

An Interview with the President

Question

Could you describe the chief elements of your new Medium-Term Management Strategy?

Three years ago, we began a management style that placed strong emphasis on medium-term plans. Each of our business divisions drafted a medium-term plan, detailing its main challenges and strategies for overcoming those challenges, and, since then, the divisions have consistently emphasized taking measures in line with their plans. Kubota unified these plans to create its Medium-Term Management Strategy, which describes the strategic objectives of the entire Kubota Group as well as the strategies the Group will take to attain those objectives.

I believe that good business management basically requires that managers continually reevaluate future business prospects, consider what should be done over the medium-to-long term, and steadily take steps to actually do what should be done. In line with this principle, Kubota drafted and implemented its first three-year Medium-Term

Management Strategy, which initially caused a little commotion within the Company. Subsequently, however, our continual follow-up and checking processes have fostered increasingly good understanding among employees of the strategy's main concepts and goals, and this understanding has augmented the strategy's effectiveness. We are continuing to fortify our business by acting in line with the strategy's emphasis on future conditions.

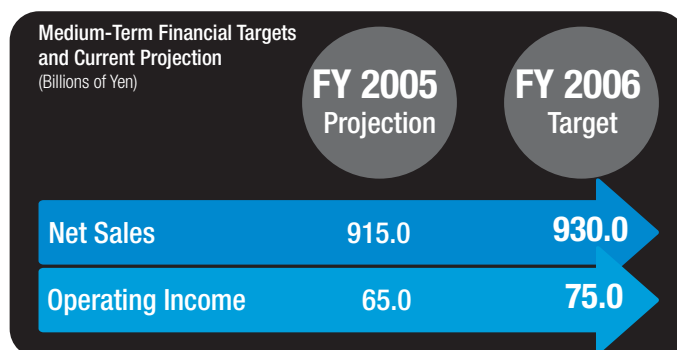
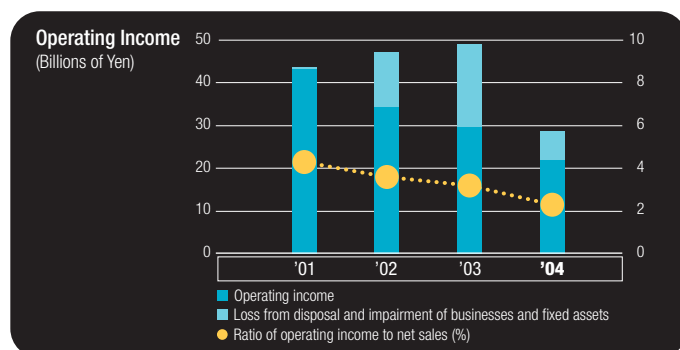
Considering our current medium-to-long-term prospects, I believe the three main concepts of our first Medium-Term Management Strategy—reforming our business structure and profit structure, reforming operational systems, and strengthening our financial position—should remain the most important strategic concepts for the Company. Accordingly, the second Medium-Term Management Strategy retains the basic structure of the first version without major changes and calls for sustaining and progressing in efforts related to the original three main concepts, thereby further adapting our operations to current and future trends in our operating environment. The second version of the strategy covers the two fiscal years through March 31, 2006.

Question

Did Kubota attain the performance targets of the previous Medium-Term Management Strategy?

The previous Medium-Term Management Strategy called for considerably boosting revenues and profits, aiming to raise net sales and operating income to ¥1,100.0 billion and ¥65.0 billion, respectively, by fiscal 2004. After the strategy was drafted, however, we modified the targets because of such factors as the shrinkage of public sector demand. The new targets called for net sales and operating income of ¥930.0 billion and ¥55.0 billion, respectively.

In fiscal 2004, we actually recorded ¥930.2 billion in net sales and ¥21.8 billion in operating income. While the operating income target was not reached, the shortfall reflected special factors such as the amortization of pension costs, which boosted those costs ¥43.6 billion compared with those recorded in fiscal 2001, when the first Medium-Term Management Strategy was drafted. Another extraordinary factor was the ¥4.8 billion cost of reorganization, including the business transfer of





the Building Materials and Housing business. Excluding the effect of these special factors, Kubota did materially attain its goal of greatly improving its profitability. Much of this success is attributable to the expansion of business, particularly in the overseas business of the Internal Combustion Engine and Machinery segment. However, the success also reflects our Companywide reductions of costs and fixed expenses, which are steadily boosting our fundamental profitability.

Q u e s t i o n
What are the performance targets of the new Medium-Term Management Strategy?

The new Medium-Term Management Strategy retains the three main concepts of the first version of the strategy, and it seeks to further develop those concepts and thereby create both a business and profit structure supporting profitability and growth. In fiscal 2006, we are aiming to record net sales of ¥930.0 billion, an operating income of ¥75.0 billion, and a ratio of operating income to net sales of 8%.

Q u e s t i o n
Has Kubota made much progress regarding the first of the three principal Medium-Term Management Strategy objectives—reforming the Company’s business structure and profit structure?

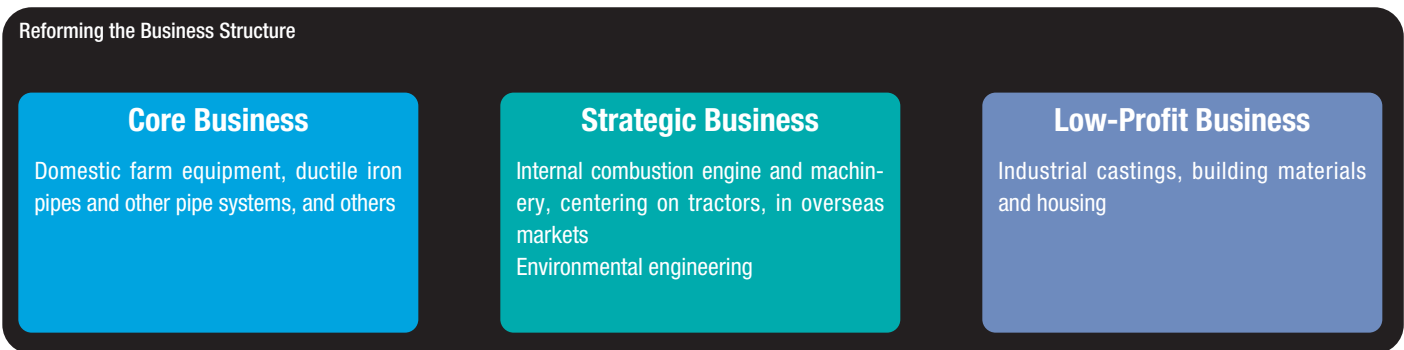
Kubota has divided its businesses into core businesses, such as domestic Internal Combustion Engine and Machinery operations and pipe-related operations; strategic businesses, such as overseas Internal Combustion Engine and Machinery operations and Environmental Engineering operations; and low-profit businesses, such as Building Materials and Housing operations and industrial casting operations. Based on these categorizations, we are proceeding with measures to improve our business and profit structures.

Regarding core and strategic businesses, domestic Internal Combustion Engine and Machinery operations center on farm equipment, and the Company has been able to strengthen its profit base by steadily boosting its farm equipment market share. Overseas, sales of mainstay tractor

products in Internal Combustion Engine and Machinery operations rose considerably amid strong demand in the U.S. market. The Company’s expansion of local manufacturing capabilities and other measures to augment tractor-related competitiveness resulted in large contributions to Kubota’s overall profitability.

In contrast, our core businesses, such as ductile iron pipes, plastic pipes, and other pipe systems, and environmental engineering products and services have been facing deteriorating operating environments due to such factors as shrinking markets, intensifying competition, and soaring raw materials costs. This has greatly depressed the profitability of those businesses. As a result, while the overall profitability of core and strategic businesses is rising, the profit structure has become excessively dependent on Internal Combustion Engine and Machinery operations.

Regarding low-profit businesses, our Building Materials and Housing operations had been unprofitable since fiscal 1998, but we reduced costs and fixed expenses and proceeded with various restructuring measures, such as the business





transfer of prefabricated housing operations. These steps enabled us to restore the operating profitability of this segment during fiscal 2003. In December 2003, the Company split off and transferred the building materials business to a joint business operation—Kubota Matsushitadenko Exterior Works, Ltd.—established in cooperation with Matsushita Electric Works, Ltd. We have also eliminated the low-profit structure of the industrial casting business, greatly improving its profitability. In addition, in December 2003, we applied for the commencement of civil rehabilitation proceedings for a golf course management subsidiary, which reflects our decision to withdraw from such business. With these measures, we have completed our restructuring programs for low-profit businesses.

Q u e s t i o n

Please describe the measures you plan to take to strengthen the profitability of public works related business.

We are making fundamental structural reforms in public works related business, aiming to adapt its structure to changes in the operating environment. We cannot avoid realizing that the shrinkage in public works related markets in recent years has not been a temporary trend but a structural change. To enhance our profitability in this segment, we must undertake truly comprehensive and concerted measures to cut costs, reduce fixed expenses, and boost productivity.

In particular, we have successfully implemented manufacturing reforms in our Internal Combustion

Engine and Machinery operations, and we plan to undertake similar reforms in other business segments. We will be reevaluating our production bases and reforming manufacturing methods to greatly increase manufacturing productivity as well as taking a full range of other cost-cutting measures, such as those related to product design, procurement, and distribution.

For example, in ductile iron pipes operations, we have built a more-optimal manufacturing system by clarifying the missions of our principal production bases in the eastern and western regions of Japan. Through this move and such other cost-reduction steps as those to reduce inventories and shorten lead times, we are striving to greatly lower our breakeven point.

Q u e s t i o n

What are your growth strategies, and what fields do you plan to grow in?

In Kubota's growth fields, which mostly involve overseas operations, we are emphasizing the concept of "expansion based on core operations." Namely, we are leveraging our strengths in core business fields to develop operations in new and peripheral fields.

A big impetus behind Kubota's growth is overseas Internal Combustion Engine and Machinery operations, which focus on such products as tractors, engines, and mini-excavators. While boosting our sales and market shares for such products, particularly in North America and Europe, we are proactively proceeding with the development of

peripheral markets. Regarding business in fields related to tractors, we just entered the U.S. market for four-wheel-drive, multipurpose utility vehicles during the current fiscal year, and our products have already achieved high evaluations from customers.

In Asian markets, which are expected to continue growing, we are moving ahead with business development plans adapted to the conditions in each country. In 1998, we established a subsidiary in China that manufactures and sells combine harvesters and rice transplanters, and this subsidiary has steadily expanded its operations. In December 2003, we established a subsidiary in China to market construction machinery, and this company has smoothly progressed in its initial market development activities. Additionally, also in December 2003, we established a sales company in South Korea to promote greater sales of farm equipment in that region.

Q u e s t i o n

Could you summarize your current and prospective situations regarding the second objective—reforming operational systems?

Our strategy for reforming operational systems has had two main objectives—"building autonomous management systems" and "streamlining the head office." Our measures to build autonomous management systems have involved reorganizing business units, shifting general administration functions from the head office to business units, and expanding individual business units' authority

and responsibility. Besides proceeding with such reorganization measures, we have also taken various steps to foster the morale of each business unit employee, such as the introduction of bonus payments linked to divisional performance. We are confident that these measures will help accelerate management decision making and implementation while boosting efficiency. Moreover, by clarifying responsibilities, the measures are expected to promote a consciousness of reform among our managers and other employees.

In the future, we will emphasize an autonomous management system strategy that focuses on the creation of management systems and models ideally adapted to the special circumstance of each business unit. In December 2003, we split off our building materials business, which was shifted to a joint business operation with Matsushita Electric Works, Ltd. Although we had finally succeeded in restoring the profitability of our building materials operations, we decided that cooperation with a powerful partner was crucial in light of the need to upgrade profitability despite intensifying competition. We therefore took the bold step of splitting the operations off to obtain that cooperation. This change is just one example of how we are introducing new optimized management systems and models in our various business fields without giving undue deference to existing systems and models. Through these ongoing systemic reforms, we are aiming to achieve large profitability increases.

Another important issue is the strengthening of our corporate governance systems. To further

bolster the trust of customers, shareholders, employees, client companies, and all other Kubota stakeholders, we are proactively implementing various corporate governance optimization programs focused on increasing the rigor of internal control systems and the thoroughness of risk management systems. We anticipate that our reforms will further increase management transparency and efficiency.

Q u e s t i o n

How have you done so far regarding the third main objective—strengthening your financial position?

Kubota's efforts to strengthen its financial position have focused principally on the reduction of interest-bearing debt. Through the sales of businesses, other proactive business restructuring measures, and moves to lower inventory levels and capital expenditures, we have decreased the interest-bearing debt from ¥372.2 billion at the end of fiscal 2001 to ¥266.7 billion at the end of fiscal 2004. That level is considerably lower than our target of ¥300.0 billion.

To ensure that we maintain the solid financial base needed for business expansion and to flexibly respond to changes in our operating environment, we will continue working to strengthen our financial position, primarily by slimming down our balance sheets and reducing interest-bearing debt. Owing to the recovery of stock prices in Japan and our lump-sum amortization of pension costs, the equity ratio has recovered to more than 30%. We anticipate that maintaining stable profitability will raise the ratio to more than 40%, and this is one of our new objectives.

As in the past, we will flexibly respond to advantageous conditions for repurchasing and retiring our shares, thereby further increasing the efficiency of our shareholders' equity. At the end of fiscal 2004, we had purchased 69 million of our shares, and we have decided to retire those shares at the end of June 2004.

