

# PROGRESS REPORT ON KUBOTA'S MEDIUM-TERM MANAGEMENT STRATEGY

## IMPROVING PROFITABILITY

We formulated the "Medium-Term Management Strategy" (for the two years ending March 31, 2006) in order to further improve profitability and are engaged in a concerted effort to implement the strategy corporate-wide. The key target of the strategy is to create a business structure that can generate operating income of more than 8% of consolidated net sales on a regular basis. In fiscal 2005, we attained an operating income ratio of 9.4%, exceeding our target. Building on the progress made in the first year of the strategy, we intend to pursue higher levels of achievement and to do our utmost to ensure that the strategy will be implemented with maximum effectiveness, relying on the three principal concepts of the strategy: "Reforming the business structure and profit structure," "Reforming operational systems," and "Strengthening the financial position."

## REFORMING THE BUSINESS STRUCTURE AND PROFIT STRUCTURE

The most important measures for "Reforming the business structure and profit structure" are "Expansion strategy in overseas markets" and "Reinforcing profitability in public works related businesses."

### (1) Expansion strategy in overseas markets

We believe rapidly growing overseas business is our growth driver and have accorded a high priority to "Expansion strategy in overseas markets." During the fiscal year under review, our overseas sales grew 20.4%. In the United States, our largest overseas market, operations in small-sized tractors are the core of our business activities there and have considerably high market shares. In addition to this core business, we are making efforts to expand the sales of mid-sized tractors, utility vehicles (multipurpose four-wheel vehicles), and

construction machinery in the peripheral market of small-sized tractors. We are also making efforts to expand the sales of small-sized diesel engines to external customers.

In Europe, we endeavor to promote our sales not only in such main markets as the United Kingdom, Germany, and France but also in the peripheral countries of these mainstays. Additionally, the Company is implementing measures to strengthen cooperation among subsidiaries in European countries. By these measures, we are aiming to raise the efficiency of our operations and market penetration in European countries.

In Asia, where growth is anticipated, we are rapidly implementing procedures to fortify our sales and production bases for the expansion of businesses in this region. Under this policy, we acquired the additional shares of an affiliated company in Thailand and converted it into a subsidiary during the year under review.

### (2) Reinforcing profitability in public works related businesses

As for reinforcing profitability in the public works related businesses (the Pipes, Valves, and Industrial Castings segment and the Environmental Engineering segment), we are taking every available step to restructure the public works related businesses on the assumption that severe business conditions with declining public works spending are not a temporary trend but a structural change. To deal with and adapt to the difficult operating environment, we are changing our operational systems to more market-oriented ones, together with conducting sweeping measures to reduce costs and raise productivity.

For this purpose, we are transplanting engineering and manufacturing know-how and cost management systems of our increasingly strong and successful operations in Internal Combustion Engine and Machinery to public works related businesses. We are also taking every measure to optimize the utilization of manufacturing facilities in the segment and achieve drastic cost reductions in product design, procurement, and transportation activities. Currently, these measures are bearing fruit in core product businesses.

#### **REFORMING OPERATIONAL SYSTEMS**

We have been grappling with corporate-wide issues, such as reorganizing divisions, empowering each business division, curtailing the head count at the corporate office, and renovating our human resource management system. We have been also promoting each of our business divisions to transform their business models and operational systems into the most suitable ones for each division. Additionally, we clarified the responsibilities of directors and fortified the oversight function of the corporate auditors, while also reinforcing corporate compliance and internal controls.

We recognize that the fulfillment of corporate social responsibilities has become the new criterion for evaluating the enterprise value in proportion as the relationship between companies and society is becoming diversified. Based on this recognition, we intend to reinforce the management and business conduct in accordance with Corporate Social Responsibilities (CSR). For this purpose, the Company established the CSR Planning & Coordination Department in April 2005 and plans to review the principles governing the conduct of business.

#### **STRENGTHENING THE FINANCIAL POSITION**

We are implementing measures to strengthen our financial position in order to support the expansion of our business operations and to have flexibility in adapting to future change in the business environment. To build a much stronger financial position, we have set a goal of reducing interest-bearing debt (excluding borrowings related to sales financings) to ¥140 billion by March 31, 2006. We have also established a target of increasing our shareholders' equity ratio to 40% or more. As of March 31, 2005, interest-bearing debt, excluding borrowings for sales financings, amounted to ¥158.2 billion, and our shareholders' equity ratio was 40.3%, which exceeded our 40% target set for March 31, 2006, in our Medium-Term Management Strategy.

Moreover, to increase our return on equity and enhance the return for our shareholders, we conducted buybacks of 39.8 million shares, amounting to ¥21.4 billion, during the fiscal year ended March 31, 2005.

We regard our cash flows as one of the critical factors in our operations, and through the appropriate allocation of the cash generated for capital investment, the reduction of interest-bearing debt, cash dividends, and the purchase of treasury stock, we intend to maximize our enterprise value with the higher efficiency of capital to establish a more solid financial position.