

## Growing a Great Business

2007 was a standout year for John Deere. Aiming to distinctively serve customers worldwide, the company introduced an exceptional number of advanced new products and brought the power and value of the John Deere brand to a growing global audience. In addition, Deere made further strides in asset management and continued to find ways to operate with more efficiency and effectiveness. Powerful economic and demographic trends, based primarily on rising global affluence and increasing demand for food and energy, lent support to these efforts as well. With record sales and earnings now for four consecutive years, our performance reflects improving execution of our plans to grow a business fundamentally more resilient, more profitable, and more rewarding to investors.

For fiscal 2007, Deere reported net income of \$1.82 billion on total net sales and revenues of \$24.1 billion. Income from continuing operations increased 25 percent on a 9 percent gain in sales and revenue, compared with 2006. Income from continuing operations was up 30 percent on a per-share basis, aided by a reduced share count. Deere's agricultural, commercial and consumer, and credit businesses all had record profits. Importantly, the construction and forestry operations remained strongly profitable in spite of rapidly deteriorating market conditions. C&F's performance is a reflection of our goal to operate every business in a profitable manner, whether markets are strong or weak.

### POWERFUL TAILWINDS HOLD GREAT PROMISE

Deere's growth plans are receiving support from powerful global-economic tailwinds involving global population growth, increased affluence leading to upgraded diets and higher livestock-product consumption, plus the growing use of biofuels.

- **Population.** The world's population is growing rapidly in size, creating more need for food, energy, and infrastructure. Many expect the population to increase by about 2.5 billion, or roughly 40 percent, within only four decades. In India, 40 percent of the population, or 440 million people, are under age 18.
- **Prosperity.** A global prosperity explosion – most pronounced in some of the areas experiencing the biggest population gains – is driving demand for food, especially meat, at an accelerated rate. As incomes in poor countries rise, caloric intake increases and drives up global demand for grain. This is believed to be especially true as incomes grow from \$1 to \$2 a day, a situation affecting approximately one-fourth of the world's population.
- **Production.** Planting, harvesting and transporting the potentially massive amounts of crop material required for cellulosic energy, while not yet commercially viable, would likely utilize John Deere equipment in a big way. Already, corn, sugar, soybeans and rapeseed are being used in dozens of countries for biofuels such as ethanol and biodiesel.

In the face of mounting requirements from virtually every corner of the world, farm commodity production (supply) has risen strongly but has not kept pace with use (demand). At the same time, the positive impact of a global population swelling in both size and affluence is leading to a greater need over time for housing, infrastructure, grounds care, landscape supplies and services, and financing – providing support to virtually all John Deere businesses.

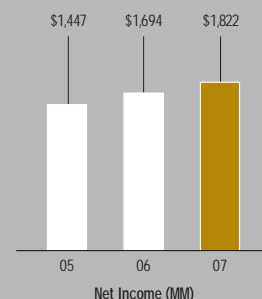
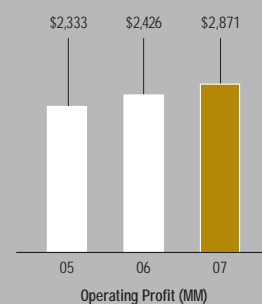
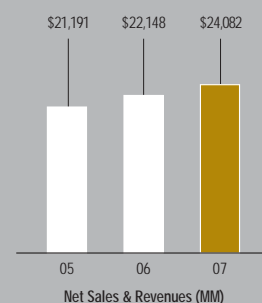
### DRIVING FUNDAMENTAL CHANGES

Distinctively serving customers while rigorously managing assets lies at the heart of our strategy to earn more profit on a more consistent basis. The company has made dramatic progress reducing the amount of assets required to produce a given level of sales and profit. Last year, trade receivables and inventories remained at their lowest point as



**ROBERT W. LANE**

Chairman and Chief Executive Officer



Continuing its geographic expansion, **John Deere Renewables** began construction in 2007 of Harvest Wind Farm, a 32-turbine project in Michigan that will be able to produce more than 50 megawatts of electricity. That's enough to power 15,000 homes.



Deere's highly successful 300-series skid steer family was enhanced in 2007 with the addition of the **313 and 315 (shown) model skid steer loaders**. One key feature is a radial lift boom, favored for work in areas of limited space. The new skid steers extend C&F's recent success broadening its product line.



a percent of sales in recent times, and through year-end, had fallen on that basis for 30 consecutive quarters versus the same period of the prior year.

Largely as a result of Deere's success managing costs and assets, the company is producing healthy levels of SVA and cash flow. SVA, or Shareholder Value Added, is a measure of operating profit after an implied capital charge. SVA increased to \$1.3 billion in 2007 and, in each of the last four years, has been more than twice as high as in any year prior to that time. On an enterprise basis, cash flow from operating activities was a substantial \$2.8 billion in 2007. With these dollars, Deere has invested in growth while buying back stock and increasing dividend payments. Last year, the company invested \$1 billion in new plants and projects expected to be a powerful source of future profit. Share repurchases and dividends totaled \$1.9 billion. Over the last four years, 93 million shares (post stock split) have been repurchased and the quarterly dividend rate has more than doubled.

### TARGETING SUSTAINED SVA GROWTH

In our efforts to grow a great business, Deere uses sustainable SVA as the primary metric. This reflects our determination to invest solely in those products, projects and businesses that serve customers so well that they yield consistently superior returns relative to the market opportunity. The company aims to achieve average SVA gains of 7 percent a year over the business cycle. Such a goal is challenging, requiring higher sales and an unwavering focus on innovation to achieve. Deere's aims for innovative growth are supported by an intensive six-stage business growth process.

### GROWING GLOBALLY

Extending the John Deere brand to new customers worldwide remains a top priority. Last year, sales outside the United States and Canada surpassed \$7 billion for the first time. Deere's sales to countries all around the world are growing and, in fact, nearly doubled last year in the emerging markets of Brazil, Russia, India and China. Several key projects and developments in these areas moved ahead in 2007:

- **In Brazil**, a new state-of-the-art tractor factory went into operation (sidebar, inside front cover), allowing the company to expand production of high-horsepower tractors.
- **In Russia**, a rapidly growing market well-suited for Deere's productive, reliable equipment, the company continued to strengthen its distribution and product support network. This same process is occurring in other CIS (former Soviet) countries as well.
- **In India**, Deere's value line of India-manufactured tractors continued to enjoy great success and is being exported to dozens of countries. The Pune technical center also provided cost-effective support to company operations throughout the world.
- **In China**, the company's product line was further broadened with the acquisition of Ningbo Benye, a respected manufacturer of small tractors.

### GROWING IN ADJACENT MARKETS

Expanding our product range and entering attractive new businesses are vital to the success of Deere's growth efforts. Examples of advanced products that came to market in 2007 included high-performance spraying, harvesting and construction equipment, as well as smaller tractors and upgraded utility vehicles. We're appealing to mowing and landscape contractors with an expanded line of commercial mowers and other equipment. What's more, customer purchases are increasingly being financed by our global credit operation, which, with its solid credit fundamentals, supports the sale of all types of John Deere equipment and continues to deliver profitable growth. At the same time, the company is targeting growth in four attractive areas that are highly complementary to our core businesses: intelligent equipment solutions, landscapes, water technologies, and wind energy.

- **John Deere's Intelligent Mobile Equipment Technologies (IMET)** group saw significant growth last year. That's because of a growing worldwide customer understanding of how automated guidance systems, and other advanced GPS-based offerings, pay for themselves through improved productivity.
- **John Deere Landscapes** continued to register impressive sales gains in 2007, while serving an important customer group, professional-landscape contractors. Last year's acquisition of LESCO, Inc. made a significant impact on the landscape operation's retail footprint and product line.
- **John Deere Water Technologies**, formed through the acquisition of Roberts Irrigation, experienced positive sales growth in its first full year of operation. Its precision drip-irrigation systems, which use water more efficiently than other irrigation methods, are proving popular with customers concerned about water availability, cost and conservation.
- **John Deere Renewables** continued to make substantial wind investments often in conjunction with rural cooperatives in areas where the company already has a presence. To date, the wind-energy unit has participated in more than a dozen projects involving nearly 600 megawatts of power.

#### BENEFITING FROM ALIGNED TEAMWORK

John Deere is working to establish a performance-based culture, enriched by the aligned efforts of a dedicated worldwide workforce more than 50,000 strong. Without question, high performance teamwork is making quite an impact on our results with customers and on shareholder value. Talented employees from around the world and all backgrounds are working together in an aligned, collaborative manner. We invest in them because they are the key to rigorously upholding our values and to executing our plans at the highest level.

#### PROSPERING THROUGH SERVICE

A great business serves society by providing exceptional high-value products for customers, offering appealing career opportunities for employees, delivering attractive returns for investors, and by being a valued neighbor. In this latter regard, the John Deere Foundation continued its support of solutions for world hunger through sponsorship of KickStart, an organization helping subsistence farmers in Africa become more productive and profitable. Building on a proud record of stewardship, the company continued to develop product solutions that are less disruptive to the environment. Last year Deere introduced additional models of clean-burning, highly efficient PowerTech engines and brought out a premium tractor that conserves fuel by generating its own electrical power for certain accessories and other applications.

#### PERFORMANCE THAT ENDURES

John Deere aims to deliver performance that endures. This explains our consistent focus on the prosperity of our customers and the well-being of those we serve. Today, John Deere employees, like the dedicated thousands who preceded us, are energized by the knowledge that our performance contributes so directly to a better quality of life and to human flourishing. What's more, the company's unmatched and preeminent dealer organization, now growing worldwide, plays a vital role in this regard by providing a valuable linkage between the company and its customers.

To those we are privileged to serve, we say thanks for your loyalty. We pledge to earn your continued support by redoubling our efforts to deliver performance that endures.

Sincerely,

December 20, 2007



Robert W. Lane

Promising the ultimate in harvesting performance, the **John Deere 9870 STS combine** offers plenty of power (up to 480 rated hp) and productivity. Equipped as shown with the new 612C corn head, the machine offers faster, easier harvesting with improved grain quality.



One of many successful new products, the John Deere **Gator XUV 4x4 utility vehicle** gets high marks from customers and the trade press for its combination of comfort, power and acceleration. Noted for exceptional crossover appeal, the XUV is equally suited for work or trail applications.

