

Kubota's Medium-Term Management Strategy/Progress Report

1. Progress in Implementing Kubota's Medium-Term Management Strategy

Overview of the Medium-Term Management Strategy

Three Primary Focuses of the Medium-Term Management Strategy

(1) Reforming the Business Structure and Profit Structure

- Classification of Core/Strategic Businesses and Low-Profit Businesses and Implementation of Reforms in Line with the Businesses' Missions
- Developing New and Peripheral Businesses

(2) Reforming Operational Systems

- Reorganization of Divisions (building a more autonomous divisional management structure)
- Reevaluation of Administrative and Support Departments
- Introduction of New Personnel System

(3) Strengthening the Financial Position

- Reduction of Interest-Bearing Debt

1) Reforming the Business Structure and Profit Structure

(1) Internal Combustion Engine and Machinery

In the core domestic business field of farm equipment, Kubota has established a “concurrent engineering” product development system involving the integration of development and manufacturing processes. This system enables the Company to continually launch new products that are competitively priced and feature improved capabilities. As a result of this system and a test-ride-centered sales promotion campaign, despite the weakness of overall demand, the Company has steadily increased its market share and expanded its operations.

In the strategic overseas business field of tractors, Kubota is proactively developing its operations, principally in North America. The launch of new tractor models and the implementation of a sales promotion campaign that commemorates the 30th anniversary of the start of Kubota product marketing in North America enabled the Company to increase its market share. Regarding outdoor power equipment business, sales of the ZD series of locally manufactured products were robust. Moreover, a Georgia-based subsidiary—Kubota Manufacturing of America Corporation—expanded its production capacity, and that company is scheduled to begin manufacturing newly developed utility vehicles, which will be introduced to the market in 2004. Aiming to expand overseas tractor operations, Kubota Tractor Corporation in 2002 procured land in Georgia, upon which the Company has invested in increasing its warehousing and tractor assembly line capabilities. The Turf-Care Technology & Marketing Center, which handles research and marketing work required for local product development activities, has also begun operating at the new site.

(2) Pipes, Valves, and Industrial Castings

A decrease in domestic demand and intensification of competition considerably depressed the profitability of business in ductile iron pipes and other products marketed principally to government entities. Kubota is working concertedly to restore the profitability of its core ductile iron pipe business.

On April 1, 2003, Kubota established the Production Control Headquarters within the Industrial and Material Systems Consolidated Division to restore emphasis on the basic principles of manufacturing and promote operational reforms. To facilitate the horizontal spread of the Farm and Industrial Machinery Consolidated Division's successful reforms involving a return to basic manufacturing principles, the Company is shifting personnel and know-how from the Farm and Industrial Machinery Consolidated Division to the Industrial and Material Systems Consolidated Division. This reflects the concerted and Companywide nature of the return to basic manufacturing principles. Striving to introduce systems that are comprehensively optimized, each business unit is taking measures such as those to reevaluate manufacturing systems and thoroughly rationalize and centralize Consolidated Divisionwide procurement operations to reduce materials costs.

Regarding the Ductile Iron Pipe Division, because a recovery in domestic demand is not projected, the division is adopting such new strategies as promoting sales of high-value-added products, reforming or eliminating unprofitable products, and undertaking fundamental distribution reforms. In addition to reducing operating costs, the division is striving to cut fixed costs through measures that include the streamlining of marketing departments. It is expected that the steady implementation of these strategies will lead to a recovery in profitability.

(3) Environmental Engineering

The Environmental Engineering Consolidated Division is working to clearly distinguish between fields that are appropriate for operational expansion and those that are more appropriate for operational stabilization, strengthen its profitability, and steadily develop new businesses.

Regarding fields that are appropriate for operational expansion, one representative new business that shows promise is the resource recycling-type renewal business involving the recycling of waste materials in landfills as well as the treatment and purification of contaminated soil. Kubota's first plant for this work is scheduled to be completed in Teshima, Kagawa Prefecture, in August 2003. In April 2003, construction of an industrial waste processing facility, which the Company will own and operate, was begun in Kitakami, Iwate Prefecture. The first business operation of its type within the Kubota Group, this business will be operated by a subsidiary, Kubota Retex Corp., which is scheduled to obtain its waste processing license and begin operating in October 2003.

Another growing new business centers on the submerged membranes developed by Kubota, which have enabled the creation of simplified membrane separation technologies as well as compact wastewater treatment systems that have a broad spectrum of applications ranging from septic tanks to the treatment of industrial wastewater and town sewage. In Japan, Kubota has obtained an A-class license for sewage system engineering and is endeavoring to expand its sales. Overseas, the Company has established a marketing subsidiary in Europe and plans to develop business in the U.S. market as well.

In business fields that are appropriate for operational stabilization, Kubota is striving to improve its profitability through the more-rigorous management of cost of sales, strengthened procurement capabilities, and the reduction of fixed costs. Reflecting these measures, Kubota improved the profitability of Environmental Engineering in fiscal 2003 despite a decline in net sales from the prior year.

(4) Building Materials and Housing

Intent on restoring the overall profitability of its businesses in the Building Materials and Housing segment, Kubota has taken various profit-bolstering measures and expects these businesses to regain their overall profitability during fiscal 2004. The Company sold its prefabricated housing business, which had been problematic for many years, during fiscal 2002. In the condominium development business, Kubota recorded considerable valuation losses on fixed assets and otherwise proceeded steadfastly with restructuring measures during fiscal 2002. As a result, the Company was able to restore the operating profitability of the Building Materials and Housing segment during fiscal 2003.

Kubota has achieved a large profitability improvement in the siding materials business by proactively introducing new products and undertaking thorough cost-reduction measures. Regarding roofing materials, the Company has worked since fiscal 2002 to fundamentally improve its manufacturing methods. During fiscal 2003, these improvements were completed and the product quality was stabilized. Kubota is making additional cost-reduction measures in roofing materials operations and aims to restore the profitability of those operations in fiscal 2004. As the profitability of septic tank operations has already been restored, it is expected that the profitability of the Building Materials and Housing segment will further improve during fiscal 2004.

2) Reforming Operational Systems

(1) Reorganization of Divisions

In July 2002, Kubota reorganized its consolidated divisions with the goals of boosting competitiveness by augmenting collaboration between business sectors and taking better advantage of complementary capabilities and synergies. The new divisional management organization of the Company consists of four divisions—the Farm and Industrial Machinery Consolidated Division, the Industrial and Material Systems Consolidated Division, the Environmental Engineering Consolidated Division, and the Housing Materials and Utilities Consolidated Division. The Company is proceeding with the delegation of additional authority to each of the consolidated divisions, aiming to establish an autonomous management system that will increase the speed and efficiency of management decisions.

(2) Reforming the Organizational System

a. Top Management Reforms

Since June 2003, Kubota's Board of Directors has had 19 members. The Company has considerably reduced the number of directors with the goal of expediting decision making and reduced the term of directors from two years to one year with the goal of increasing the clarity of managerial responsibilities.

The new Board of Directors has two vice presidents, each of whom concurrently serves as a general manager of consolidated divisions and oversees operations from a comprehensive Companywide perspective. One of the vice presidents is also the general manager of the Tokyo office, which is primarily focused on marketing operations, while the other is the director responsible for the Research & Development Planning & Promotion Department and is charged with supervising R&D activities throughout the Company. The current organizational system is designed to facilitate expeditious Companywide responses and horizontal collaboration with respect to important issues.

Board of Directors

(As of June 30)	1999	2000	2001	2002	2003
Chairman	1	1	1	1	
President	1	1	1	1	1
Vice Presidents	1				2
Executive Managing Directors	2	4	6	3	2
Managing Directors	14	9	7	9	6
Directors	16	11	12	11	8
Total	35	26	27	25	19

b. Streamlining of Head Office Administrative and Support Departments (Parent Company)

Kubota has reevaluated the missions and roles of its head office's support and administrative departments and proceeded to streamline those departments. In April 1999, there were 40 such departments staffed with 1,200 people, and the number of departments and staff had been reduced to 14 and 355, respectively, as of April 2003.

Reducing number of corporate staff departments and staff of the head office

(As of April)	1999	2000	2001	2002	2003
Departments	40	40	25	19	14
Staff	1,200	1,036	748	677	355

c. Implementing a Voluntary Early Retirement Special Program (Parent Company)

Kubota implemented a voluntary early retirement special program in fiscal 2003, and 496 employees took advantage of the program. As a result, the number of the parent company's employees was reduced to 12,107 as of April 1, 2003. The Company's Medium-Term Management Strategy target in this regard was thus nearly attained approximately one year ahead of schedule.

Reducing number of employees (Parent Company)

(As of April 1)	1999	2000	2001	2002	2003	2004
Target					12,703	12,100
Actual	15,511	14,426	13,784	13,235	12,107	

d. Reforming the Personnel System (Parent Company)

Beginning in fiscal 2003, Kubota has been introducing a new personnel system aimed at increasing the Company's organizational dynamism by means of thoroughly merit-based and transparent employee evaluation. A merit-based personnel evaluation system that determines salaries with emphasis on employee contributions rather than seniority has already been introduced, along with such other systems as a corporate performance-linked bonus system. While the Company previously set the levels of managers' bonuses based on consideration of the business performance of the division to which they belong, the scope of this system has been expanded to include union members. As of fiscal 2004, all employee bonuses are set based on consideration of the divisions' business performance.

To promote personnel development and the recruitment of promising young employees, the Company has introduced a double-track-type job assignment system, which provides diverse career paths for those who want to be a manager, a specialist, or an expert.

In the future, Kubota will proceed still further with reforms to its organizational and operational systems while striving to maximize the benefits of those systems.

3) Strengthening the Financial Position

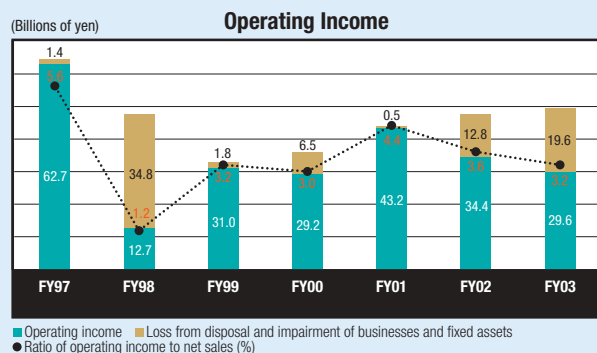
Kubota is taking measures to strengthen its financial position, primarily through the reduction of interest-bearing debt. The Company's interest-bearing debt on a consolidated basis amounted to ¥429.6 billion as of March 31, 1999, and had been reduced to ¥327.4 billion at the end of fiscal 2003. Owing to the fund's being used for Kubota's steadily expanding operations in North America as well as the advance procurement of funds for the repayment of corporate bonds due during fiscal 2004, the Company did not attain its target of reducing interest-bearing debt to ¥315.0 billion at the end of March 2003, but it is steadily progressing with the streamlining of its balance sheet through measures centering on the reduction of inventory levels and the restraint of capital expenditures. The Company is aiming to reduce its interest-bearing debt to ¥300.0 billion by March 31, 2004.

Reduction of interest-bearing debt

(As of March 31)	1999	2000	2001	2002	2003	2004
Target				330.0	315.0	300.0
Interest-bearing debt	429.6	371.2	372.2	332.9	327.4	

(Billions of yen)

2. Attainment of Operating Income Targets



In line with the Medium-Term Management Strategy goal of reforming the business structure and profit structure, Kubota is working to enhance its profitability by progressively taking such measures as liquidating unprofitable businesses and recognizing the impairment loss of fixed assets. In fiscal 2002, the Company generated ¥34.4 billion in operating income despite recording ¥12.8 billion in losses on the disposition of its prefabricated housing business and impairment loss of a condominium development subsidiary's fixed assets. In fiscal 2003, the Company generated ¥29.6 billion in operating income despite recording a ¥19.6 billion loss from the disposal and impairment of business and fixed assets, including a ¥16.8 billion impairment loss on a golf course owned by one of its subsidiaries.

In fiscal 2004, which is the final year of the current Medium-Term Management Strategy, Kubota aimed to attain ¥930.0 billion in net sales and ¥55.0 billion in operating income but currently projects that it will record ¥910.0 billion in net sales and ¥7.0 billion in operating income. The ¥48.0 billion reduction to the operating income target reflects a significant increase in pension expense, due to the deterioration in the return on investment of the pension plan assets and the large increase in pension liabilities due to the reduction of the discount rate. The Company forecasts that the amount of pension expense for fiscal 2004 will increase by approximately ¥46.0 billion. Excluding this additional expense, the Company believes its profitability is commensurate with the Medium-Term Management Strategy objective.

Medium-Term Financial Targets and Current Projection (Fiscal 2004)

	Billions of Yen			
	Target	Projection	Change	Main Factor of Change
Net Sales	930.0	910.0	(20.0)	
Operating Income	55.0	7.0	(48.0)	Rise in pension expense (46.0)

3. Drafting of the New Medium-Term Management Strategy

The basic concept of Kubota's Medium-Term Management Strategy is to continually reevaluate the prospective circumstances of its businesses, determine the measures that should be taken over the medium term in view of those business prospects, and steadily implement those measures. The Medium-Term Management Strategy is a tool for attaining these ends. In the future, the Company will firmly maintain this concept and tool for promoting the management of its businesses based on a medium-term perspective.

In fiscal 2004, Kubota will draft a new Medium-Term Management Strategy, setting fiscal 2003 as the base period. Based on consideration of progress in the implementation of strategies and changes in the operating environment, the Company intends to draft modified versions of the New Medium-Term Management Strategy on an annual rolling basis.

With a fundamental goal of steadily developing its core operations, the New Medium-Term Management Strategy aims to further strengthen the profitability of operations in the Internal Combustion Engine and Machinery and Environmental Engineering fields. At the same time, the plan is designed to place emphasis on the rebuilding of operations in the Pipes, Valves, and Industrial Castings sector and other fields in which government entities are the customers, as profitability in those business fields has deteriorated considerably. While giving thorough attention to selectively concentrating its resources in promising fields, the Company will emphasize the expansion of its core and growth businesses through the establishment and development of new and peripheral businesses. In these ways, Kubota intends to prosper as a company with an unostentatious but solidly dominant presence in diverse fields.