

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?*

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



Mikio Kinoshita, Executive Managing Director

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



Sub-compact tractor Model: BX2200D

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.

*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



*Mid-size tractor Model: M9000DT*

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: 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.