Kubota's Medium-Term Management Strategy

Progress Report

Achievement — Recovery in Profitability

Amid a protracted slump in the Japanese economy, Kubota's performance deteriorated during fiscal 1999, and the Company anticipated that its performance would worsen further during fiscal 2000. In response, Kubota drafted various countermeasures aimed at supporting a recovery in profitability during the three-year period from April 1999 through March 2002.

Personnel Reduction (Parent Company)

Headcount

Actual 13,156 Fiscal 2002 — Attained!

(Target: Reduce to 13,500 for fiscal 2002)

Reduction of general & administrative expenses

32% Fiscal 2002 — Attained!

(Target: 30% reduction for fiscal 2002)

Rationalization of corporate staff departments

Reduction in number of corporate staff departments

40 (April 2000) → 19 (April 2002)

Management streamlining

Reduction in number of BOD members

38 (April 1999) → 25 (June 2002)

Boosting productivity

Partial Attainment

21manufacturing departments in 16 factories; almost half the manufacturing departments increased productivity and the overall average productivity rise was 11%

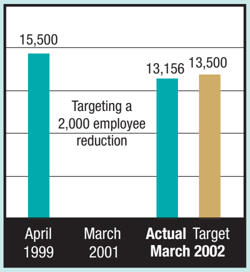
(Target: Raise 20% over the fiscal 2001-2002 period)

Effectiveness of Profitability Recovery Measures

Personnel Reductions

The parent Company had a target of reducing its headcount by 2,000, to 13,500, over three years, with the deadline of March 31, 2002. The Company made personnel reductions that exceeded the target, reducing the headcount to 13,156. Early retirement was promoted by offering additional retirement benefits.

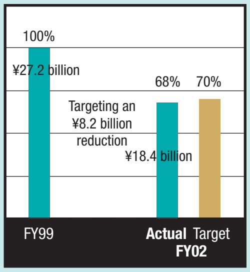
Employees



Corporate Staff Department Cost Reductions

In line with the slogan “Shape Up,” Kubota has been shifting from the elimination of the parent Company’s corporate staff departments to measures aimed at tightening the operational focus of those departments and their subsequent streamlining. After three years, the Company has been able to reduce the personnel and other costs of corporate staff departments to 32% below the fiscal 1999 level, which is a greater reduction than the 30% reduction specified in the Medium-Term Management Strategy. The annual cost of the corporate staff departments was reduced ¥8.8 billion, from ¥27.2 billion to ¥18.4 billion.

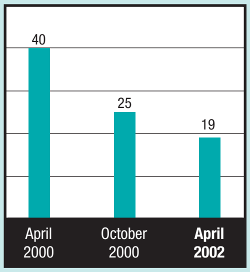
Cost



Rationalization of Corporate Staff Departments

The number of corporate staff departments was reduced from 40 in April 2000 to 25 in October 2000 and 19 in April 2002.

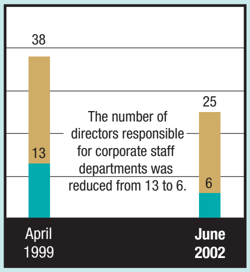
Departments



Streamlining of Top Management

The number of directors was reduced from 38 in April 1999 to 25 following the June 2002 general meeting of shareholders. Particularly noteworthy, the number of directors responsible for corporate staff departments was reduced from 13 to 6.

Directors



Boosting Productivity

Manufacturing departments have worked to increase their productivity (unit of production per employee) 20% during the last two years (April 2000 through March 2002). Of Kubota’s 21 manufacturing departments in 16 factories, approximately half attained their goals. The average overall rise was 11%.

The Sakai Plant offers a good example of this drive toward increased productivity. The plant has an assembly line that produces V3300 series diesel engines of 50hp or more. Through 5-*Gen* activities—which involve being at the actual shop *(gen-ba),* looking at actual products *(gen-butsu),* recognizing reality *(gen-jitsu),* and referring to principles *(gen-ri)* and fundamental rules *(gen-soku)*—the plant cut out losses caused by waste and inefficiency, thereby boosting its productivity 50% without having to make any capital investment.

Withdrawal from Unprofitable Business Fields and Products

September 2000	Closed Tokai Plant
January 2001	Liquidated subsidiary Kubota Laing Inc.
March 2001	Withdrew from business in unit bathrooms and Western-style roofing materials
February 2002	Liquidated subsidiary Kubota Concrete Co., Ltd.
April 2002	Sold Kubota House Co., Ltd., and withdrew from the prefabricated house business

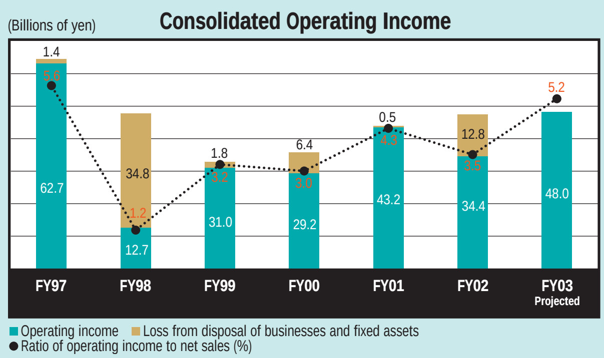
Regarding Kubota's withdrawal from unprofitable business fields and product categories, in September 2000 the Company closed its Tokai plant, which manufactured ingot cases. In January 2001, the Company liquidated Kubota Laing Inc., a subsidiary that manufactured small pumps. In March 2001, it withdrew from its business in unit bathrooms and Western-style roofing materials. In February 2002, it liquidated Kubota Concrete Co., Ltd., a subsidiary that manufactured concrete piles. In April 2002, it sold Kubota House Co., Ltd. These moves illustrate that the Company is resolutely proceeding with the upgrading of its business portfolio while taking into consideration the operations of all of its businesses.

Rebuilding Slumping Businesses

FY2002	Industrial castings, valves, electric equipment, air conditioning equipment	Target (to be profitable) attained
FY2003	Septic tanks, farming facilities	To be profitable in FY2003
FY2004	Building materials, vending machines	To be profitable in FY2004

Slumping operations in eight business fields were targeted for revitalization efforts in the Medium-Term Management Strategy. Operations in four of those business fields—industrial castings, valves, electric equipment, and air conditioning equipment—became profitable again in fiscal 2002. Plans call for restoring the profitability of operations in septic tanks and farming facilities in fiscal 2003, and operations in building materials and vending machines are scheduled to show a profit in fiscal 2004.

Formulation of the Medium-Term Management Strategy in March 2001



(1) The profitability-boosting strategies described have contributed toward Kubota's recovery, but the Company's fiscal 2001 performance was still considerably worse than that of fiscal 1997, when the Company attained record high operating income.

(2) To overcome the obstacles to a significant improvement in performance, the Company drafted a Medium-Term Management Strategy covering the three-year period from fiscal 2002 through fiscal 2004.

Overview of the Medium-Term Management Strategy

1. Reforming the Business Structure and Profit Structure

(1) Strengthening the profitability of existing operations

- Domestic farm equipment operations: Maintain top market share and proactively launch new products that meet user needs
- Pipe operations: Implement fundamental cost reduction measures and promote alliances
- Overseas tractor operations: Maintain the top share in the U.S. market for tractors of 40hp or less while increasing shares in markets for tractors in the 40hp to 100hp range
- Environmental engineering operations: Expand new businesses, such as the polluted site remediation business

(2) Revitalizing low-profit businesses

(3) Developing new and peripheral businesses

Developing New and Peripheral Businesses

Kubota has new businesses in such fields as environmental protection, energy, and new materials (including, but not limited to, ceramics and aluminum powder) but these operations are not expected to generate high levels of net sales in the near future.

Accordingly, the Company is working to expand its sales by proactively developing businesses on the periphery of existing operations, such as polluted site remediation and the overseas tractor business.

To increase sales in building materials, which is currently a low-profit business, Kubota is taking steps aimed at expanding its operations in the area of silica sand (used to color roofing materials), such as those involving decorative materials used in roofing products; intensifying the marketing of roof ventilators; broadening the lineup of roofing products for repair and renewal applications; and developing new thick types of roofing materials.

Peripheral operations associated with environmental engineering include polluted site remediation, agriculture-related business, and private-sector construction business. In particular, the Company's approach to private-sector construction business will depend on whether a shift to proposal-based marketing methods is feasible. The pump business departments, which shifted from the pipe and fluid systems engineering sector to the environmental engineering sector in October 2001, have accumulated considerable experience, know-how, and marketing expertise that, in combination with the technological strengths of environmental engineering departments, is expected to enable the undertaking of Official Development Assistance business projects in overseas countries.

2. Reforming Operational Systems

(1) Building autonomous management systems

- Reevaluate the business division system
- Reevaluate the boundaries between the responsibilities of the head office and individual business departments

(2) Fundamental restructuring of the corporate staff departments of the Head Office

- Further promote streamlining and make more functional the corporate staff departments for business operations

3. Financial Strategy

(1) Reduce interest-bearing debt

(2) Streamline the balance sheets

Achievements and Plans

(1) Reduce Interest-Bearing Debt

	Actual	Target	
FY1999	¥430.1 billion	—	
FY2002	¥333.0 billion	¥330.0 billion	Target attained! (See below)
FY2003		¥315.0 billion	Planned

The balance of Kubota's interest-bearing debt was ¥430.1 billion at the end of fiscal 1999 but had been reduced to ¥333.0 billion by the end of fiscal 2002. Moreover, the fiscal 2002 balance was only ¥324.3 billion if newly consolidated subsidiaries are excluded. Accordingly, the fiscal 2002 target of ¥330.0 billion is considered to have been attained. Plans call for a further reduction of interest-bearing debt to ¥315.0 billion in fiscal 2003.

(2) Flexibly and Responsively Executing Capital Policies

Repurchasing the Company's Treasury Stock

FY2002	19.3 million shares repurchased
FY2003	50.0 million shares to be repurchased

The repurchasing of Kubota shares began in December 2001, and 19.3 million shares had been repurchased by the end of April 2002. Plans call for 50.0 million shares to be repurchased during fiscal 2003.

Progress Report: Analysis of Kubota's Business Operations

Changes in the Business Environment

Kubota's Domestic Business Environment

Since Kubota drafted its Medium-Term Management Strategy in March 2001, each of the Company's departments has striven to attain the targets of that strategy. However, certain aspects of the operating environment have presented challenges that were greater than expected. Regarding domestic public works investment in particular, a drop in demand and the progressive trend of deflation have had a strong impact on the Company's operations.

Large Reductions in Public Works Investment

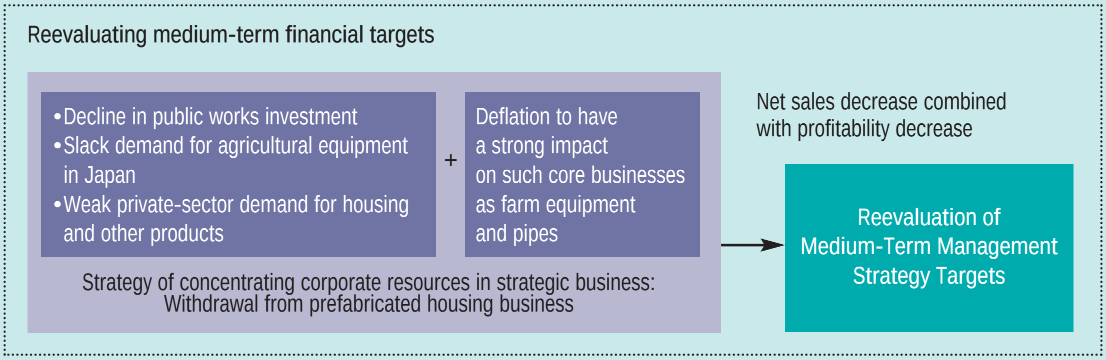
The Japanese government's fiscal 2001 budget for public works investment was cut 10% compared with fiscal 2000. This has reduced overall demand related to public works investment and intensified competition.

For example, regarding demand in one of our mainstay businesses, ductile iron pipes, owing to the Great Hanshin Earthquake of January 1995 demand increased during fiscal 1996 and fiscal 1997. Subsequently, however, this demand has gradually declined. In fiscal 2002, demand for ductile iron pipes suffered an 11% drop compared with fiscal 2001.

Regarding the sewage-related operations that are an integral part of the Environmental Engineering sector, fiscal 2002 demand was down 11% from the level in the previous fiscal year. This figure was 8% below the projections made at the start of fiscal 2002. It appears that the trend of gradual decline in demand will continue, creating an extremely harsh operating environment.

Adjusted Medium-Term Financial Targets

As described briefly above, the surrounding business environment, specifically for businesses related to public spending, has become harsher than originally expected. Accordingly, the Company has been obliged to review its medium-term financial targets for fiscal 2004.



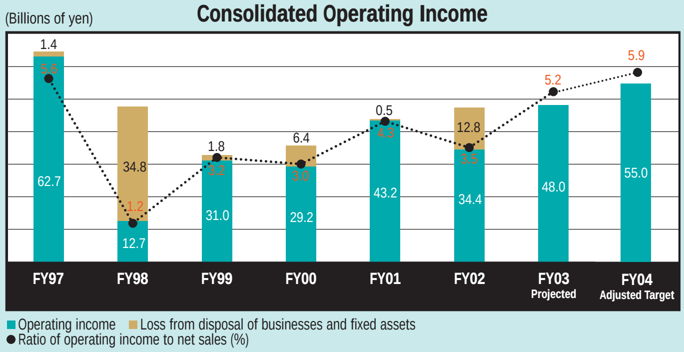
Because external factors in the operating environment have been more severe than originally anticipated, the Company has adjusted its medium-term financial targets.

The net sales target has been reduced ¥170.0 billion, from ¥1,100 billion to ¥930.0 billion. The operating income target has been lowered ¥10.0 billion, from ¥65.0 billion to ¥55.0 billion. The net sales target was adjusted in light of the sale of Kubota House Co., Ltd., and the unexpectedly large drop in industrial equipment products and engineering demand, primarily public-sector demand. The impact of the drop in public-sector demand is also the principal reason for the adjustment of the operating income target.

Adjusted Medium-Term Financial Targets

	Billions of Yen		
	Original target	Adjusted target for FY04	Change from the original target
Net Sales	1,100.0	930.0	(170.0)
Operating Income	65.0	55.0	(10.0)
Income before Income Taxes and Equity in Net Income of Affiliated Companies	63.0	52.0	(11.0)
Net Income	34.0	27.0	(7.0)

Consolidated Operating Income



Strategies for Restoring and Boosting Profitability

Tackling the issues caused by the harsher business environment, the Company has made additional countermeasures to improve its profit level as follows:

(1) Lowering the break-even point (non-consolidated basis)

Cut costs by ¥15.0 billion, including materials costs, personnel costs, other expenditures, and costs related to support operations, such as corporate staff departments. The costs of support operations are being targeted for a 30% reduction below the fiscal 2001 level.

(2) Revitalizing low-profit businesses: building materials

New housing starts are sluggish, with the drop being particularly sharp with regard to owner-occupied housing. The fall in demand and the deflationary trend have intensified competition and created an extremely harsh operating environment. Against this backdrop, in January 2002 Kubota began marketing promotion campaigns for total roofing material renewal and other programs aimed at boosting its share of the market for roofing materials. Regarding siding materials, the Company has proactively introduced new products. The popularity of these products has contributed toward a rise in market share. The Company is continuing to launch new products, initiate the supply of products to other companies on an OEM (original equipment manufacturer) basis, and otherwise work to augment its sales. These efforts are expected to restore the profitability of building materials operations in fiscal 2004.

(3) Companywide manufacturing reform activities

Kubota has initiated new Companywide manufacturing reform activities. The productivity-boosting campaign has been adjusted and now calls for a further 20% rise in productivity over the next two fiscal years (fiscal 2003 and 2004). Plans call for a 50% reduction in inventory levels and shortening the product delivery lead time. A key theme of the campaign is integrating the Company’s proprietary technologies, administration methods, and systems to make it possible to sustain domestic manufacturing operations.

(4) Promoting alliances that enhance competitiveness

Kubota is proceeding with alliances related to the PVC pipe business, and plans call for using these alliances to enable improved competitiveness and cost reductions.

(5) Reforming Kubota’s corporate culture

Corporate reform programs are carried out to ensure that employees’ abilities are fully utilized, that employees are fairly evaluated, and that employees are rewarded for their contributions based on highly transparent systems. In light of this, Kubota is reforming its personnel system. The system used for the past 13 years, which has focused on seniority, will be replaced by a system that is thoroughly achievement oriented and uses fair and highly transparent systems to evaluate employees and determine appropriate levels of remuneration. In this and other ways, the Company will strive to create a corporate culture that welcomes challenges and encourages creativity.

Focusing on Strategically Emphasized Fields

(1) Regarding the strategically emphasized field of the overseas tractor business, Kubota’s basic strategy is to further strengthen its solid position in the U.S. market. The Company believes there remain opportunities for further growth in the U.S. market. In particular, there appears to be significant leeway for expanding the Company’s share of the market for medium-sized tractors with engines in the 40hp to 100hp range. Regarding peripheral businesses, the Company is preparing to expand its presence in markets for tractor loader backhoes, construction machinery, and other products.

(2) With respect to the strategically emphasized field of environmental engineering, the decrease in Japanese public works investment has made it difficult to anticipate growth in sales of the Company’s mainstay sewage facilities. Moreover, the intensification of competition is depressing prices, dictating that the Company place strong emphasis on measures to maintain and strengthen its competitiveness. Plans call for increasing sales by obtaining orders in such new and strategic fields as polluted site remediation, submerged membranes, and recycling.