Performance over the Past Year

Driven by expansion in overseas business activities, Kubota Corporation and subsidiaries (hereinafter, "the Company") continued to report a robust performance for fiscal 2007, ended March 31, 2007. Operating income, which is the best measure of the Company's earning power, moved to record levels for the third consecutive fiscal year. Overseas, we expanded the scope of our business activities by introducing new products meeting customer needs, principally in the Internal Combustion Engine and Machinery segment, and implemented aggressive measures to further develop our position in Asia outside Japan. In the domestic market, demand was relatively weak, but we secured profitability by continuing to reduce costs and increase productivity. These management efforts in Japan and overseas enabled Kubota to report growth in both revenues and operating profits for the fiscal year under review.

The Company reported consolidated revenues of ¥1,127.5 billion, an annual increase of ¥61.7 billion (5.8%), in fiscal 2007. Although revenues in Japan declined slightly, overall expansion was driven by continued major growth in overseas revenues, especially sales of tractors, engines, and construction machinery. As a consequence, the ratio of overseas revenues to consolidated revenues rose 5.8 percentage points, to 46.5%.

Operating income climbed ¥9.3 billion (7.7%), to ¥130.3 billion, from the prior year, the highest level in the Company's history. By segment, operating income in Internal Combustion Engine and Machinery expanded substantially, supported by the increase in revenues and the positive effect of the weakening of the yen. Pipes, Valves, and Industrial Castings also reported a gain in operating profit, owing to continued cost-cutting, including reductions in fixed expenses, and higher revenues in overseas markets. Environmental Engineering, however, posted a substantial decline in profitability and reported an operating loss accompanying the decline in sales prices. Operating income in Other, however, showed steady expansion, as a result of increased sales of vending machines and other products.

Notwithstanding 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 decreased ¥9.0 billion (6.4%), to ¥131.6 billion. This decline was due to the absence of the gain on an exchange of shares of ¥15.9 billion reported in the prior year. After deductions of ¥49.0 billion in income taxes (representing an effective tax rate of 37.2%), ¥4.9 billion of minority interests in earnings of subsidiaries and equity in net income of affiliated companies, and a ¥1.3 billion loss from discontinued operations, net of taxes, net income decreased ¥4.6 billion (5.6%), to ¥76.5 billion from the prior year.

Daisuke Hatakake
President and Representative Director

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, 2007, including dividends to be paid after the end of the fiscal year, to ¥12 per common share, or ¥60 per five common shares, compared with ¥10 per common share, or ¥50 per five common shares applicable to the prior fiscal year. Accordingly, in addition to the interim dividend of ¥5 per common share, or ¥25 per five common shares already paid, the Company will pay ¥7 per common share, or ¥35 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 7.98 million of treasury stock (¥8.5 billion). On the other hand, the Company retired 7.95 million shares of treasury stock (¥8.5 billion) on March 30, 2007.

Management Issues upon which the Company Should Implement Countermeasures

To achieve further development and steady increases in enterprise value, the Company is actively addressing the following management issues.

Accelerating the Expansion of Internal Combustion Engine and Machinery in Overseas Operations

The Company is allocating management resources to the overseas operations of Internal Combustion Engine and Machinery on a priority basis to expand its business domain from the perspective of the product portfolio and geographical coverage, while working to strengthen the business structure of this segment to the level appropriate for a global enterprise.

From a product portfolio point of view, the Company is broadening the scope of overseas operations of the segment by expanding the model lineup of tractors, construction machinery, and farm machinery as well as substantially diversifying the product lineup. Concerning diesel engines, which are key components in Kubota products, the Company is endeavoring to develop and manufacture its diesel engines in a timely manner that meet more stringent emission regulations to be introduced in Japan, North America, and Europe. Through this effort, the Company is enhancing the competitive edge of its diesel engine powered products and further expanding sales of diesel engines to other manufacturers.

From a geographical perspective, the Company is promptly implementing different strategies in North America, Europe, and Asia, responding to the regional characteristics of each market. In North America and Europe, which are currently the segment's principal markets, the Company is working to significantly enhance its product and service supply capabilities. In Asia outside Japan, where rapid market expansion is ongoing, the Company is moving forward actively with initiatives to strengthen the capabilities of its production and sales networks in Thailand and China. Through the full implementation of these initiatives, the Company is promoting the geographical diversification of the overseas operations of Internal Combustion Engine and Machinery.

Moreover, to prevail in intense competition and accelerate the expansion of overseas business activities, it will be essential to enhance the segment's business structure to enable it to outpace the competition in global markets. The Company will fortify production capacity in Japan and overseas to meet rising overseas demand while also training personnel who can carry out the work of a global enterprise, speed up R&D activities, and work to consistently enhance design and manufacturing capabilities as well as operating efficiency—all with the objective of strengthening the segment's business structure from a comprehensive perspective.

Restructuring the Public Works Related Businesses

The Company's public works related businesses are included in Pipes, Valves, and Industrial Castings and Environment Engineering. These businesses are confronting an exceptionally challenging operating environment because of the continuous cutbacks in public works investment. To respond effectively to changes in the operating environment, the Company is undertaking drastic restructuring in its business structure.

(a) Pipes, Valves, and Industrial Castings Segment to Step Up Initiatives to Expand Core Businesses

The Company has worked to strengthen its profitability by making drastic reductions in costs, including fixed expenses, bringing about major increases in productivity, and becoming thoroughly market-oriented and competitive. As a result of these efforts, the Company has been successful in raising the ratio of operating profitability to double-digit levels.

Going forward, to increase profits, the Company must actively focus on expanding core business while advancing into closely related areas as it strives to maintain and increase its earning power. This will require shifting the business activities from the public sector to the private sector, and also from the domestic market to overseas markets. The decision made at the end of the fiscal year under review to establish a joint venture in India for manufacturing ductile iron pipe is symbolic of what must be done in other product areas—shift the thrust of business development to the private sector and to opportunities overseas as a part of initiatives to further expand core businesses.

(b) Restructuring Environmental Engineering

The deterioration of the market environment and the intensification of competition in this segment have occurred faster than anticipated, thus creating a highly challenging set of operating conditions. In addition, the emergence of compliance issues has acted to accelerate deterioration in business performance, and the segment has fallen into a tough situation. To revitalize and restructure this segment, the Company is aggressively working to shift its business model and concentrate on its core competencies. Specifically, by developing its positions in the private sector and overseas markets, the Company is endeavoring to reduce dependency of this segment on the public sector while also promoting a shift from the plant engineering business to the sales and installation of machinery and equipment. In addition, by focusing on water-related businesses, the Company will work to make more efficient use of management resources in this segment and thereby promptly recover sound profitability and strengthen its business structure.

To make a successful transition to its new business model, the segment must have strong product development capabilities for standalone equipment and be cost-competitive. With this in mind, in April 2007, the Company formed the Environmental Equipment R&D Center. Through the activities of this new center, the Company intends to make the manufacturing technology and development capabilities nurtured by Internal Combustion Engine and Machinery available to this segment and, while taking thorough measures to lower costs, differentiate its technology from that of other companies.

(c) Moving toward Close Teamwork between the Two Segments

Both Pipes, Valves, and Industrial Castings and Environmental Engineering have core strengths in water-related products. By moving toward close teamwork between these segments, the Company will seek to realize synergies among their products and technologies and achieve greater operational efficiencies. The Company has taken specific measures in this direction by combining the organizations of the two segments within the parent company, beginning in April 2007. Going forward, by promoting the sharing of information related to products and technologies connected with “water” and strengthening teamwork in development and sales activities, the Company will work to increase the competitiveness of both segments.

Management Based on Corporate Social Responsibility (CSR)

To achieve medium-to-long term growth and development, the Company must be an enterprise that continuously contributes to the sustainable development of society in harmony with the environment in addition to increasing its economic value. With this awareness, the Company is implementing CSR management as the most important management policy, and it pursues its corporate activities with a strong sense of responsibility regarding the economic, social, and environmental aspects of its activities as a global corporate citizen that responds positively to the expectations and trust of its various stakeholders.

Looking ahead, the Company will adhere strongly to its management principle: “The Kubota Group contributes to the development of society and the preservation of the earth’s environment through its products, technology, and services that provide the foundation for society and for affluent lifestyles.” To remain an upstanding and proud member of society, the Company will also strengthen its compliance, internal controls, and corporate governance, as well as ensure full adherence to these and other aspects of its activities that are basic to management in the spirit of CSR.

During the fiscal year under review, the management and staff of Kubota worked together and achieved the best performance in the Company’s history in terms of operating profit. However, we cannot rest here because of the many uncertainties in the operating environment. Various developments, such as concern about a slowdown in the U.S. economy, changes in the agricultural market in Japan as new government policies go into effect, continuing price hikes of raw materials, and the uncertainty of foreign currency exchange and interest rate movements, are expected to bring about changes that will have a major impact on the Company’s management and performance.

By responding quickly and appropriately to these changes in the operating environment and devoting our fullest energies to addressing the previously mentioned issues, we are committed to continuing to build our corporate value. We thank you for your investment in Kubota and your continuing support in the years ahead.

June 2007

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Daisuke Hatakake
President and Representative Director