

Financial Results for the six months ended June 30, 2018



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August 8, 2018



Voluntary Adoption of IFRS

For Earth, For Life


Kubota Corporation has adopted International Financial Reporting Standards (hereinafter “IFRS”) instead of accounting principles generally accepted in the United States of America (hereinafter “U.S. GAAP”) from the 1st quarter of the fiscal year ending December 31, 2018. The figures for the six months ended June 30, 2017 and the fiscal year ended December 31, 2017 used in the following analysis were reclassified into the figures in accordance with IFRS.

Financial Summary

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(Billion yen)	Six months ended June 30, 2018	Six months ended June 30, 2017	Changes		Variance from forecast (Feb. 2018)	
			Amount	%	Amount	%
Revenue	906.2	847.0	+59.2	+7.0	-13.8	-1.5
Domestic	286.5	276.3	+10.1	+3.7	+3.5	+1.2
Overseas	619.7	570.7	+49.0	+8.6	-17.3	-2.7
Operating profit	11.2% 101.1	11.8% 100.2	+1.0	+1.0	-7.9	-7.2
Profit before income taxes*	11.6% 105.2	12.8% 108.7	-3.6	-3.3	-6.8	-6.1
Profit attributable to owners of the parent	7.9% 71.9	8.4% 71.0	+0.9	+1.3	-5.1	-6.6

(Billion yen)	As of June 30, 2018	As of Dec. 31, 2017	Changes	
			Amount	%
Total assets	2,841.2	2,832.4	+8.9	+0.3
Equity attributable to owners of the parent	1,308.2	1,291.1	+17.1	+1.3

* Gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ending December 31, 2018 due to the adoption of IFRS 9. For your information, the financial results for the six months ended June 30, 2017 included gain on sales of securities of 5.4 billion yen.

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- Profit before income taxes decreased because the financial results for the six months ended June 30, 2017 included gain on sales of securities of 5.4 billion yen. However the gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ending December 31, 2018 due to the adoption of IFRS9.
- Variance from the forecast announced in February, 2018.
 - ✓ The shortfall of revenue was due to stagnation of farm equipment sales in China and delays in wholesale in the U.S. in June.
 - ✓ The shortfall of operating profit and profit attributable to owners of the parent was mainly due to the shortfall of sales and a rise in material prices.

Revenue by Reportable Segment

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(Billion yen)	Six months ended June 30, 2018	Six months ended June 30, 2017	Changes	
			Amount	%
Farm & Industrial Machinery (Machinery)	751.0	697.7	+53.3	+7.6
Domestic	155.9	147.1	+8.8	+6.0
Overseas	595.1	550.7	+44.4	+8.1
Water & Environment (Water)	140.4	134.4	+6.0	+4.5
Domestic	115.9	114.5	+1.4	+1.2
Overseas	24.5	19.9	+4.6	+23.2
Other	14.8	14.9	-0.1	-0.5
Domestic	14.6	14.7	-0.1	-0.7
Overseas	0.2	0.2	+0.0	+12.5
Total revenue	906.2	847.0	+59.2	+7.0
Domestic revenue	286.5	276.3	+10.1	+3.7
Overseas revenue	619.7	570.7	+49.0	+8.6

For reference: Changes excluding the effects of fluctuation in exchange [+8.0 billion yen]
>Overseas revenue in Machinery increased by 7%. Total overseas revenue increased by 7%.

Revenue by Reportable Segment (Year-on-Year)

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Machinery: +53.3 billion yen (Domestic: +8.8, Overseas: +44.4)

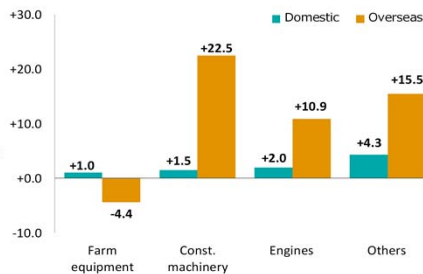
Domestic

- Sales of farm machinery increased. Sales of const. machinery and engines also increased due to strong demand for the construction and industrial machinery.

Overseas

- Sales of tractors increased in the major region such as North America, Europe, and Thailand.
- Total sales of combines and rice transplanters in China decreased significantly due to negative effect from delayed announcement of the government subsidy budget for purchasers of farm equipment and lower rice prices.
- Sales of const. machinery was strong in each region such as North America, Europe, and China.
- Sales of engines increased significantly in North America and China.

■ Changes in revenue by product (Billion yen)



Water: +6.0 billion yen (Domestic: +1.4, Overseas: +4.6)

Domestic

With respect to pipe-related products, sales from pumps and construction business increased, while sales of ductile iron pipes decreased. Sales of environment-related products stayed at the same level as the prior year. With respect to social infrastructure-related products, sales of industrial castings and steel pipes for civil engineering work (piles) increased.

Overseas

With respect to pipe-related products, sales of ductile iron pipes to the Middle East and pumps increased. With respect to environment-related products, sales of wastewater treatment plants (Johkasou) increased. Sales of social infrastructure-related products stayed at the same level as the prior year.

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① Domestic revenue in Farm & Industrial Machinery

- Revenue from farm equipment increased by 1.0 billion yen (+2%) from the prior year mainly due to increased sales of tractors mainly thanks to improved market shares.
- Revenue from const. machinery also increased by 1.5 billion yen (+10%) from the prior year mainly due to adverse reaction from concentrated demand for large-scale equipment resulting from tightening of engine emission regulations in the prior year.
- Revenue from engines increased by 2.0 billion yen (+31%) from the prior year due to expanded production of products for the North American market by OEMs.
- Revenue of others increased by 4.3 billion yen (+6%).
 - ✓ Others included the decrease of 3.2 billion yen resulting from the withdrawal from the vending machines business.

② Overseas revenue in Farm & Industrial Machinery

- Revenue from tractors increased by 12.0 billion yen (+6%) .
 - ✓ Revenue in North America increased because demand for small-scale equipment remained strong and market condition of middle-scale equipment bottomed out.
 - ✓ Revenue in Thailand increased mainly due to a rise in rice prices.
 - ✓ Revenue in Europe increased because shipping of new models progressed.
- Sales of combines and rice transplanters in total decreased by 16.5 billion yen (-28%) .
 - ✓ In China, sales of both combines and rice transplanters decreased because the agricultural machinery market shrank significantly.
- Sales of construction machinery increased by 22.5 billion yen (+20%).
 - ✓ In North America, sales of major 3 models, mini-excavators, compact track loaders, and skid steer loaders, increased due to expanded demand for construction and improved market share.
 - ✓ Revenue in Europe increased along with strong demand for housing and construction.
 - ✓ Revenue in China increased significantly along with an increase in construction.
- Sales of engines also increased significantly due to front-loaded demand resulting from tightening of engine emission regulation.
- Overall, overseas revenue in Farm and Industrial Machinery in each region other than Asia (North America, Europe, and Others) increased, while revenue in Asia declined from the prior year due to a decrease in farm equipment sales in China.

③ Water & Environment

- Domestic revenue increased by 1.4 billion yen (+1%) .
 - ✓ Revenue in pumps increased, while revenue in ductile iron pipes decreased.
 - ✓ Revenue in environment-related products increased slightly.
 - ✓ Revenue in industrial castings and steel pipes for civil engineering work increased.
- Overseas revenue increased by 4.6 billion yen (+23%) .
 - ✓ Revenue in ductile iron pipes to the Middle East increased significantly.

Operating Profit

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(Billion yen)	Six months ended June 30, 2018		Six months ended June 30, 2017		Changes	
	Amount	%	Amount	%	Amount	%
Operating profit	101.1	11.2	100.2	11.8	+1.0	+1.0

Factors affecting operating profit (YoY change +1.0 billion yen)

1. Fluctuation in exchange rates	US\$ (112→109) Euro (122→132) Other currencies	±0 billion yen +4.0 billion yen +2.0 billion yen	} +6.0 billion yen
2. Foreign exchange gain/loss			
3. Material	Machinery Water	-4.0 billion yen -2.5 billion yen	} -6.5 billion yen
4. Change in sales incentive ratio	U.S. : -3.8 billion yen, China: -1.0 billion yen etc.		
5. Personnel expenses	Cost of goods sold SG&A expenses	-0.6 billion yen -2.1 billion yen	} -2.7 billion yen
6. Impact of increased sales			
7. Other			-5.3 billion yen

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 6

- Yen was strong against the U.S. dollar compared with the prior year. But the fluctuation in exchange rate of the U.S. dollar had no negative impact on operating profit due to timing difference between shipment from Kubota Corporation and the wholesales by the overseas subsidiaries.
- Foreign exchange gain/loss affected operating profit due to the adoption of IFRS, while that was included in other income/expense under U.S. GAAP.
- Negative impact of material was due to a rise in prices of steel products, steel scrap, and resin.
- In North America, an increase in sales incentive ratio affected operating profit negatively because interest rate rose amid the severe competition with competitors. In China, incentive ratio increased because we enhanced sales incentive programs aimed at increasing sales.
- Negative impact of "Other" was mainly due to increases in sales expenses and factory fixed expenses.

Operating Profit by Reportable Segment

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■ Operating profit excluding specific items

(Billion yen)		Six months ended June 30, 2018			Six months ended June 30, 2017			Changes ①-④	Changes (Adjusted) ③-⑥
		Operating profit ①	Specific items ②	Adjusted operating profit ③=①-②	Operating profit ④	Specific items ⑤	Adjusted operating profit ⑥=④-⑤		
Machinery	Revenue	751.0		751.0	697.7		697.7	+53.3	+53.3
	Operating profit	108.7	-	108.7	101.8	-	101.8	+6.9	+6.9
	OP margin	14.5%		14.5%	14.6%		14.6%	-0.1P	-0.1P
Water	Revenue	140.4		140.4	134.4		134.4	+6.0	+6.0
	Operating profit	9.1	-	9.1	11.8	-	11.8	-2.7	-2.7
	OP margin	6.5%		6.5%	8.8%		8.8%	-2.3P	-2.3P
Other	Revenue	14.8		14.8	14.9		14.9	-0.1	-0.1
	Operating profit	1.1	-	1.1	1.5	-	1.5	-0.4	-0.4
	OP margin	7.5%		7.5%	10.1%		10.1%	-2.5P	-2.5P
Adjustment	Operating profit	-17.8	-	-17.8	-15.0	-	-15.0	-2.8	-2.8
Total	Revenue	906.2		906.2	847.0		847.0	+59.2	+59.2
	Operating profit	101.1	-	101.1	100.2	-	100.2	+1.0	+1.0
	OP margin	11.2%		11.2%	11.8%		11.8%	-0.7P	-0.7P

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- Operating profit in Farm & Industrial Machinery increased due to some positive effects from increased sales in the domestic and overseas markets and the yen depreciation mainly against the Euro, which compensated for some negative effects such as a rise in sales incentive ratio and material prices.
 - ✓ Operating profit in tractors and const. machinery increased, while that of combines and rice transplanters in total and engines decreased.
 - ✓ Operating profit in engines decreased because of increased transportation costs of around 4.0 billion yen caused by air transportation to meet our customers' delivery deadline, while revenue in engines grew due to rapidly increased front-loaded demand.
- Operating profit in Water & Environment decreased mainly due to decreased domestic sales of ductile iron pipes and a rise in material prices.
- "Adjustment" deteriorated mainly due to an increase in foreign exchange loss.

Finance Income/ Finance Costs (Net)

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(Billion yen)	Six months ended June 30, 2018	Six months ended June 30, 2017	Changes
			Amount
Finance income/ finance costs (-)	4.0	8.6	-4.5
Interests and dividends	3.6	3.4	+0.2
Gain on sales of securities *	-	5.4	-5.4
Other	0.4	-0.2	+0.6

* Gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ending December 31, 2018 due to the adoption of IFRS 9.

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- Finance income/finance costs (net) deteriorated mainly because the gain on sales of securities was no longer recorded in the consolidated statement of profit or loss from the fiscal year ending December 31, 2018 due to the adoption of IFRS9.
 - ✓ We continue to sell some securities during this year.

Profit Before Income Taxes/ Profit for the Period

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(Billion yen)	Six months ended June 30, 2018		Six months ended June 30, 2017		Changes	
	Amount	%	Amount	%	Amount	%
Profit before income taxes	105.2	11.6	108.7	12.8	-3.6	-3.3
Income tax expenses	-28.0		-33.9		+5.9	
(Effective tax rate)	(26.6%)		(31.2%)			
Share of profits of investments accounted for using the equity method	0.9		0.9		-0.0	
Profit for the period	78.1	8.6	75.7	8.9	+2.3	+3.1

Profit attributable to:

Owners of the parent	71.9	7.9	71.0	8.4	+0.9	+1.3
Non-controlling interests	6.1	0.7	4.7	0.5	+1.4	+29.5

Dividend per common share		Year ending Dec. 31, 2018	Year ended Dec. 31, 2017	Changes
		Interim	16 yen	15 yen
Year-end	(Undecided)	17 yen	-	
Total	(Undecided)	32 yen	-	

Payout ratio: 30% as a target Shareholder return ratio: over 30%

We established the program of purchasing own shares not exceeding 10 billion yen (Term of validity: From April 27, 2018 to December 19, 2018).

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 9

- Profit before income taxes increased by 1.8 billion yen compared with that in the prior year after excluding gain on sales of securities.
- Income tax expenses decreased by 5.9 billion yen from the prior year due to significantly decreased effective tax rate of income tax expenses due to the federal corporate tax rate cut in the U.S.
- We decided to pay ¥16 per common share as the interim dividend of this fiscal year, which will be ¥1 increase year on year. In case that we will achieve the forecast of profit attributable to owners of the parent, there is a possibility to increase year-end dividend, too.
- We established the program of purchasing own shares not exceeding 10.0 billion yen in April of this year and have already purchased 3.0 billion yen of shares until the end of June. We will continue this program in the 2nd half.

Statement of Financial Position (Assets)

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(Billion yen)	As of June 30, 2018	As of Dec. 31, 2017	Changes	Changes ex the effects of fluctuation in exchange
Current assets	1,626.7	1,608.4	+18.3	
Cash and cash equivalents	251.8	230.7	+21.1	
Trade receivables	627.7	639.1	-11.3	+40.0
Finance receivables	257.0	250.7	+6.3	
Inventories	382.9	358.9	+24.1	+36.0
Other	107.3	129.1	-21.8	
Non-current assets	1,214.5	1,223.9	-9.4	
Finance receivables	576.2	559.5	+16.7	
Other	638.3	664.5	-26.1	
Total assets	2,841.2	2,832.4	+8.9	
Total finance receivables	833.1	810.2	+23.0	+48.0

<Reference> Foreign exchange rate at the end of the term	(yen)		
U.S. dollar	111	113	-2
Euro	128	135	-7

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 10

- Total assets increased by 8.9 billion yen (+0.3%) from the prior year and there was no significant change.
- Inventories increased in China, where the market conditions were severe, and in the U.S., where wholesales delayed in June.
- Wholesale units in the U.S. increased by 78% year on year in July, and we could make up for a delay in June.
- Total finance receivables increased mainly due to strong retail sales in North America.
 - ✓ Collection status of finance receivables remained favorable.

Statement of Financial Position (Liabilities)

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(Billion yen)	As of June 30, 2018	As of Dec. 31, 2017	Changes	Changes ex the effects of fluctuation in exchange
Current liabilities	895.4	917.5	-22.0	
Bonds and borrowings	328.5	363.5	-35.0	
Trade payables	299.4	286.1	+13.2	
Other	267.6	267.8	-0.3	
Non-current liabilities	556.1	539.3	+16.8	
Bonds and borrowings	499.5	470.6	+28.9	
Retirement benefit liabilities	12.5	12.9	-0.4	
Other	44.0	55.8	-11.8	
Total liabilities	1,451.6	1,456.8	-5.2	
Total interest-bearing debt	828.1	834.1	-6.0	+15.0
Net debt equity ratio	0.44	0.47	-0.03	
Net debt equity ratio (ex financial services)	-0.18	-0.14	-0.04	

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 11

- Total interest-bearing debt increased in North America resulting from increased finance receivables, while the debt at the parent decreased due to redemption of bonds.
- We will make efforts to control interest-bearing debt by utilizing cash and cash equivalents.

Statement of Financial Position (Equity)

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(Billion yen)	As of June 30, 2018	As of Dec. 31, 2017	Changes
Equity attributable to owners of the parent	1,308.2	1,291.1	+17.1
Share capital	84.1	84.1	+0.0
Share premium	86.2	85.0	+1.1
Retained earnings	1,094.2	1,040.2	+54.0
Other components of equity	46.9	81.9	-35.1
Exchange differences on translating foreign operations	-16.5	5.7	-22.2
Net changes on financial assets measured at FVTOCI	63.4	76.3	-12.9
Treasury shares, at cost	-3.2	-0.2	-3.0
Non-controlling interests	81.5	84.5	-3.0
Total equity	1,389.7	1,375.6	+14.1
Ratio of equity attributable to owners of the parent to total assets	46.0%	45.6%	+0.4point

Statement of Cash Flows

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(Billion yen)	Six months ended June 30, 2018	Six months ended June 30, 2017	Changes
Net cash provided by operating activities	58.4	64.1	-5.7
Net cash used in investing activities	-16.4	-8.9	-7.5
Acquisition of property, plant, and equipment and intangible assets	-23.8	-31.5	+7.8
Other	7.3	22.6	-15.3
Net cash used in financing activities	-17.1	-33.9	+16.8
Effect of exchange rate changes on cash and cash equivalents	-3.8	0.0	-3.8
Net increase in cash and cash equivalents	21.1	21.3	-0.3
Free cash flow	34.6	32.6	+2.1

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 13

- Net cash provided by operating activities
 - ✓ Cash inflow from profit for the period and depreciation and amortization was 102.3 billion yen in total.
 - ✓ Cash outflow caused by an increase in finance receivables was 42.9 billion yen and cash outflow caused by other items was 1.0 billion yen.
- Cash inflow/outflow caused by changes in finance receivables is included in operating cash flow under IFRS, while it was included in investment cash flow under U.S. GAAP.
- Net cash provided by operating activities decreased by 5.7 billion yen from the prior year due to expanded growth in the amount of inventories.
- Calculation of free cash flow also included the effect of changes in finance receivables.

Financial Services <Reference (unaudited/IFRS)>

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Statement of Financial Position

(Billion yen)	As of June 30, 2018		As of Dec. 31, 2017	
	Financial services	Equipment operations	Financial services	Equipment operations
Total assets	1,028.2	1,898.7	996.7	1,920.1
Cash and cash equivalents	13.9	237.9	12.6	218.1
Trade receivables	32.4	597.2	29.1	610.8
Finance receivables	833.1	-	810.2	-
Inventories	-	382.9	-	358.9
Property, plant, and equipment	0.4	314.8	0.5	321.3
Other	148.4	365.8	144.3	411.1
Total liabilities	873.5	648.3	851.5	674.4
Total interest-bearing debt	824.7	29.9	807.1	51.4
Other	48.7	618.4	44.3	622.9
Total equity	154.8	1,250.3	145.3	1,245.7

Statement of Profit or Loss (Financial Services)

(Billion yen)	Six months ended	Six months ended	Changes	
	June 30, 2018	June 30, 2017	Amount	%
	Amount	Amount		
Revenue	31.5	28.3	+3.2	+11.3
Operating profit	45.2% 14.2	42.3% 12.0	+2.2	+18.7
Profit attributable to owners of the parent	29.0% 9.1	25.4% 7.2	+2.0	+27.1

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- Total interest-bearing debt in equipment operations excluding financial services was 29.9 billion yen. Net debt (amount obtained by subtracting cash and cash equivalents of 237.9 billion yen from total interest-bearing debt) was -208.0 billion yen. Therefore, a debt-free status was maintained.
- Profitability of financial services improved further due to reduction in SG&A expenses in Thailand and decline in the effective tax rate in the U.S.

Recent Developments
In Machinery

Recent Developments in Machinery (North America)

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U.S. Demand for compact tractors, const. machinery and engines was strong along with favorable economy. The agricultural market showed signs of recovery as well.

Tractors / RS

Sales of compact tractors increased due to the growth of the market along with favorable economy and a strong housing market. Sales of mid-scale tractors increased as well because we improved our market share and the market showed a trend of bottoming out.

Const. machinery/ RS

Sales of mini-excavators and compact track loaders increased significantly along with the strong housing and construction market. Skid steer loaders increased as well. We also increased market share of all types of equipment.

Engines / WS

Sales increased due to favorable demand for the construction and industrial machinery along with tax cut policy and strong economy.

■ YoY growth rate of retail sales units in the tractor market by horsepower ■ New privately owned housing units started

		Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	Jan.-Jun.	Jan.-Dec.
2017	0-40hp	+13.7%	+11.2%	-1.7%	+8.9%	+12.0%	+7.8%
	40-120hp	-4.0%	-1.4%	-4.0%	+2.4%	-2.5%	-1.6%
	0-120hp	+7.3%	+7.7%	-2.4%	+6.5%	+7.5%	+4.7%
2018	0-40hp	+1.6%	+11.6%	-	-	+8.3%	-
	40-120hp	-2.1%	+6.5%	-	-	+3.0%	-
	0-120hp	+0.4%	+10.3%	-	-	+6.8%	-

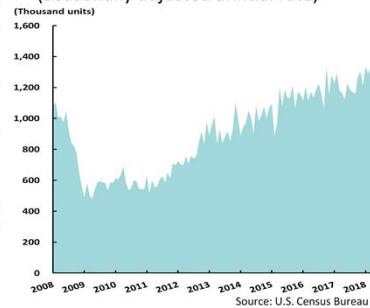
Source: AEM (Association of Equipment Manufacturers)

■ YoY growth rate of retail sales units in the mini-excavator market (0-8t)

		Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Jun.	Jan.-Dec.
2017		+12.2%	+12.4%	+12.0%	+19.4%	+12.3%	+14.0%
2018		+5.9%	+15.3%	-	-	+11.6%	-

Source: AEM (Association of Equipment Manufacturers)

(Seasonally adjusted annual rate)



* RS: Retail sales, WS: Wholesale

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[1st half Results]

- Economic conditions continued to be favorable due to the federal corporate tax rate cut and others.
- The number of housing starts (SAAR) remained at the high level of around 1.3 million and the house price index and stock market seemed to be solid.

① Tractors

- Market conditions
 - ✓ Market volume of compact tractors (0-40hp) increased by 8% from the prior year.
 - ✓ Demand for mid-scale tractors (40-120hp) expanded by 3% from the prior year. And over 70hp tractors, which had stagnated last year, also recovered.
 - ✓ Demand for large-scale tractors (120-160hp), in which our M7 tractors were categorized, continued to shrink.
- Our retail sales of tractor category including tractors, lawn mowers, and UVs increased by 5% from the prior year.
 - ✓ Our retail sales of compact tractors increased from the prior year because demand for tractors used for cutting lawn has increased significantly since May because of a rise in temperatures.
 - ✓ Our retail sales of mid-scale tractors increased as well due to recovered market conditions and expanding market shares.
 - ✓ Our retail sales of lawn mowers, in particular the new model for prosumers and the redesigned model for professionals, increased steadily from the prior year in response to a rise in temperatures.
 - ✓ Our retail sales of UVs decreased from the prior year due to delayed shipment of newly introduced gasoline engine-equipped and high-speed UVs to the 2nd half of this year.
- Our wholesales of compact tractors decreased because our supply didn't catch up with rapidly increased retail sales. However, wholesales of tractor category in total increased by 5% from the prior year because each product other than compact tractors increased steadily.
 - ✓ Implement business of Great Plains Manufacturing, Inc. for both small- and mid-scale tractors and large-scale tractors increased significantly.

② Const. machinery

- Market conditions
 - ✓ Both market volume of mini-excavators and compact track loaders increased by double digits from the prior year due to expanded demand for constructions.
 - ✓ Market volume of skid steer loaders remained at the same level as the prior year in spite of negative effect from stagnation of agricultural market.
- Our retail sales increased by 25% in total from the prior year due to increased sales to both general customers, for which we have strength, and independent rental companies, for which we have been making efforts to increase our presence. Our market shares increased as well.
- Wholesales of all 3 products increased. Especially, our wholesales of skid steer loaders increased significantly from the prior year, because normalization of the inventory level held by dealers had completed last year.

③ Engines

- Sales grew significantly due to increased sales for construction and industrial machinery in response to recovery of the oil and gas market.

[Forecasts for 2nd half]

- Demand for compact tractors and other products used by consumers, and construction-related products, such as const. machinery and engines, is expected to be strong.
- With respect to tractors for agricultural use, demand for mid-scale tractors (100hp or less) is expected to continue to recover from stagnation and demand for large-scale tractors (over 100hp) is expected to bottom out, while the effect of trade conflict between the U.S. and China is unclear and we cannot take optimistic view.
- Our competitors will possibly weaken their incentive programs such as long term 0% finance, because interest rate in the U.S. has been rising since the end of the prior year and is expected to continue to rise more after July. In addition, our competitors may raise prices of their products in response to a rise in steel prices.
- We will assess the competitors' actions and market conditions and then take flexible and smooth actions.

Recent Developments in Machinery (Europe)

For Earth, For Life
Kubota

Europe

The market of construction and industrial machinery continued to be strong and demand for construction machinery and engines remained solid as well. Demand for tractors was slow mainly due to delays in the high demand season during the spring along with low temperature.

Tractors / RS

Sales of compact tractors was slow due to delay in the high demand season during the spring along with low temperature. Sales of mid-scale tractors increased mainly due to a positive effect from new models introduced in the prior year.

Implements / WS

Recovery of sales of tilling-related products continued from the prior year despite the negative effect of inclement weather. Sales of haying-related products increased due to recovery of prices in raw milk in the prior year.

Const. machinery / RS

Sales increased due to increased demand in South and East Europe and Benelux, influenced by favorable economy and strong demand for construction mainly in urban areas. In addition, sales increased in major markets such as France, Germany, and the UK due to expanding market shares.

Engines / WS

Sales increased due to the strong market of the construction and industrial machinery, and the rush demand resulting from new engine emissions regulations (Stage V).

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 17

[1st half Results]

- Demand for compact tractors was weak in response to inclement weather.
- Amid strong demand for construction works, demand for const. machinery in France, Germany, and U.K., where market volume has already reached high level, remained at the same level as the prior year. On the other hand, demand in South and East Europe and Benelux countries increased significantly. Overall, total demand in Europe increased.
- Demand for engines remained at the higher level compared with our forecasts.
- Our retail sales of mid-scale tractors increased mainly due to products introduced in the prior year. However, our retail sales of compact tractors decreased from the prior year due to delayed high demand season during the spring and delays in obtaining authentications regarding new EU tractor regulations for some new products.
 - ✓ Our retail sales of large-scale tractors decreased from the prior year due to delays in obtaining authentications regarding new EU tractor regulations for redesigned model and special model of M7.
- Retail sales of const. machinery increased significantly from the prior year due to expanded market and expanding market shares.
- Our wholesales of const. equipment and engines grew. In addition, our wholesales of tractors increased as well because shipment of new models, which was delayed, has progressed since 2nd quarter of this year.
- Implement business for agriculture (operated by Kverneland AS) continued to increase from the prior year due to recovered demand.

[Forecasts for 2nd half]

- Demand for tractors is expected to be recovered moderately due to mitigation of negative effect from inclement weather.
 - ✓ Our retail sales is expected to be recovered due to introduction of new models, whose acquisition of authentications was delayed.
- Market trend will move to modest growth, while demand for const. machinery is expected to continue to expand.
- Strong demand for engines is expected to continue.
 - ✓ We will make efforts to improve the profitability by enhancing our supply capacity to meet front-loaded demand in particular.

Recent Developments in Machinery (Asia)

For Earth, For Life
Kubota

Thailand

Demand for tractors recovered due to a rise in prices of rice and cassava. In Myanmar, demand for tractors and combines expanded due to an increase in contractors for agriculture along with shortage of labors and recovery of rice prices.

Tractors / RS

Sales of tractors used in rice cropping-market increased mainly due to improved jasmine rice prices. With respect to dry-field crop-market, sales increased due to recovery of sales for cassava farmers, while sales for sugar cane farmers was slow.

Combines / RS

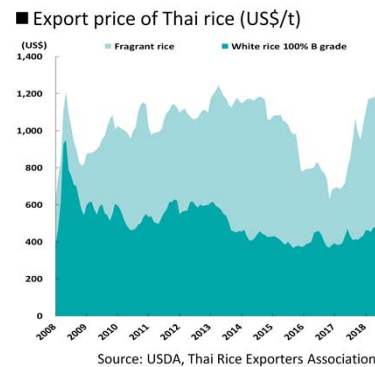
Sales decreased because the negative effect from the flood in the prior year around northeastern part remained.

Const. machinery / RS

Sales increased due to expanded demand along with shortage of labors in urban areas.

Exports to neighboring countries / WS

Sales in Cambodia decreased due to deterioration of dealer's profitability along with the Baht appreciation, while demand for mechanization continued to be steady. In Myanmar, sales increased significantly due to shortage of labors and recovery of rice prices.



KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 18

[1st half Results]

- Demand for tractors used in rice cropping-market recovered due to a rise in jasmine rice prices especially.
- With respect to tractors used for dry-field crop-market, demand for tractors for cassava market recovered, while demand for tractors for sugar cane-market decreased.
- As a result, our retail sales of tractors used for both rice cropping and dry-field cropping increased, and our retail sales of tractors increased by 6% from the prior year in total.
- Retail sales of combines decreased from the prior year because the negative effect from flood remained in northeastern area, which was the main market of combines in Thailand.
- Retail sales of const. machinery increased steadily due to shortage of labors in urban areas.
- Total sales in 3 neighboring countries of Cambodia, Laos and Myanmar grew due to significantly increased sales in Myanmar resulting from a rise in rice prices and increasing demand for mechanization of agriculture. However, sales in Cambodia stagnated due to a deterioration of dealers' profitability resulting from the Baht appreciation against the U.S. dollar.
- Revenue in both Thailand and 3 neighboring countries increased.

[Forecasts for 2nd half]

- Tractor market is expected to be strong because jasmine rice prices remain high level and weather during the rainy seasons is favorable so far.
 - ✓ Revenue is expected to grow compared with the prior year, when our sales stagnated due to heavy rain and floods.

Recent Developments in Machinery (Asia)

For Earth, For Life
Kubota

China

Budgeted government subsidies for purchasers of farm equipment remained unchanged from the prior year. Demand stagnated significantly mainly due to delayed announcement of government policy for the subsidies and stagnation of rice prices. Demand for farm equipment continued to move to products with a high processing capacity. Demand for const. machinery and engines continued to be solid due to strong demand for the construction.

Tractors / RS

Sales decreased due to shrink in market volume of low hp range tractors, which is the range we cover, resulting from transitions in demand to high hp tractors.

Combines / RS

Sales decreased due to severer competition among contractors and transitions in demand to equipment with a high processing capacity in addition to delayed announcement of government policy for the subsidies. On the other hand, sales of wheel drive combines increased steadily.

Rice transplanters / RS

Sales decreased due to adverse reaction from concentrated demand in prior year, stagnation of rice prices, and decline in prices of used equipment.

Const. machinery / RS

Sales increased due to One Belt and One Road initiative, strong demand for construction of urban infrastructure, and shortage of labors.

Engines / WS

Sales continued to increase due to high demand for construction and industrial machinery.

■ Budgeted government subsidies for purchasers of farm equipment

(Billion RMB)		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Subsidies	1st stage	-	-	-	-	11.0	13.0	20.0	17.0	21.0	22.8	18.6	18.6
	Full year	2.0	4.0	13.0	15.5	17.5	21.5	21.8	23.8	23.8	23.7	18.6	18.6

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 19

[1st half Results]

- Budgeted government subsidies for purchasers of farm equipment remained unchanged from the prior year (18.6 billion RMB). However, announcement of the subsidy in each province was delayed after the end of April because announcement of the subsidies by government was delayed significantly.
- In addition, market shrunk rapidly due to some factors, such as lower rice prices, drop in prices of used products, and severer competition among contractors.
- Demand for const. equipment and engines continued to expand due to increased construction project.
- Retail sales of combines, rice transplanters, and tractors decreased significantly.
- In category of farm machinery, only wheel drive combines, of which we have started full-scale distribution since last year, increased.
- Sales of const. machinery continued to increase from the prior year.
- Sales of engines increased significantly as well due to high demand for construction and industrial machinery.

[Forecasts for 2nd half]

- Severe market condition of farm equipment is expected to continue. However, sales in 2nd half of this year are expected to remain at the same level as that in the prior year because we will make effort to keep sales of combines mainly, for which 2nd half is the high demand season.
- Sales of const. machinery and engines are expected to continue to be strong.

Recent Developments in Machinery (Japan)

For Earth, For Life
Kubota

Japan

Demand for farm equipment in value remained the same level as the prior year due to increasing demand for higher hp equipment. Demand for const. machinery remained solid due to high motivations for investment by rental companies. Demand for engines remained strong due to strong demand for construction and industrial machinery in the domestic and overseas market.

Farm machinery / RS

Sales of tractors and combines increased due to strong sales of newly introduced products designed for large farmers and products manufactured before tightening of emission regulations. Sales of rice transplanters increased due to sales promotion of rice transplanters with function to keep moving straight. Market shares of all 3 products increased from the prior year.

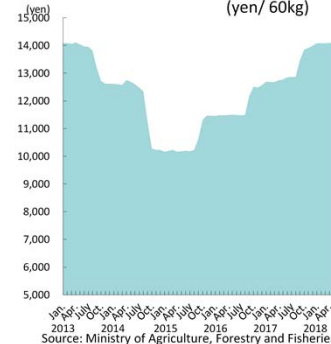
Const. machinery / RS

Sales increased due to adverse reaction from concentrated demand for large-scale equipment in the prior year before tightening of engine emission regulations for 75hp and over in addition to strong demand for construction.

Engines / WS

Sales increased due to strong domestic market of construction and industrial machinery. Demand for engines used for some products sold to overseas market by OEMs was strong as well due to favorable market conditions in North America.

Producers' price of Japanese rice (yen/ 60kg)



KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 20

[1st half Results]

- Demand for farm equipment in value remained at the same level as the prior year mainly due to increasing demand for higher hp equipment.
- Retail sales of tractors in value increased due to introduction of new products designed for large-scale farmers.
- Total retail sales of combines and rice transplanters in value increased from the prior year due to strong sales of products manufactured before tightening of engine emission regulations and products with function to keep moving straight.
- Our market share of all 3 products (tractor, combine, and rice transplanter) increased as well.
- Sales of const. machinery increased due to rental companies' accelerated motivation for purchase and adverse reaction from prioritized purchase of larger equipment (75hp and over) by rental companies in the prior year.
- Sales of engines were strong due to recovery of domestic market of construction and industrial machinery and expanded production by OEMs.

[Forecasts for 2nd half]

- Total sales of farm equipment in the 2nd half of this year are expected to remain at the same level as the prior year due to an further increase in market shares and increased sales of tractors, while adverse reaction from rush demand mainly for combines resulting from tightening of engine emission regulations in the prior year is expected.
- Demand for equipment by rental companies is expected to be solid continuously.
- Sales of engines are expected to continue to be solid.

Forecast

Anticipated Operating Results

For Earth, For Life
Kubota

(Billion yen)	Year ending Dec. 31, 2018 (Forecast)	Year ended Dec. 31, 2017 (Actual)	Changes		Original forecast (Feb. 2018)
			Amount	%	
Revenue	1,820.0	1,751.0	+69.0	+3.9	1,820.0
Domestic	586.0	563.8	+22.2	+3.9	575.0
Overseas	1,234.0	1,187.2	+46.8	+3.9	1,245.0
Operating profit	11.2% 204.0	11.4% 200.0	+4.0	+2.0	11.7% 213.0
Profit before income taxes *	11.5% 210.0	12.2% 214.0	-4.0	-1.9	12.0% 219.0
Profit attributable to owners of the parent	8.0% 145.0	7.7% 134.2	+10.8	+8.1	8.3% 151.0

* Gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ending December 31, 2018 due to the adoption of IFRS 9. For your information, the financial results for the year ended December 31, 2017 included gain on sales of securities of 8.4 billion yen.

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 22

- Forecast for total revenue remained unchanged from the original forecast. However, domestic revenue upwardly revised by 11.0 billion yen and overseas revenue downwardly revised by 11.0 billion yen from the original forecast.
- Profit before income taxes is expected to decrease by 4.0 billion yen from the prior year, because profit before income taxes in the prior year included gain on sales of securities.
 - ✓ Profit before income taxes is expected to increase by 4.4 billion yen from the prior year after excluding the effect of gain on sales of securities in the prior year.
- Operating profit was downwardly revised by 9.0 billion yen and profit attributable to owners of the parent was downwardly revised by 6.0 billion yen compared with the original forecast.
 - ✓ The revision was due to much higher material prices compared with our forecast.

Anticipated Revenue by Reportable Segment

For Earth, For Life
Kubota

(Billion yen)	Year ending Dec. 31, 2018 (Forecast)	Year ended Dec. 31, 2017 (Actual)	Changes		Original forecast (Feb. 2018)	Changes	
			Amount	%		Amount	%
Machinery	1,488.0	1,436.5	+51.5	+3.6	1,497.0	-9.0	-0.6
Domestic	308.0	294.5	+13.5	+4.6	297.0	+11.0	+3.7
Overseas	1,180.0	1,142.0	+38.0	+3.3	1,200.0	-20.0	-1.7
Water	304.0	285.6	+18.4	+6.4	295.0	+9.0	+3.1
Domestic	250.5	240.7	+9.8	+4.1	250.0	+0.5	+0.2
Overseas	53.5	44.9	+8.6	+19.2	45.0	+8.5	+18.9
Other	28.0	28.9	-0.9	-3.1	28.0	-	-
Domestic	27.5	28.6	-1.1	-3.8	28.0	-0.5	-1.8
Overseas	0.5	0.3	+0.2	+66.7	-	+0.5	-
Total revenue	1,820.0	1,751.0	+69.0	+3.9	1,820.0	-	-
Domestic revenue	586.0	563.8	+22.2	+3.9	575.0	+11.0	+1.9
Overseas revenue	1,234.0	1,187.2	+46.8	+3.9	1,245.0	-11.0	-0.9

For reference: Changes excluding the effects of fluctuation in exchange [-2.0 billion yen]
 >Overseas revenue in Machinery is forecast to increase by 4%. Total overseas revenue is forecast to increase by 4%.

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 23

- Forecast for domestic revenue in Farm and Industrial Machinery was upwardly revised by 11.0 billion yen because of strong sales of const. machinery, service parts, and other products compared with our original forecast.
- Forecast for overseas revenue in Farm and Industrial Machinery was downwardly revised by 20.0 billion yen due to significant stagnation of farm equipment market in China compared with our original forecast.

Anticipated Operating Profit

For Earth, For Life
Kubota

(Billion yen)	Year ending Dec. 31, 2018 (Forecast)		Year ended Dec. 31, 2017 (Actual)		Changes	
	Amount	%	Amount	%	Amount	%
Operating profit	204.0	11.2	200.0	11.4	+4.0	+2.0

Factors affecting operating profit (YoY change +4.0 billion yen)

1. Fluctuation in exchange rates	US\$ (112→110) Euro (127→130) Other currencies	-3.0 billion yen +6.0 billion yen +2.0 billion yen	+5.0 billion yen
2. Foreign exchange gain/loss			-2.5 billion yen
3. Material	Machinery Water	-8.0 billion yen -5.0 billion yen	-13.0 billion yen
4. Change in sales incentive ratio	U.S. : -6.5 billion yen, China: -2.0 billion yen etc.		-7.0 billion yen
5. Personnel expenses	Cost of goods sold SG&A expenses	±0.0 billion yen -4.0 billion yen	-4.0 billion yen
6. Specific items	Claim payments related to the hurricanes in U.S. (in prior year)		+0.7 billion yen
7. Impact of increased sales			+25.0 billion yen
8. Other			-0.2 billion yen

Anticipated Operating Profit by Reportable Segment

For Earth, For Life
Kubota

■ Anticipated operating profit excluding specific items

(Billion yen)		Year ending Dec. 31, 2018 (Forecast)			Year ended Dec. 31, 2017 (Actual)			Changes ①-④	Changes (Adjusted) ③-⑥
		Operating profit ①	Specific items ②	Adjusted operating profit ③=①-②	Operating profit ④	Specific items ⑤	Adjusted operating profit ⑥=④-⑤		
Machinery	Revenue	1,488.0		1,488.0	1,436.5		1,436.5	+51.5	+51.5
	Operating profit	209.0	-	209.0	200.7	-0.7	201.4	+8.3	+7.6
	OP margin	14.0%		14.0%	14.0%		14.0%	+0.1P	+0.0P
Water	Revenue	304.0		304.0	285.6		285.6	+18.4	+18.4
	Operating profit	25.0	-	25.0	24.4	-	24.4	+0.6	+0.6
	OP margin	8.2%		8.2%	8.5%		8.5%	-0.3P	-0.3P
Other	Revenue	28.0		28.0	28.9		28.9	-0.9	-0.9
	Operating profit	2.0	-	2.0	3.0	-	3.0	-1.0	-1.0
	OP margin	7.1%		7.1%	10.4%		10.4%	-3.3P	-3.3P
Adjustment	Operating profit	-32.0	-	-32.0	-28.2	-	-28.2	-3.8	-3.8
Total	Revenue	1,820.0		1,820.0	1,751.0		1,751.0	+69.0	+69.0
	Operating profit	204.0	-	204.0	200.0	-0.7	200.7	+4.0	+3.3
	OP margin	11.2%		11.2%	11.4%		11.5%	-0.2P	-0.3P

KUBOTA Corporation (Financial results for the six months ended June 30, 2018) 25

- The negative effects of a rise in material prices and an increase in sales incentive costs are expected to be burden on operating profit in Farm and Industrial Machinery in 2nd half of this year, while the negative effect of air transportation costs of engines is not expected.
- Operating profit in Water & Environment in 2nd half of this year is expected to increase due to the positive effect of increased sales and an increase in sales prices of some products.

Exchange Rate, CAPEX, Depreciation and R&D Expenses

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■ Anticipated foreign exchange rate

		Year ending Dec. 31, 2018			Year ended Dec. 31, 2017
		(Forecast)	(Original forecast)	(Actual)	(Actual)
¥/US\$	1st Half (Jan.-Jun.)	-	110	109	112
	2nd half (Jul.-Dec.)	111	110	-	112
	Full year average (Jan.-Dec.)	110	110	-	112
¥/Euro	1st Half (Jan.-Jun.)	-	130	132	122
	2nd half (Jul.-Dec.)	128	130	-	132
	Full year average (Jan.-Dec.)	130	130	-	127

■ CAPEX, Depreciation and R&D expenses

(Billion yen)	Year ending Dec. 31, 2018		Year ended Dec. 31, 2017
	(Forecast)	(Original forecast)	(Actual)
Capital expenditures	70.0	70.0	52.2
Depreciation and amortization	53.0	53.0	45.1
R&D expenses	50.0	48.0	43.4

Cautionary Statements with Respect to Forward-Looking Statements

This document may contain forward-looking statements that are based on management's expectations, estimates, projections and assumptions. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation: general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures both in public and private sectors, foreign currency exchange rates, the occurrence of natural disasters, continued competitive pricing pressures in the marketplace, as well as the Company's ability to continue to gain acceptance of its products.



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