuation allowance for deferred tax assets, fair value of real estate inventories, and 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.

### Valuation of Long-Lived Assets

The Company accounts for valuation of long-lived assets in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.” Based on this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances indicate that the carrying amount of an asset may not be recoverable. In such an event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved. In addition, long-lived assets to be disposed of are evaluated at the lower of carrying value or fair value less cost to sell.

### Cash Flow Information

The Company considers all time deposits with original maturities of one year or less, which can be withdrawn at least at face amount at any time, to be cash equivalents. At March 31, 2000, 1999, and 1998, time deposits of which original maturities were substantially three months or less amounting to ¥33,134 million ($312,585 thousand), ¥38,117 million, and ¥35,465 million, respectively, were included in cash and cash equivalents.

Cash paid for interest amounted to ¥10,830 million ($102,170 thousand), ¥12,873 million, and ¥11,977 million, and for income taxes amounted to ¥23,610 million ($222,736 thousand), ¥4,758 million, and ¥37,484 million in 2000, 1999, and 1998, respectively.

**New Accounting Standards**

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company will adopt this statement for the year beginning April 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company is in the process of evaluating the effect of the adoption of this statement.

## 2. INVENTORIES

Inventories at March 31, 2000 and 1999 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2000** | 1999 | **2000** |
| Manufacturing: | | | |
| Finished products | **¥ 96,113** | ¥ 97,400 | **$ 906,726** |
| Spare parts | **13,507** | 14,462 | **127,425** |
| Work in process | **29,247** | 32,937 | **275,915** |
| Raw materials and supplies | **16,089** | 17,357 | **151,783** |
| Subtotal | **154,956** | 162,156 | **1,461,849** |
| Real estate: | | | |
| Land to be developed, projects under development, and completed projects | **18,124** | 20,299 | **170,981** |
| | **¥173,080** | ¥182,455 | **$1,632,830** |

## 3. INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

Investments in and advances to affiliated companies at March 31, 2000 and 1999 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2000** | 1999 | **2000** |
| Investments | **¥11,203** | ¥ 9,891 | **$105,689** |
| Advances | **2,869** | 4,244 | **27,066** |
| | **¥14,072** | ¥14,135 | **$132,755** |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| At March 31, 2000 and 1999 | **2000** | 1999 | **2000** |
| Current assets | **¥123,478** | ¥133,811 | **$1,164,887** |
| Noncurrent assets | **70,821** | 70,323 | **668,122** |
| Total assets | **194,299** | 204,134 | **1,833,009** |
| Current liabilities | **134,470** | 145,294 | **1,268,585** |
| Noncurrent liabilities | **31,622** | 32,861 | **298,320** |
| Net assets | **¥ 28,207** | ¥ 25,979 | **$ 266,104** |

| Years ended March 31, 2000, 1999, and 1998 | Millions of Yen 2000 | 1999 | 1998 | Thousands of U.S. Dollars 2000 |
|---|---|---|---|---|
| Net sales | **¥246,078** | ¥251,784 | ¥308,003 | **$2,321,491** |
| Cost of sales | **188,953** | 194,543 | 238,235 | **1,782,575** |
| Other income—net | **3,652** | 3,153 | 3,971 | **34,453** |
| Net income (loss) | **3,594** | (1,358) | 3,329 | **33,906** |

Trade notes and accounts receivable from affiliated companies at March 31, 2000 and 1999 were ¥39,136 million ($369,208 thousand) and ¥43,989 million, respectively.

Sales to affiliated companies aggregated ¥114,534 million ($1,080,509 thousand), ¥113,123 million, and ¥135,093 million in 2000, 1999, and 1998, respectively.

Cash dividends received from affiliated companies were ¥555 million ($5,236 thousand), ¥33 million, and ¥1,340 million in 2000, 1999, and 1998, respectively. There are no known material restrictions on the transfer of funds in the form of dividends or advances by affiliated companies.

## 4. SHORT-TERM AND OTHER INVESTMENTS

The cost, fair values, and gross unrealized holding gains and losses for securities by major security type at March 31, 2000 and 1999 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2000** | | | | 1999 | | | |
| | 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: | | | | | | | | |
| Governmental and corporate debt securities | **¥ 8,107** | **¥ 8,003** | **¥ —** | **¥ 104** | ¥ 9,280 | ¥ 9,233 | ¥ 76 | ¥ 123 |
| Other | **6** | **7** | **1** | **—** | 1,234 | 1,227 | — | 7 |
| **Other investments:** | | | | | | | | |
| Available-for-sale: | | | | | | | | |
| Equity securities of financial institutions | **75,908** | **211,006** | **135,383** | **285** | 76,960 | 204,356 | 127,859 | 463 |
| Other equity securities | **28,417** | **54,460** | **27,873** | **1,830** | 36,156 | 55,068 | 22,646 | 3,734 |
| Other | **1,886** | **1,967** | **81** | **—** | 2,456 | 2,551 | 95 | — |
| | **¥114,324** | **¥275,443** | **¥163,338** | **¥2,219** | ¥126,086 | ¥272,435 | ¥150,676 | ¥4,327 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | **2000** | | | |
| | Cost | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses |
| **Short-term investments:** | | | | |
| Available-for-sale: | | | | |
| Governmental and corporate debt securities | **$ 76,481** | **$ 75,500** | **$ —** | **$ 981** |
| Other | **57** | **66** | **10** | **—** |
| **Other investments:** | | | | |
| Available-for-sale: | | | | |
| Equity securities of financial institutions | **716,113** | **1,990,623** | **1,277,198** | **2,689** |
| Other equity securities | **268,085** | **513,773** | **262,953** | **17,264** |
| Other | **17,792** | **18,557** | **764** | **—** |
| | **$1,078,528** | **$2,598,519** | **$1,540,925** | **$20,934** |

Proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales for the years ended March 31, 2000, 1999, and 1998 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| Proceeds from sales | **¥10,138** | ¥15,271 | ¥33,470 | **$95,642** |
| Gross realized gains | **3,842** | 6,824 | 19,589 | **36,245** |
| Gross realized losses | **(1,028)** | (1,965) | (991) | **(9,698)** |

At March 31, 2000, the cost of debt securities classified as available-for-sale due in one year and due over one year were ¥1,853 million ($17,481 thousand) and ¥7,520 million ($70,943 thousand), respectively.

Short-term investments as of March 31, 1999 included certified deposits with resale agreements for a period of less than three months amounting to ¥2,865 million.

### 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The balances of short-term borrowings at March 31, 2000 and 1999 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2000** | 1999 | **2000** |
| Notes payable to banks | **¥88,469** | ¥109,181 | **$834,613** |
| Commercial paper | **498** | 9,942 | **4,698** |
| | **¥88,967** | ¥119,123 | **$839,311** |

Stated annual interest rates of short-term borrowings ranged primarily from 0.39% to 7.16% and from 0.54% to 7.24% at March 31, 2000 and 1999, respectively. The weighted average interest rates on such short-term borrowings at March 31, 2000 and 1999 were 2.3% and 3.5%, respectively.

Commercial paper at March 31, 2000 was obtained under commercial paper borrowing arrangements with certain banks.

During the fiscal year ended March 31, 2000, the Company established lines of credit with certain banks totaling ¥20,000 million ($188,679 thousand).

Long-term debt at March 31, 2000 and 1999 consisted of the following:

| | Maturities, Years Ending March 31 | Millions of Yen 2000 | Millions of Yen 1999 | Thousands of U.S. Dollars 2000 |
|---|---|---|---|---|
| Unsecured bonds: | | | | |
| 6.9% Yen bonds | 2000 | **¥ —** | ¥ 30,000 | **$ —** |
| Floating rate (six-month Euro LIBOR plus 1.0%) Euro bonds | 2001 | **8,673** | 9,665 | **81,820** |
| 2.2% Yen bonds | 2002 | **10,000** | 10,000 | **94,340** |
| 2.05% Yen bonds | 2002 | **10,000** | 10,000 | **94,340** |
| 1.51% Yen bonds | 2003 | **10,000** | 10,000 | **94,340** |
| 2.7% Yen bonds | 2004 | **10,000** | 10,000 | **94,340** |
| 1.475% Yen bonds | 2004 | **10,000** | 10,000 | **94,340** |
| 1.8% Yen bonds | 2006 | **10,000** | 10,000 | **94,340** |
| Unsecured convertible bonds: | | | | |
| 1.5% Yen bonds | 2001 | **24,854** | 24,854 | **234,471** |
| 1.55% Yen bonds | 2002 | **9,708** | 9,708 | **91,585** |
| 1.6% Yen bonds | 2003 | **9,772** | 9,772 | **92,188** |
| 0.8% Yen bonds | 2004 | **29,756** | 29,756 | **280,717** |
| 0.85% Yen bonds | 2005 | **19,513** | 19,513 | **184,085** |
| 0.9% Yen bonds | 2006 | **18,627** | 18,642 | **175,726** |
| Loans, principally from banks and insurance companies, maturing serially through 2026: | | | | |
| Collateralized | | **717** | 5,822 | **6,764** |
| Unsecured | | **100,596** | 92,736 | **949,019** |
| Total | | **282,216** | 310,468 | **2,662,415** |
| Less current portion | | **(48,959)** | (44,273) | **(461,877)** |
| | | **¥233,257** | ¥266,195 | **$2,200,538** |

The interest rates of the long-term loans from banks and insurance companies were principally fixed and the weighted average rates at March 31, 2000 and 1999 were 1.8% and 2.1%, respectively.

Annual maturities of long-term debt at March 31, 2000 during the next five years are as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Years ending March 31 | | |
| 2001 | ¥48,959 | $461,877 |
| 2002 | 64,538 | 608,849 |
| 2003 | 39,240 | 370,189 |
| 2004 | 68,702 | 648,132 |
| 2005 | 23,133 | 218,236 |

At March 31, 2000, the interest rate swaps hedged certain short-term borrowings and long-term debt as follows:

| | Weighted Average Rates | | | Notional Amount | |
|---|---|---|---|---|---|
| | Pay | Receive | Maturities, Years Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
| Pay fixed rate | 5.4% | 4.1% | 2001~2004 | ¥11,980 | $113,019 |

At March 31, 2000, property, plant, and equipment of ¥3,847 million ($36,292 thousand) were pledged as collateral on long-term debt of ¥717 million ($6,764 thousand), including current portion of ¥89 million ($840 thousand).

The conversion prices of the unsecured yen convertible bonds range from ¥769 to ¥651 per share and the number of shares into which outstanding bonds were convertible at March 31, 2000 totaled 156,393 thousand shares.

As is customary in Japan, the Company maintains deposit balances with banks and other financial institutions with which they have short- or long-term borrowing arrangements. Such deposit balances are not legally or contractually restricted as to withdrawal.

Certain of the loan agreements provide that the lender or trustees for lenders may request that the Company submits for approval proposals to pay dividends. Certain of the loan agreements also provide that the lender may request the Company to provide additional collateral. As is customary in Japan, collateral must be pledged if requested by a lending bank, and banks have the right to offset cash deposited with them against any long- or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all debt payable to the banks. The Company has never received any such requests.

**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.

Among them, the parent company has an unfunded severance indemnity plan partly supplemented by a noncontributory defined benefit pension plan which covers substantially all of its employees (collectively, the "Noncontributory Plan"). Employees who terminate their employment at the mandatory retirement age receive benefits in the form of annuity payments and/or lump-sum payments which are principally provided by the noncontributory defined benefit pension plan and the remaining portion is provided by the unfunded severance indemnity plan. The coverage of the noncontributory defined benefit plan increased from approximately 50% to 80% during the year ended March 31, 1999. Employees who terminate their employment before the mandatory retirement age receive lump-sum payments from the unfunded severance indemnity plan. The pension and the severance payment are determined based on the rate of pay at the time of termination, length of service, and certain other factors. The parent company's funding policy with respect to the noncontributory defined benefit pension plan is generally to contribute amounts considered deductible under applicable income tax regulations. Plan assets are managed principally by insurance companies and are invested primarily in fixed income and equity securities of Japanese and foreign issuers.

The parent company also has a contributory defined benefit pension plan covering all of its employees (the "Contributory Plan"), which provides lifetime annuity payments commencing at mandatory retirement age. The Contributory Plan consists of a basic component, which has been specified by the Japanese government's welfare pension regulations, and an additional component established by the parent company. Benefits are determined based on the average pay for the periods of service, a factor determined by the date of birth and length of service for the basic part, and on the rate of pay at the time of termination and a factor determined by the length of service and reason for retirement for the additional component. Annual contributions are made by the parent company and employees in accordance with the contribution formula stipulated by the government for the basic part and an amount determined on the basis of an accepted actuarial method for the additional component. The Contributory Plan is administered by a board of trustees comprised of management and employee representatives. Plan assets, which are managed by insurance companies and trust banks, are invested primarily in corporate and government bonds and stocks.

Net periodic benefit cost for the Noncontributory Plan and the 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, 2000, 1999, and 1998 consisted of the following components:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| Service cost | **¥12,410** | ¥11,282 | ¥ 8,662 | **$117,076** |
| Interest cost | **10,992** | 11,730 | 12,267 | **103,698** |
| Expected return on plan assets | **(5,944)** | (5,621) | (6,348) | **(56,075)** |
| Amortization of transition obligation | **1,614** | 1,614 | 1,614 | **15,226** |
| Amortization of prior service cost | **1,233** | 1,233 | 1,233 | **11,632** |
| Recognized actuarial loss | **6,270** | 5,378 | 1,609 | **59,151** |
| Actuarial periodic benefit cost | **26,575** | 25,616 | 19,037 | **250,708** |
| Employee contributions | **(1,365)** | (1,401) | (1,424) | **(12,877)** |
| Net periodic benefit cost | **¥25,210** | ¥24,215 | ¥17,613 | **$237,831** |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2000** | 1999 | **2000** |
| **Change in benefit obligations:** | | | |
| Benefit obligations at beginning of year | **¥368,456** | ¥ 336,362 | **$ 3,476,000** |
| Service cost, less employee contributions | **11,045** | 9,881 | **104,198** |
| Interest cost | **10,992** | 11,730 | **103,698** |
| Employee contributions | **1,365** | 1,401 | **12,877** |
| Amendments | **(3,498)** | — | **(33,000)** |
| Actuarial (gain) loss | **(13,442)** | 23,120 | **(126,811)** |
| Benefits paid | **(19,906)** | (13,928) | **(187,792)** |
| Foreign currency exchange rate changes | **(15)** | (110) | **(142)** |
| Benefit obligations at end of year | **354,997** | 368,456 | **3,349,028** |
| **Change in plan assets:** | | | |
| Fair value of plan assets at beginning of year | **171,643** | 162,438 | **1,619,274** |
| Actual return on plan assets | **24,258** | 7,573 | **228,849** |
| Employer contribution | **11,096** | 11,524 | **104,679** |
| Employee contributions | **1,365** | 1,401 | **12,877** |
| Benefits paid | **(13,551)** | (11,198) | **(127,839)** |
| Foreign currency exchange rate changes | **(13)** | (95) | **(123)** |
| Fair value of plan assets at end of year | **194,798** | 171,643 | **1,837,717** |
| **Plans' funded status at end of year:** | | | |
| Funded status | **(160,199)** | (196,813) | **(1,511,311)** |
| Unrecognized actuarial loss | **84,838** | 122,846 | **800,359** |
| Unrecognized prior service cost | **3,252** | 7,982 | **30,679** |
| Unrecognized net obligation at the date of initial application of SFAS No. 87 | **5,969** | 7,587 | **56,311** |
| Net amount recognized | **(66,140)** | (58,398) | **(623,962)** |
| **Amounts recognized in the consolidated balance sheets:** | | | |
| Accrued retirement and pension costs | **(110,095)** | (138,997) | **(1,038,632)** |
| Intangible assets, included in other assets | **5,433** | 15,567 | **51,255** |
| Accumulated other comprehensive income | **38,522** | 65,032 | **363,415** |
| Net amount recognized | **¥ (66,140)** | ¥ (58,398) | **$ (623,962)** |
| **Actuarial assumptions:** | | | |
| Discount rate | **3.0%** | 3.0% | |
| Expected return on plan assets | **3.5%** | 3.5% | |
| Rate of compensation increase | **5.4%** | 5.4% | |
| **Retirement and pension plans with accumulated benefit obligations in excess of plan assets:** | | | |
| Projected benefit obligations | **¥354,997** | ¥ 367,537 | **$ 3,349,028** |
| Accumulated benefit obligations | **304,893** | 309,720 | **2,876,349** |
| Fair value of plan assets | **194,798** | 170,863 | **1,837,717** |

The unrecognized actuarial loss and the unrecognized net obligation at the date of initial application are being amortized over 14 years and 15 years, respectively.

The prior service costs due to amendments of the benefits plan are being amortized over 13 years.

## 7. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings 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 as described in Note 1. At March 31, 2000, retained earnings recorded on the parent company's books of account were ¥242,900 million ($2,291,509 thousand).

The Code requires the parent company to appropriate as a legal reserve portions of retained earnings in amounts equal to at least 10% of cash payments, including dividends and officers' bonuses, in each financial period, until the reserve equals 25% of the stated capital. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital, as reduced by stock issue expenses less the applicable tax benefit, are credited to additional paid-in capital. The parent company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The parent company may also transfer portions of retained earnings, available for dividends, to the stated capital by resolution of the shareholders.

Under the Code, the parent company may issue new common shares to the existing shareholders without consideration by resolution of the Board of Directors as a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

As permitted by the Code, pursuant to a resolution of an annual general meeting of the shareholders, the Company may purchase its own issued shares for their retirement. In addition, pursuant to a resolution of the Board of Directors, the Company may purchase its own shares for their retirement, not exceeding 140 million shares, in accordance with its articles of incorporation. Any shares of common stock, in whole or in part, are subject to such purchases made for the purpose of retirement.

## 8. OTHER INCOME (EXPENSES), NET

Other—net as shown in other income (expenses) for the years ended March 31, 2000, 1999, and 1998 consisted of the following:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** |
| Gain on sales of securities | **¥ 2,814** | ¥4,859 | ¥ 18,598 | **$ 26,547** |
| Gain on exchange of securities | **—** | 576 | 2,636 | **—** |
| Foreign exchange gain (loss)—net | **(1,494)** | 234 | (718) | **(14,094)** |
| Loss on disposals of property, plant, and equipment | **(1,826)** | (1,819) | (1,637) | **(17,226)** |
| Loss from disposition of subsidiaries and businesses | **(4,673)** | — | (33,155) | **(44,085)** |
| Loss from write-downs of securities | **(3,260)** | (991) | (2,264) | **(30,755)** |
| Other—net | **(2,613)** | (1,131) | 887 | **(24,651)** |
| | **¥(11,052)** | ¥1,728 | ¥(15,653) | **$(104,264)** |

Loss from disposition of subsidiaries and businesses for the year ended March 31, 2000 results from managements decision to substantially discontinue certain lines of business, including the unit bathroom business, in fiscal 2001. The losses primarily consist of impairments of assets related to these businesses.

During the fiscal year ended March 31, 1998, the Company withdrew from the hard disk business, which had been operated since 1986 primarily through Akashic Memories Corporation, a wholly owned subsidiary. In addition, the Company sold its interest in Maxoptix Corporation, which was engaged in the business of magneto optical disk drives and was a 99.64%-owned subsidiary. Both these businesses had operated mainly in the United States.

The Company had expanded these businesses in response to rapidly increasing demand. Research and development costs and investments in manufacturing capacity have grown enormously and competition in the market has been severe as competitors have significantly increased manufacturing capacity. The Company reviewed its long-term strategy for these businesses and based on these factors concluded that the potential for success was not sufficient and decided to withdraw from such businesses.

The resulting losses from the dispositions of the hard disk and magneto optical disk drives businesses amounted to ¥30,409 million and ¥2,746 million, respectively, and relate mainly to impairment losses on operating assets of such businesses, operating losses, and closing expenses. The results of these operations have not been consolidated for the year ended March 31, 1998. Sales related to these businesses for the year ended March 31, 1998 were approximately ¥28,000 million.

## 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, 2000 and 1999 were as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2000 | | 1999 | | 2000 | |
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| Foreign exchange differences | **¥ 62** | **¥ 201** | ¥ 22 | ¥ 105 | **$ 585** | **$ 1,896** |
| Allowance for doubtful receivables | **1,942** | **616** | 2,190 | 1,002 | **18,321** | **5,811** |
| Intercompany profits | **11,666** | **—** | 12,498 | — | **110,056** | **—** |
| Adjustments of investment securities | **43** | **68,315** | 15 | 63,131 | **406** | **644,481** |
| Capitalization of interest costs | **—** | **802** | — | 856 | **—** | **7,566** |
| Enterprise tax | **890** | **8** | 1,245 | — | **8,396** | **76** |
| Retirement and pension costs | **38,754** | **—** | 44,884 | — | **365,604** | **—** |
| Other temporary differences | **16,629** | **2,370** | 13,099 | 2,715 | **156,877** | **22,359** |
| Tax loss and credit carryforwards | **5,251** | **—** | 5,445 | — | **49,538** | **—** |
| Subtotal | **75,237** | **72,312** | 79,398 | 67,809 | **709,783** | **682,189** |
| Less valuation allowance | **10,186** | **—** | 13,350 | — | **96,094** | **—** |
| | **¥65,051** | **¥72,312** | ¥66,048 | ¥67,809 | **$613,689** | **$682,189** |

Net deferred tax balances at March 31, 2000 and 1999 were reflected on the accompanying consolidated balance sheets under the following captions:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 1999 | 2000 |
| Prepaid expenses and other | **¥18,709** | ¥12,816 | **$176,500** |
| Other assets | **801** | 205 | **7,557** |
| Other long-term liabilities | **(26,771)** | (14,782) | **(252,557)** |
| Net deferred tax liabilities | **¥ (7,261)** | ¥ (1,761) | **$ (68,500)** |

Income taxes—deferred for the years ended March 31, 1999 and 1998 included a ¥3,039 million and ¥2,675 million debit to net deferred tax liabilities, resulting from the enacted change in Japanese income tax rates near the end of the respective fiscal years. As a result, normal Japanese statutory rates were reduced to 42.0%, effective from fiscal years beginning April 1, 1999 and thereafter.

At March 31, 2000, a valuation allowance of ¥10,186 million ($96,094 thousand) was recorded against the deferred tax assets for items which may not be realized. The net changes in the total valuation allowance for the years ended March 31, 2000, 1999, and 1998 were a decrease of ¥3,164 million ($29,849 thousand), a decrease of ¥10,381 million, and an increase of ¥4,900 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 loss and credit 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, 2000.

At March 31, 2000, the tax loss carryforwards in the aggregate amounted to approximately ¥13,000 million ($122,642 thousand), which are available to offset future taxable income, and will expire substantially in periods ranging from 2001 through 2005.

The effective income tax rates of the Company for each of the three years in the period ended March 31, 2000 differed from the normal Japanese statutory tax rates as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Normal Japanese statutory tax rates | **42.0%** | 47.5% | 51.2% |
| Increase (decrease) in taxes resulting from: | | | |
| Increase (decrease) in valuation allowance | **(13.6)** | 4.9 | 9.6 |
| Realization of tax benefits from losses of subsidiaries previously recorded | **—** | — | (42.1) |
| Change in tax rate | **—** | (9.4) | (8.9) |
| Permanently nondeductible expenses | **4.9** | 2.8 | 4.2 |
| Nontaxable dividend income | **(2.7)** | (3.2) | (3.2) |
| Tax differences related to intercompany profits | **4.2** | 2.1 | — |
| Other—net | **3.0** | 4.2 | 1.1 |
| Effective income tax rates | **37.8%** | 48.9% | 11.9% |

As of March 31, 2000, provisions totaling ¥495 million ($4,670 thousand) were made for taxes on unremitted earnings of all foreign subsidiaries and affiliates of which earnings are not deemed to be permanently reinvested. The undistributed earnings of domestic subsidiaries would not, under present Japanese tax law, be subject to tax through tax-free distributions.

## 10. NET INCOME PER 20 COMMON SHARES

A reconciliation of the numerators and denominators of the basic and diluted net income per share computation for the years ended March 31, 2000, 1999, and 1998 is as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 |
| Net income available to shareholders of common shares | **¥16,428** | ¥15,106 | ¥27,683 | **$154,981** |
| Effect of dilutive convertible bonds | **887** | 827 | 1,034 | **8,368** |
| Diluted net income | **¥17,315** | ¥15,933 | ¥28,717 | **$163,349** |

| | Number of Shares (Thousands) | | |
|---|---|---|---|
| Weighted average common shares outstanding | **1,409,655** | 1,409,655 | 1,409,655 |
| Effect of dilutive convertible bonds | **156,413** | 158,814 | 181,454 |
| Diluted common shares outstanding | **1,566,068** | 1,568,469 | 1,591,109 |

## 11. OTHER COMPREHENSIVE INCOME

Each component of other comprehensive income, including reclassification adjustments and tax effects for the years ended March 31, 2000, 1999, and 1998 was as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| | 2000 | | | 2000 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments arising during period** | **¥ (6,779)** | **¥ 67** | **¥ (6,712)** | **$ (63,953)** | **$ 632** | **$ (63,321)** |
| **Unrealized gains on securities:** | | | | | | |
| Unrealized gains on securities arising during period | **14,329** | **(6,017)** | **8,312** | **135,179** | **(56,764)** | **78,415** |
| Reclassification adjustments for losses realized in net income | **446** | **(187)** | **259** | **4,208** | **(1,764)** | **2,444** |
| | **14,775** | **(6,204)** | **8,571** | **139,387** | **(58,528)** | **80,859** |
| **Minimum pension liability adjustment** | **26,510** | **(11,135)** | **15,375** | **250,094** | **(105,047)** | **145,047** |
| **Other comprehensive income** | **¥34,506** | **¥(17,272)** | **¥17,234** | **$325,528** | **$(162,943)** | **$162,585** |

| | Millions of Yen | | |
|---|---|---|---|
| | 1999 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments:** | | | |
| Foreign currency translation adjustments arising during period | ¥ (4,564) | ¥ 284 | ¥ (4,280) |
| Reclassification adjustments for losses realized in net income | 908 | — | 908 |
| | (3,656) | 284 | (3,372) |
| **Unrealized losses on securities:** | | | |
| Unrealized losses on securities arising during period | (9,413) | 4,471 | (4,942) |
| Reclassification adjustments for gains realized in net income | (3,868) | 1,837 | (2,031) |
| | (13,281) | 6,308 | (6,973) |
| **Minimum pension liability adjustment** | (12,078) | 5,737 | (6,341) |
| **Other comprehensive loss** | ¥(29,015) | ¥12,329 | ¥(16,686) |

| | Millions of Yen | | |
|---|---|---|---|
| | 1998 | | |
| | Before-Tax Amount | Tax Benefit | Net-of-Tax Amount |
| **Foreign currency translation adjustments:** | | | |
| Foreign currency translation adjustments arising during period | ¥ 1,702 | ¥ — | ¥ 1,702 |
| Reclassification adjustments for losses realized in net income | 157 | — | 157 |
| | 1,859 | — | 1,859 |
| **Unrealized losses on securities:** | | | |
| Unrealized losses on securities arising during period | (68,759) | 35,194 | (33,565) |
| Reclassification adjustments for gains realized in net income | (16,334) | 8,363 | (7,971) |
| | (85,093) | 43,557 | (41,536) |
| **Minimum pension liability adjustment** | (39,412) | 20,179 | (19,233) |
| **Other comprehensive loss** | ¥(122,646) | ¥63,736 | ¥(58,910) |

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

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gain on Securities | Minimum Pension Liability Adjustment | Accumulated Other Comprehensive Income |
| Balance, April 1, 1999 | ¥ (5,583) | ¥70,917 | ¥(32,182) | ¥33,152 |
| Current—period change | (6,712) | 8,571 | 15,375 | 17,234 |
| **Balance, March 31, 2000** | **¥(12,295)** | **¥79,488** | **¥(16,807)** | **¥50,386** |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustments | Unrealized Gain on Securities | Minimum Pension Liability Adjustment | Accumulated Other Comprehensive Income |
| Balance, April 1, 1999 | $ (52,669) | $669,028 | $(303,604) | $312,755 |
| Current—period change | (63,321) | 80,859 | 145,047 | 162,585 |
| **Balance, March 31, 2000** | **$(115,990)** | **$749,887** | **$(158,557)** | **$475,340** |

## 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 off-balance-sheet financial instruments primarily to manage its exposure to fluctuations in foreign exchange and interest rates and to meet the financing needs of its customers.

### 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 financially capable and 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 and long-term debt denominated in foreign currencies. The Company entered into foreign exchange forward contracts and currency swap agreements designated to mitigate its exposure to foreign currency exchange risks. Currency swap agreements related to such long-term debt have the same maturity as underlying debts.

The following table provides information regarding the Company's derivative financial instruments related to foreign currency exchange transactions as of March 31, 2000, which was translated into Japanese yen at the year-end spot rate.

### Foreign Exchange Forward Contracts

| | Millions of Yen | | Thousands of U.S. Dollars | |
|---|---|---|---|---|
| | Receive | Pay | Receive | Pay |
| Buy Yen, sell U.S. Dollar | ¥33,960 | ¥34,566 | $320,377 | $326,094 |
| Buy Yen, sell Euro | 1,975 | 1,836 | 18,632 | 17,321 |
| Buy Deutsche Mark, sell Sterling Pound | 838 | 896 | 7,906 | 8,453 |

### Currency Swap Agreements

| | | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|
| Maturities, Year Ending March 31 | | 2001 | 2001 |
| Receive Yen, pay U.S. Dollar at maturity | Receive | ¥2,000 | $18,868 |
| | Pay | 1,883 | 17,764 |
| Receive Euro, pay U.S. Dollar at maturity | Receive | 5,945 | 56,085 |
| | Pay | 9,632 | 90,868 |
| Receive U.S. Dollar, pay French Franc at maturity | Receive | 2,176 | 20,528 |
| | Pay | 2,001 | 18,877 |

At March 31, 1999, the Company's foreign exchange forward contracts and currency swap agreements, in the aggregate, were to pay ¥38,208 million and receive ¥34,194 million in Japanese yen and foreign currencies through fiscal 2001, as translated into Japanese yen at the year-end spot rate.

#### *Interest Rate Risks*

The Company is exposed to interest rate risks mainly inherent in its debt obligations with both fixed and variable rates. 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. Financial instruments that are sensitive to interest rate changes were disclosed in Note 5. 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, 2000, which are translated into Japanese yen at the year-end spot rate.

### Interest Rate Swap Contracts

| | Weighted Average Rate | | Notional Amount | |
|---|---|---|---|---|
| Maturities, Years Ending March 31 | Receive | Pay | Millions of Yen | Thousands of U.S. Dollars |
| 2001 | 4.1% | 5.4% | ¥11,980 | $113,019 |
| 2002 | 0.6 | 2.1 | 1,800 | 16,981 |
| 2003 | 0.7 | 1.7 | 1,300 | 12,264 |
| 2004 | 0.7 | 1.7 | 1,300 | 12,264 |

At March 31, 1999, the Company's interest rate swap contracts, in the aggregate, were to pay 4.9% and receive 4.2% of weighted average rate of interest through fiscal 2004 on the basis of notional principal amount of ¥89,605 million.

***Equity Price Risks***

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

### Fair Value of Financial Instruments

The Company had the following financial instruments at March 31, 2000 and 1999:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | **2000** | | 1999 | | **2000** | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | | | |
| Finance receivables | **¥ 60,530** | **¥ 57,405** | ¥ 55,472 | ¥ 55,642 | **$ 571,038** | **$ 541,557** |
| Other investments | **280,014** | **280,014** | 275,221 | 275,221 | **2,641,642** | **2,641,642** |
| Financial liabilities: | | | | | | |
| Long-term debt | **(277,344)** | **(276,179)** | (304,801) | (303,760) | **(2,616,453)** | **(2,605,462)** |
| Derivative financial instruments related principally to long-term debt: | | | | | | |
| Foreign exchange instruments recorded as assets (liabilities) | **(3)** | **315** | 81 | 89 | **(28)** | **2,972** |
| Interest rate swaps and other instruments | **—** | **(128)** | — | (669) | **—** | **(1,208)** |

Contract or notional amounts of financial instruments with off-balance-sheet risk at March 31, 2000 and 1999 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2000** | 1999 | **2000** |
| Foreign exchange instruments | **¥46,983** | ¥34,392 | **$443,236** |
| Interest rate swaps and other instruments | **11,980** | 54,565 | **113,019** |
| Financial guarantees | **14,687** | 15,993 | **138,557** |

The fair value of finance receivables, other investments, and long-term debt is based on quoted market prices when available or 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.

Additionally, the contract or notional amounts for off-balance-sheet financial instruments are used to measure the volume of these agreements and do not necessarily represent exposure to credit loss, and their fair value is the estimated amount that the Company would receive or pay to terminate the agreements, taking into account current foreign exchange and/or interest rates, where applicable.

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

The Company is contingently liable as guarantor of indebtedness of distributors and customers for their borrowings from financial institutions.

## 13. SUPPLEMENTAL EXPENSE INFORMATION

Research and development expenses for the years ended March 31, 2000, 1999, and 1998 amounted to ¥33,148 million ($312,717 thousand), ¥36,759 million, and ¥37,848 million, respectively. Advertising costs expensed as incurred for the years ended March 31, 2000, 1999, and 1998 amounted to ¥8,619 million ($81,311 thousand), ¥11,598 million, and ¥12,575 million, respectively.

## 14. COMMITMENTS AND CONTINGENCIES

At March 31, 2000, the Company was contingently liable for trade notes discounted with banks in the amount of ¥444 million ($4,189 thousand), which are accounted for as sales when discounted. The banks retain a right of recourse against the Company in the event of nonpayment by customers, for which the Company's management believes that the recourse is remote from exercise.

Commitments for capital expenditures outstanding at March 31, 2000 approximated ¥1,639 million ($15,462 thousand).

The Company leases certain offices and other facilities under lease agreements, all of which are substantially cancelable at their option. Rental expenses for the years ended March 31, 2000, 1999, and 1998 amounted to ¥10,662 million ($100,585 thousand), ¥9,972 million, and ¥9,996 million, respectively.

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 ($66,717 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 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.

## 15. SUBSEQUENT EVENT

On May 25, 2000, a resolution was made by the Company's Board of Directors for the payment of a cash dividend to shareholders of record on March 31, 2000 of ¥3 per common share (¥60 per 20 common shares) or a total of ¥4,229 million ($39,896 thousand), subject to shareholders' approval at the annual meeting to be held on June 29, 2000.

**Deloitte Touche Tohmatsu**

To the Board of Directors and Shareholders of Kubota Corporation:

We have audited the accompanying consolidated balance sheets of Kubota Corporation and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

The Company has not accounted for a nonmonetary security exchange transaction, 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 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 recognizing a gain on 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

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 United States dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

Osaka, Japan
June 2, 2000

## KUBOTA CORPORATION

**Head Office**
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111
Facsimile: (81)-6-6648-3862

**Tokyo Office**
1-3, Nihonbashi-Muromachi 3-chome,
Chuo-ku, Tokyo 103-8310, Japan
Phone: (81)-3-3245-3111
Facsimile: (81)-3-3245-3049

## OVERSEAS OFFICES

**New York Office**
320 Park Avenue, 23rd Floor,
New York, New York 10022, U.S.A.
Phone: (1)-212-355-2440
Facsimile: (1)-212-355-2124

**Los Angeles Office**
3401 Del Amo Blvd.,
Torrance, California 90503, U.S.A.
Phone: (1)-310-618-6932

**Silicon Valley Office**
226 Airport Parkway, Suite 530,
San Jose, California 95110, U.S.A.
Phone: (1)-408-501-0400
Facsimile: (1)-408-501-0401

**London Office**
4th Floor, No. 1, Tenterden Street,
London W1R 9AH, U.K.
Phone: (44)-171-629-6471~4
Facsimile: (44)-171-629-6915

**Frankfurt Office**
Senefelder Straße 3-5,
63110 Rodgau/Nieder-Roden,
Germany
Phone: (49)-6106-873-0
Facsimile: (49)-6106-873-200

**Cairo Office**
Nile Tower Building, 12th Floor,
21-23 Guiza Street, Guiza, Egypt
Phone: (20)-2-5702390~1
Facsimile: (20)-2-5702390~1

**Bangkok Office**
26th Floor, Thaniya Plaza Bldg.,
52 Silom Road, Suriyawongse,
Bangkok 10500, Thailand
Phone: (66)-2-231-2375~6
Facsimile: (66)-2-231-2377

**Jakarta Office**
P.T. Skyline Building, 17th Floor,
No. 9, JL. MH. Thamrin,
Jakarta, Indonesia
Phone: (62)-21-323977, 3902376
Facsimile: (62)-21-323977
Telex: 46630 KUBOTA IA

**Beijing Office**
Room 1551,
New Century Office Tower,
No. 6 Southern Road,
Capital Gym., Beijing 100044,
People's Republic of China
Phone: (86)-10-6849-2277
Facsimile: (86)-10-6849-2280
Telex: 22990 MZHTL CN

## OVERSEAS SUBSIDIARIES AND AFFILIATES

### NORTH AMERICA

**Kubota Tractor Corporation**
3401 Del Amo Blvd.,
Torrance, California 90503, U.S.A.
Phone: (1)-310-370-3370
Facsimile: (1)-310-370-2370

**Kubota Credit Corporation, U.S.A.**
3401 Del Amo Blvd.,
Torrance, California 90503, U.S.A.
Phone: (1)-310-370-3370
Facsimile: (1)-310-370-2370

**Kubota Manufacturing of America Corporation**
Gainesville Industrial Park North,
2715 Ramsey Road,
Gainesville, Georgia 30501, U.S.A.
Phone: (1)-770-532-0038
Facsimile: (1)-770-532-9057

**Kubota Engine America Corporation**
505 Schelter Road,
Lincolnshire, Illinois 60069, U.S.A.
Phone: (1)-847-955-2500
Facsimile: (1)-847-955-2501

**Auburn Consolidated Industries, Inc.**
2100 South "J" Street,
(P.O. Box 350) Auburn,
Nebraska 68305-0350, U.S.A.
Phone: (1)-402-274-4911
Facsimile: (1)-402-274-5031

**Kubota America Corporation**
320 Park Avenue, 23rd Floor,
New York, New York 10022, U.S.A.
Phone: (1)-212-355-2440
Facsimile: (1)-212-355-2124

**Kubota Finance (U.S.A.), Inc.**
320 Park Avenue, 23rd Floor,
New York, New York 10022, U.S.A.
Phone: (1)-212-355-2041
Facsimile: (1)-212-355-2124

**Kubota Canada Ltd.**
1495 Denison Street, Markham,
Ontario L3R 5H1, Canada
Phone: (1)-905-475-1090
Facsimile: (1)-905-475-3032

**Kubota Metal Corporation (Fahramet Division)**
25 Commerce Road, Orillia,
Ontario L3V 6L6, Canada
Phone: (1)-705-325-2781
Facsimile: (1)-705-325-5887

## SOUTH AMERICA

**Kubota Brasil Ltda.**
Rua Dona Maria Fidelis No. 171,
Diadema, São Paulo, Brazil
Phone: (55)-11-745-4744
Facsimile: (55)-11-745-1243

## OCEANIA

**Kubota Tractor Australia Pty Ltd**
100 Keilor Park Drive, Tullamarine,
Victoria 3043, Australia
Phone: (61)-3-9279-2000
Facsimile: (61)-3-9279-2030

## EUROPE

**Kubota Europe S.A.**
19-25, Rue Jules Vercruysse,
Z.I., BP88 95101 Argenteuil,
Cedex, France
Phone: (33)-1-3426-3434
Facsimile: (33)-1-3426-3499

**Kubota (Deutschland) GmbH**
Senefelder Straße 3-5,
63110 Rodgau/Nieder-Roden,
Germany
Phone: (49)-6106-873-0
Facsimile: (49)-6106-873-199

**Kubota Baumaschinen GmbH**
Steinhauser Straße 100,
66482 Zweibrücken,
Germany
Phone: (49)-6332-4870
Facsimile: (49)-6332-487-101

**Kubota Servicios España S.A.**
Ctra. del Barrio de la Fortuna s/n
Cuatro Vientos,
28044 Madrid, Spain
Phone: (34)-91-508-6442
Facsimile: (34)-91-508-0522

**Kubota (U.K.) Limited**
Dormer Road, Thame,
Oxfordshire OX9 3UN, U.K.
Phone: (44)-1844-214500
Facsimile: (44)-1844-261568
Telex: 51-837551 KUBOTA G

## ASIA

**Shin Taiwan Agricultural Machinery Co., Ltd.**
16, Fengping 2nd Road,
Taliao Shiang Kaohsiung
Hsien 83107, Taiwan
Phone: (886)-7-702-2333
Facsimile: (886)-7-702-2303

**Kubota Agricultural Machinery (Suzhou) Co., Ltd.**
No. 220, Xing Ming Street,
Suzhou Industrial Park,
Suzhou Municipality, Jiangsu,
People's Republic of China
Phone: (86)-512-716-3122
Facsimile: (86)-512-716-3344

**The Siam Kubota Industry Co., Ltd.**
101/19-24 Navanakorn, Tambol
Klongneung, Amphur Klongluang,
Pathumtani 12120, Thailand
Phone: (66)-2-529-0363
Facsimile: (66)-2-529-0081

**P.T. Kubota Indonesia**
JL. Setyabudi 279,
Semarang, Indonesia
Phone: (62)-24-7472849
Facsimile: (62)-24-7472865
Telex: 22285 PTKBT IA

**P.T. Metec Semarang**
Tanjung Emas Export Processing
Zone, JL. Coaster No. 8 Block B,
12A-16 Semarang, Central Java,
Indonesia
Phone: (62)-24-520435
Facsimile: (62)-24-520432

**Kubota Agro-Industrial Machinery Philippines, Inc.**
Kubota Centre, 155 Panay Avenue,
South Triangle Homes,
1103 Quezon City, Philippines
Phone: (63)-2-9201071
Facsimile: (63)-2-9241848

**Sime Kubota Sdn. Bhd.**
1st Floor, F6 & F7 Sime Darby,
Malaysia Region Centre,
Lot PT-11101, Kompleks Sime Darby,
Jalan Kewajipan, Subang Jaya,
47600 Petaling Jaya, Selangor
Darul Ehsan, West Malaysia,
Malaysia
Phone: (60)-3-736-1388
Facsimile: (60)-3-735-0435

**Jiangsu Biaoxin Kubota Industrial Co., Ltd.**
186 Lishiqiao South Avenue, Taihe Town,
Jingjiang City, Jiangsu,
People's Republic of China
Phone: (86)-523-433-3999
Facsimile: (86)-523-433-3999

**Chairman**
**and Representative Director**

Osamu Okamoto

**President**
**and Representative Director**

Yoshikuni Dobashi

**Executive Managing Director**
**and Representative Director**

Takeshi Oka

**Executive Managing Directors**

Mitsuo Iwanaga

Tomomi Soh

Mikio Kinoshita

**Managing Directors**

Yoshihiro Kinugasa

Kazuya Nakamura

Mitsuku Yamamoto

Toshio Kubo

Katsuro Konishi

Tatsuo Arata

Masakatsu Yamamoto

Okihiro Asada

Tsuyoshi Hayashi

**Directors**

Yoji Okihara

Tadahiko Kinoshita

Daisuke Hatakake

Masatake Matsui

Koh Shimizu

Toshi Nakajima

Masaru Ishiguro

Nobuhiro Sakamoto

Akira Seike

Akio Nishino

Toshiyuki Yotsumoto

**Corporate Auditors**

Masayoshi Fujita

Toshi Tanaka

Masamichi Nakahiro

Tohru Hirata

Sunao Kobayashi

**Stock Listings**
Domestic: Tokyo, Osaka,
and four other stock exchanges
Overseas: New York and Frankfurt

**Transfer Agent for Common Stock**
The Chuo Mitsui Trust and Banking
Company, Limited
2-21, Kitahama 2-chome, Chuo-ku, Osaka
541-0041, Japan

**Depositary for ADR Holders**
Morgan Guaranty Trust Company
of New York
60 Wall Street, New York,
New York 10260-0060, U.S.A.

**Investor Inquiries**

**Head Office**
Finance & Accounting Dept.
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111
Facsimile: (81)-6-6648-3862

**Tokyo Office**
General Affairs Dept.
1-3, Nihonbashi-Muromachi 3-chome,
Chuo-ku, Tokyo 103-8310, Japan
Phone: (81)-3-3245-3111
Facsimile: (81)-3-3245-3049

**New York Office**
320 Park Avenue, 23rd Floor,
New York, New York 10022, U.S.A.
Phone: (1)-212-355-2440
Facsimile: (1)-212-355-2124

Financial information and environmental reports
are available on Kubota's web site.
http://www.kubota.co.jp/english/index.html

*This annual report is printed on recycled paper.*

**KUBOTA Corporation**
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone: (81)-6-6648-2111
Facsimile: (81)-6-6648-3862
http://www.kubota.co.jp/

Printed in Japan