

## To Our Shareholders and Friends

### ■ Performance over the Past Year

In fiscal 2006, ended March 31, 2006, Kubota Corporation and its subsidiaries maintained the high levels of core performance reported for the prior year. In terms of operating income, which is the indicator of the true strengths of the Company's business activities, the Company recorded the highest level of operating income in its history. Many factors made these breakthroughs possible, including expansion in the Company's overseas activities through the introduction of new products well-suited to market needs and the development of new markets, and continued steady improvements in competitiveness based on activities to reduce costs and to improve productivity, all while the Company made efforts to attain the objective of "Reforming the business structure and profit structure".

We are also pleased to report that as a result of the implementation of our two-year Medium-Term Management Strategy, which was completed during the year under review, we have attained virtually all the objectives of our medium-term strategy, including a main target of creating a business and profit structure that enables us to maintain a stable 8% ratio of operating income to net sales.

For the year under review, consolidated net sales of the Company rose to ¥1,051.0 billion (an increase of ¥67.8 billion, 6.9%). This gain in companywide performance was driven by the sustained high rates of growth in the Internal Combustion Engine and Machinery segment's overseas sales of tractors, engines, construction machinery, and other products.

Operating income also rose, to ¥113.5 billion (an increase of ¥26.7 billion, 30.8%), exceeding the ¥100 billion level for the first time in the Company's history. This strong performance reflected the combination of expansion in net sales and the effectiveness of its thoroughgoing measures to cut costs. In addition, the ratio of operating income to net sales rose to the record high level of 10.8%.



Daisuke Hatakake  
President and Representative Director

Despite the rise in operating income, income from continuing operations before income taxes, minority interests in earnings of subsidiaries, and equity in net income of affiliated companies declined ¥15.6 billion (10.0%), to ¥140.4 billion, due to the ¥58.6 billion gain reported in the prior year on the transfer of the substitutional portion of the Company's accumulated pension benefit obligations to the Japanese government. Net income decreased ¥36.9 billion (31.3%), to ¥81.0 billion. The large decline in net income was mainly due to the low level of income taxes for the prior year and to the absence during the year under review of ¥11.1 billion of income from discontinued operations, net of taxes, recorded in the prior year.

Regarding dividends, to expand the return to shareholders, the Company has decided to increase the cash dividend applicable to the fiscal year ended March 31, 2006, including dividends to be paid after the end of the fiscal year, to ¥10 per common share, or ¥50 per five common shares, compared with ¥8 per common share, or ¥40 per five common shares applicable to the prior fiscal year. Accordingly,

in addition to the interim dividend of ¥4 per common share, or ¥20 per five common shares already paid, the Company will pay ¥6 per common share, or ¥30 per five common shares as a year-end cash dividend.

With the objectives of improving capital efficiency and raising the value of Kubota's stock, the Company has adopted a policy of flexibly buying back portions of shares outstanding. The Company purchased 16.19 million shares of treasury stock (¥14.8 billion). On the other hand, the Company retired 56.3 million shares of treasury stock (¥36.3 billion), which consisted of 39.0 million shares of treasury stock (¥20.9 billion) retired on June 30, 2005 and 17.3 million shares of treasury stock (¥15.4 billion) retired on March 31, 2006.

## ■ Principal Business Policies for Continuous Profit Growth

To realize further development in the medium-to-long term as a company characterized by a combination of growth capabilities, profitability, and stability, Kubota is aggressively implementing the following emphasized measures.

### Accelerating Business Expansion in Overseas Operations

The primary engine driving the Company's growth and the most important source of profit are the overseas operations in Internal Combustion Engine and Machinery. The Company intends to move forward with plans to emphasize the investment of resources in all aspects of these operations, including new product development, peripheral market development, production capacity expansion, and marketing network expansion. In these ways, the Company is working to expand its business by strengthening the Kubota brand and increasing its market share. While responding quickly and accurately to future changes in its business environment, the Company is moving ahead with measures to accelerate the expansion of overseas operations.

In product development, the Company is combining its small-sized diesel engines, which are globally competitive, and its various top-level vehicle technologies, to aggressively move forward with the development and introduction of new models in the fields of tractors, construction machinery, rice-farming machinery, and utility vehicles (four-wheel multipurpose vehicles). The Company is also working to expand business domains by concentrating on supplying engines to other manufacturers and developing products for peripheral applications.

By region, the Company intends to expand its business worldwide further than ever before. In North America and the EU, which are currently principal markets, the Company is working to further strengthen its supply chains for products and services. In Asia, where rapid market growth is expected, the Company is aggressively advancing with the creation of manufacturing and marketing bases, especially in Thailand and China.

Also, in response to the rapid expansion in overseas activities, the Company is beginning to make capital investments in a broad range of locations in Japan and overseas to expand production capacity for engines, tractors, construction machinery, combines, and other products. A major task currently is to complete these investment projects quickly and smoothly.

### Restructuring Public Works Related Businesses

The continuous decline in domestic public works spending is presenting the Company's public works related businesses (Pipes, Valves, and Industrial Castings segment and Environmental Engineering segment) with very severe operating environments. Recognizing that the continued deterioration of the market environment for such operations is a structural problem rather than a temporary trend, the Company is working to fundamentally respond to this problem by restructuring its activities in these areas. In response to declining demand and falling prices, the Company is addressing the challenges of

greatly reducing costs and boosting productivity while also aggressively moving forward with changes designed to make its operations comprehensively oriented toward market trends and competitive principles.

In Pipes, Valves, and Industrial Castings, such measures are generating steady results, and the Company is gradually making progress in strengthening profitability. Regarding Environmental Engineering, however, the deterioration of market conditions and the intensification of competition have proceeded more quickly than anticipated, and the Company's efforts to reform its business structures are unable to keep up with the pace of changes in the operating environment. Going forward, by accurately monitoring the direction and speed of changes in its business environment, the Company will strive to take measures that anticipate such changes and thereby strengthen its profitability. Having fully assessed and analyzed the strengths and weaknesses of its resources and operations, the Company intends to broadly leverage the manufacturing and development technologies it has accumulated in Internal Combustion Engine and Machinery operations to thoroughly reduce costs, differentiate its offerings from those of competitors in terms of technology, strengthen its capabilities for making proposals to customers, and implement other measures. Regarding future market issues, the Company is devoting its great efforts to develop business in Japan's private-sector markets and overseas markets so that it can shift from a business structure dependent on public works-related demand to a private-demand-oriented business structure not vulnerable to the impact of public investment trends.

#### **Corporate Social Responsibility for Attainment of Sustainable Development**

To attain sustainable growth and development, the Company believes that it is necessary for the Company not only to aim for growth on business continuously but also to meet various expectations and

trust from each stakeholder on a constant basis. The Company must be a trusted member of the community contributing to and acting in harmony with society. Based on this fundamental awareness, the Company states management based on corporate social responsibility (CSR) as a principal management issue of highest priority, and intends to act with strong awareness of CSR on every business activity.

The Company has reviewed its Corporate Mission Statement, Charter for Action, and Code of Conduct from a viewpoint of CSR, and, in the light of the demands of society today, the Company issued revised versions of these corporate statements in April 2006. Going forward, the Company plans to inform these corporate statements and put them into practice throughout all Group companies.

Even under harsh market circumstances, the Company was able to achieve a strong performance in the year under review. Without doubt, the Company will continue to conduct business in a challenging and competitive operating environment. While adhering to CSR as a management principle, the Company devotes its fullest efforts to attaining sustained growth in corporate value by offering products, technologies, and services that meet the necessities of society.

The Company is fully committed to this task and looks forward to the continued support of its shareholders and associates.

June 2006

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Daisuke Hatakake

President and Representative Director