

Contributing to Creating a Prosperous Society through the Agriculture Business

Operating Performance of the Fiscal Year Ended March 2009

Q Would you please tell us about the business environment in fiscal 2009?

A Looking back on the fiscal year, the sense of a slowdown in the economy deepened in the first half due to the stagnation in corporate profits and personal consumption caused by the rapid increases of oil and raw material prices. In the second half, triggered by the Lehman Brothers bankruptcy, the financial crisis spread to the world spilling over into the real economy and causing a rapid deterioration in the global economy. Including a sharp decline in exports in reaction to the sudden appreciation of the yen, the Japanese economy faced unparalleled harsh conditions.

Nevertheless, the domestic agricultural machinery market was brisk because of the Japanese government's initiative for agricultural promotion aiming at increasing our food self-sufficiency ratio. However, conditions were not so favorable in overseas markets. While the Chinese market was favorable to start with because of their progressive agricultural mechanization, there was an unaffordable decline in the second half under the impact of the appreciation of the yen.

Q How do you evaluate the Iseki Group's performance last year?

A In Japan, in response to the government's aggressive agricultural policy, we developed new products that contribute to energy savings and low cost agriculture. In overseas market as well we exported competitive products that addressed local needs. In addition, to recover from the loss of the previous fiscal year, we endeavored to trim down our balance sheet, reduce operating expenses, and normalize our inventories and reinstate steady production levels again.

As a result, in the fiscal year ended March 2009, consolidated net sales increased 3.4% year on year, to ¥149.6 billion. Domestic sales rose 3.2%, to ¥126.5 billion supported by an increase in product prices to reflect the higher raw material costs. Overseas sales advanced 4.6%, to ¥23.1 billion, on the strength of a recovery in OEM orders in North America following the completion of a customer's inventory adjustments and of favorable markets in China and other Asian countries.

Looking at profits, while the appreciation of the yen had an impact in the second half, operating income still expanded ¥900 million year on year, to ¥1,600 million, while ordinary income rose ¥800 million, to ¥800 million. Net income for the period, therefore, jumped ¥1,500 million, putting Iseki back in the black.

I am sorry to say that we have again foregone on dividends in fiscal 2009. However, we are committed as a Group to working together to reinstitute dividends as soon as possible.





Medium-Term Business Goals

Q What are Iseki's strategies for the future?

A Our medium-term business goals continue to be the following priority strategies.

- 1. To secure a 20% share of the domestic agricultural machinery market**
- 2. The expansion of overseas sales**
- 3. To strengthen product competitiveness further**
- 4. To improve consolidated financial position by strengthening earning power and cash flow**

The Ministry of Agriculture, Forestry and Fisheries has announced a new agricultural policy, "2008 New Agricultural Policy for the 21st Century," under which the ministry is aiming to increase Japan's self-sufficiency ratio from 39% to 50% and to establish a stable food supply system in preparation for emergencies. The ministry's budget in fiscal 2008 was approximately ¥2.8 trillion, with which it promoted modernization of agricultural areas and the development of agricultural technology. Reflecting this initiative, Iseki's fiscal 2008 sales of its nine core types of machinery grew significantly after an interval of 5 years, expanding 8.3%, to ¥296.0 billion.

In fiscal 2009, including a large-scale supplementary budget, the ministry's total budget is approximately ¥3.5 trillion. Within the budget, there have been large increases in support for increased production of food through the full use of arable rice paddies, for urgent leasing of agricultural machinery, and other areas.

Major Initiatives

Q How does Iseki plan to respond to the government's agricultural promotion initiative?

A The new agricultural policy is promoting aggressive technological development for low cost and energy conservation agriculture. For our part, based on being "Iseki—the Technology Company," we as a Group are combining our capabilities to speed up our development and launching of new products that contribute to the improved productivity of farming management, better quality crops, and labor and energy cost saving.

For that purpose, we are taking steps to make an overall upgrade of the functionality, quality, and price, reduction of our products and related services. The objective of these improvements is to accurately capture market needs and to strengthen the competitiveness of our products. More specifically, since our proprietary "sparse cultivation system" is steadily gaining in popularity, we are reinforcing our lineup of rice transplanters and other machinery compatible with the sparse cultivation system to further expand its use.

We are also carrying out broad reform of our profitability structure to establish a corporate structure that can ensure earnings into the future even under these violently fluctuating operating conditions. As a first step, we established a Cost Reduction Committee charged with ensuring the earnings power of the Company through Groupwide efforts to reduce product costs, cut administrative loss, and decrease operating expenses. Although performance did move back into the black in fiscal 2009, we intend to redouble our efforts to ensure stable and adequate earnings going forward.



Q Amid the stagnation in the global economy, how will Iseki pursue overseas development?

A We give priority to the expansion of overseas sales, regarding it as the main source of our growth.

Although overseas sales grew in fiscal 2009—to China in particular but also to North America—global economic stagnation, the appreciation of the yen, and other factors produced difficulties in Europe and the Republic of Korea. We are anticipating that business conditions will further worsen in European and U.S. markets in fiscal 2010.

However, over the long term, we expect our products to continue to have a strong reputation overseas for their high quality. By launching new products that closely match market needs, we anticipate that overseas markets will take off again in the medium term.

In Asia in particular, the Chinese market has continued to expand with the support of the Chinese government's promotion of the mechanization of agriculture. We are successfully selling not only rice transplanters, but also high-power combine harvesters and other equipment. Agricultural mechanization is also progressing in Thailand and other Asian countries. By strengthening our after services and other measures, we plan to expand our share of these markets.

With the global population increasing, securing an adequate supply of food has become a major issue. There is great concern about the significant impact of environmental problems, such as climate change, deforestation, and desertification, on maintaining a stable food supply globally. In this light, agriculture is taking on an increasingly important role in the world economy.

In recognition of these issues, Iseki is stepping up the efforts of its medium-term basic strategy to contribute to a stable food supply. The major themes of the strategy are expanding sales and market share in domestic and overseas markets, strengthening product competitiveness, and improving consolidated structure.



Q In implementing your medium-term business plan, R&D will continue to be a priority, won't it?

A Research and development are essential to building our product competitiveness. As a pioneer in agricultural equipment, we have introduced many breakthrough products to the agricultural equipment market, such as Japan's first integrated mechanized system of rice cultivation.

Looking at the "2008 survey of patent approvals" published in the 2009 annual report of Japan's patent office, Iseki has had the highest patent approval rate in all industries for five consecutive years. Similarly, in the patents held by sector, Iseki was No. 1 in the number of published patents in the other specialty machinery sector in 2007. In the current report, the agriculture and fisheries sector has been grouped into the other specialty machinery sector. However, when the agriculture and fisheries sector was shown separately, Iseki was No. 1 in number of published patents in the sector for seven consecutive years up to 2006. In recognition of this record, Iseki was awarded the fiscal 2008 Japan patent office commissioners award in April 2008.

Utilizing our technological capabilities, we want to accelerate further the manufacture of products with high performance and durability, ease of use and reliability, and price competitiveness. We are also proactively working on the technologies of tomorrow, such as a "intellectual" plant factory that uses sunlight.

Considering the environment to be a key management issue, we give high priority to our environmental activities. The steps we are taking to build environmentally friendly products include conserving natural resources and energy into their production, reducing their gas emissions and noise, and promoting their recycling, we also are proactively initiating activities to reduce the impact of our offices and plants on the environment and are working to achieve zero wastes.

Q With progressive globalization of operations, corporate governance and environmental management have become major issues, haven't they?

A In May 2008, three of our subsidiaries received a correction recommendation from the Japan Fair Trade Commission for inappropriately reducing the amount of payment to subcontractors. Of course, we immediately initiated corrective measures and strengthened our corporate governance.

As a company with a high priority on compliance, we have positioned the business policies of our Group internal control system as important management issues.

For our compliance system, we have formed a cross-organizational team under the director in charge of compliance, through which we conduct compliance training and aim to raise awareness of compliance throughout the Group. Through our internal control system as well, we continue to strengthen the management, oversight, and monitoring of manufacturing subsidiaries and other companies; and to implement systematic rotation of managers. As we move forward, we are committed to making all members of the Group thoroughly aware of the importance of compliance.



Outlook for the Fiscal Year Ahead

Q Taking into consideration the harsh business conditions this year, what is your forecast for Iseki's business climate and performance in fiscal 2010?

A In fiscal 2010, we believe that the recessionary trend in Japanese economy will continue for the time being. Despite the increase in the cost of materials caused by the sharp hike in prices of crude oil, iron ore, and other commodities continues to slow, the direction of the world economy remains uncertain. Although the business climate for the agricultural industry has brightened thanks to the Japanese government's policy and other factors, we also anticipate that the upswing will result in further intensification of competition.

In Japan, Iseki will endeavor to reach its sales targets through the aggressive launch of new products in rice transplanter and other agricultural machinery markets and through the strengthening of its related services and of its marketing capabilities. Overseas, we plan further sales expansion in the favorable to Chinese market to offset expected sales declines in European and North American markets.

To strengthen our financial structure, we will seek further contractions in total assets and in short- and long-term borrowings. We will also continue our efforts to improve our profitability by reducing costs and implementing other measures.

For the fiscal year ending March 2010, we forecast that consolidated net sales will amount to ¥154.0 billion, while operating income will be ¥3.8 billion and ordinary income will be ¥2.8 billion. We expect that net income will total ¥1.6 billion.

As we face the challenge of these dramatically changing times, we look forward to the continued support of our shareholders and investors.

July 2009

Seichiro Gamo

President