

# Financial Results for the year ended December 31, 2018



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February 20, 2019

## Voluntary Adoption of IFRS

For Earth, For Life  
Kubota

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 1<sup>st</sup> quarter of the fiscal year ended December 31, 2018. The figures for the fiscal year ended December 31, 2017 used in the analysis were reclassified into the figures in accordance with IFRS.

## Financial Summary

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(Unit: billions of yen)	Year ended Dec 31, 2018	Year ended Dec 31, 2017	Changes		Variance from forecast (Nov. 2018)	
			Amount	%	Amount	%
<b>Revenue</b>	1,850.3	1,751.0	+99.3	+5.7	+20.3	+1.1
Domestic	577.3	563.8	+13.5	+2.4	+3.3	+0.6
Overseas	1,273.0	1,187.2	+85.7	+7.2	+17.0	+1.4
<b>Operating profit</b>	10.2% 189.3	11.4% 200.0	-10.6	-5.3	-14.7	-7.2
<b>Profit before income taxes*</b>	10.7% 197.2	12.2% 214.0	-16.8	-7.8	-12.8	-6.1
<b>Profit attributable to owners of the parent</b>	7.5% 138.6	7.7% 134.2	+4.4	+3.3	-6.4	-4.4

(Unit: billions of yen)	As of Dec. 31, 2018	As of Dec. 31, 2017	Changes	
			Amount	%
<b>Total assets</b>	2,895.7	2,832.4	+63.3	+2.2
<b>Equity attributable to owners of the parent</b>	1,339.9	1,291.1	+48.8	+3.8

Gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ended 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.

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- A decrease in profit before income taxes includes the effect of gain on sales of securities of 8.4 billion yen, which is no longer recorded from the fiscal year ended December 31, 2018 due to the adoption of IFRS, recorded in fiscal 2017.
- Variance from the revised forecast:
  - ✓ The variance of revenue was mainly due to higher overseas sales in Farm & Industrial Machinery than our forecast, particularly in North America and Europe.
  - ✓ The shortfall in operating profit was mainly due to a sharp appreciation of the yen at the end of the prior year, and a temporary deterioration in profitability, which was resulting from higher logistics costs due to delayed production caused by typhoon. In addition, revenue recognition was delayed to January of 2019 because shipments from Japan in the end of the year didn't reach to dealers in spite of our efforts to increase shipment to compensate for inventory shortages in overseas countries.

## Revenue by Reportable Segment

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(Unit: billions of yen)	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Changes	
			Amount	%
<b>Farm &amp; Industrial Machinery (Machinery)</b>	<b>1,527.6</b>	<b>1,436.5</b>	<b>+91.1</b>	<b>+6.3</b>
Domestic	308.9	294.5	+14.4	+4.9
Overseas	1,218.7	1,142.0	+76.7	+6.7
<b>Water &amp; Environment (Water)</b>	<b>292.3</b>	<b>285.7</b>	<b>+6.6</b>	<b>+2.3</b>
Domestic	238.4	240.7	-2.3	-1.0
Overseas	53.9	45.0	+8.9	+19.9
<b>Other</b>	<b>30.4</b>	<b>28.9</b>	<b>+1.5</b>	<b>+5.3</b>
Domestic	30.0	28.6	+1.5	+5.1
Overseas	0.4	0.3	+0.1	+25.6
<b>Total revenue</b>	<b>1,850.3</b>	<b>1,751.0</b>	<b>+99.3</b>	<b>+5.7</b>
<b>Domestic revenue</b>	<b>577.3</b>	<b>563.8</b>	<b>+13.5</b>	<b>+2.4</b>
<b>Overseas revenue</b>	<b>1,273.0</b>	<b>1,187.2</b>	<b>+85.7</b>	<b>+7.2</b>

For reference: Changes excluding the effects of fluctuation in exchange [-6.0 billion yen]  
>Overseas revenue in Machinery increased by 7%. Total overseas revenue increased by 8%.

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- Revenue in Farm & Industrial Machinery, Water & Environment, and Others increased.

## Revenue by Reportable Segment (Year-on-Year)

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### Machinery: +91.1 billion yen (Domestic: +14.4, Overseas: +76.7)

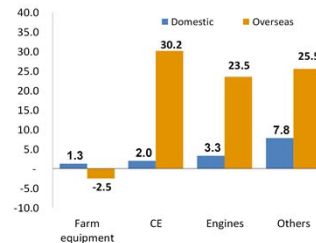
#### Domestic

- Sales of tractors, rice transplanters and combine harvesters increased slightly due to an increase in market share.
- Sales of agricultural-related products and engines increased as well.

#### Overseas

- Sales of tractors increased mainly in North America and Thailand.
- Sales of combine harvesters and rice transplanters decreased significantly due to slump of market in China.
- Sales of construction machinery (CE) and engines increased significantly in major markets such as North America, Europe and China due to global expansion of demand.
- In Others category, sales of parts and implement and finance income increased in North America.

■ Changes in revenue by product (Billions of yen)



### Water: +6.6 billion yen (Domestic: -2.3, Overseas: +8.9)

#### Domestic

- In pipe-related business, sales of ductile iron pipes decreased significantly, while sales of pumps and construction business increased.
- In environmental business, sales of environmental plants and EPC (engineering, procurement, and construction) businesses such as exhaust gas treatment plant increased.
- In social infrastructure business, sales of steel pipes for civil engineering works increased.

#### Overseas

- In pipe-related business, sales of ductile iron pipes to the Middle East and construction business increased.
- In environmental business, sales of wastewater treatment plant (Johkasou) increased.
- In social infrastructure business, sales of industrial castings increased.

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#### ① Domestic revenue in Farm & Industrial Machinery

- Domestic revenue : +14.4 billion yen (+5%)
- Revenue from farm equipment increased by 1.3 billion yen (+1%) mainly due to increased sales of tractors, rice transplanters and combine harvesters resulting from increased market share and expanded sales to large farmers.
- Revenue from construction machinery (hereinafter, CE) increased by 2.0 billion yen (+6%) mainly due to adverse reaction from concentrated demand for large-sized equipment resulting from tightening of engine emission regulations in the prior year, in addition to solid demand.
- Revenue from engines increased by 3.3 billion yen (+23%) mainly due to expanded production of products for North American market by OEMs.
- Revenue from Others increased by 7.8 billion yen (+5%) due to an increase in sales of agricultural-related products, etc.
- An increase in revenue from Others includes a decrease of 6.0 billion yen resulting from the withdrawal from the vending machines business.

#### ② Overseas revenue in Farm & Industrial Machinery

- Overseas revenue : +76.7 billion yen (+7%)
  - Farm equipment : -2.5 billion yen (-0%) , CE : +30.2 billion yen (+14%), Engines : +23.5 billion yen (+19%), Others : +25.5 billion yen (+11%)
- Revenue from tractors in Farm equipment increased by 28.1 billion yen (+6%).
  - Sales in North America increased mainly because demand for compact tractors expanded and the market condition of middle-sized tractors bottomed out along with favorable economy condition. In addition, there was the positive effect from the newly introduced model of utility vehicle as well.
  - Sales in Thailand also increased mainly due to a rise in the prices of rice and cassava and generally favorable weather during the rainy seasons.
- Revenue from combine harvesters and rice transplanters in Farm equipment decreased by 30.6 billion yen (-26%).
  - In China, sales of combine harvesters and rice transplanters decreased because the market shrank drastically mainly due to a slump in rice prices and drop in prices of used products amid severe competition among contractors.
- Revenue from CE increased in each region.
  - In North America, sales of major three models, mini-excavators, compact truck loaders, and skid steer loaders, increased mainly due to expanded demand while there was a negative effect from inventory shortages resulting from delays in production caused by typhoons.
  - Sales in Europe increased along with strong demand for housing and construction.
  - Sales in China significantly increased along with an increased construction and labor shortage.
- Revenue from engines significantly increased mainly due to global expansion of demand for construction and industrial machinery and rushed demand for engines resulting from tightening of engine emission regulations as well.
- Revenue from Others increased due to an increased sales of service parts and financial income mainly in North America and an increase in sales of implement of Great Plains Manufacturing, Inc.
- Revenue in North America and Europe increased, while revenue in Asia outside Japan decreased due to a significant decrease in sales of farm equipment in China.

#### ③ Water & Environment

- Domestic revenue decreased by 2.3 billion yen (-1%).
  - In pipe-related business, sales of ductile iron pipes decreased significantly, while sales of pumps and construction business increased.
  - In environment-related business, sales of environmental plants and EPC (engineering, procurement, and construction) businesses, such as exhaust gas treatment plant, increased.
  - In social infrastructure-related business, sales of steel pipes for civil engineering work increased.
- Overseas revenue increased by 8.9 billion yen (+20%).
  - Sales of ductile iron pipes to the Middle East, wastewater treatment plant (Johkasou) in China, and industrial castings for petrochemical plants increased.

## Operating Profit

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(Unit: billions of yen)	Year ended Dec. 31, 2018		Year ended Dec. 31, 2017		Changes	
	Amount	%	Amount	%	Amount	%
<b>Operating profit</b>	189.3	10.2	200.0	11.4	-10.6	-5.3

### Factors affecting operating profit (YoY change -10.6 billion yen)

<b>1. Fluctuation in exchange rates</b>	US\$ (112→110) Euro (127→130) Other currencies	-3.0 billion yen +6.0 billion yen +0.0 billion yen	<b>+3.0 billion yen</b>
<b>2. Foreign exchange gain/loss</b>			<b>-6.7 billion yen</b>
<b>3. Material</b>	Machinery Water	-8.5 billion yen -4.5 billion yen	<b>-13.0 billion yen</b>
<b>4. Change in sales incentive ratio</b>	U.S. : -6.6 billion yen, China: -1.3 billion yen etc.		<b>-6.6 billion yen</b>
<b>5. Personnel expenses</b>	Cost of goods sold SG&A expenses	-2.4 billion yen -5.9 billion yen	<b>-8.3 billion yen</b>
<b>6. Impact of increased sales</b>			<b>+36.0 billion yen</b>
<b>7. Other</b>			<b>-15.0 billion yen</b>

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- Foreign exchange gain/loss, which was included in other income/expense under U.S. GAAP, is included in operating profit due to the adoption of IFRS.
- The negative impact of material was due to a rise in prices of steel, steel scrap, and resin.
- The negative impact of changes in sales incentive ratio was mainly due to a rise in interest rate in North America.
- Negative impact of *Other* includes an increase in sales expenses and factory fixed expenses. Some expenses, such as depreciation and amortization, R&D expenses, and cost for air transport of engines, increased.

## Operating Profit by Reportable Segment

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(Unit: billions of yen)		Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Changes
<b>Machinery</b>	Revenue	1,527.6	1,436.5	+91.1
	Operating profit	200.9	200.7	+0.1
	OP margin	13.2%	14.0%	-0.8P
<b>Water</b>	Revenue	292.3	285.7	+6.6
	Operating profit	19.9	24.4	-4.5
	OP margin	6.8%	8.5%	-1.7P
<b>Other</b>	Revenue	30.4	28.9	+1.5
	Operating profit	3.0	3.0	+0.0
	OP margin	9.9%	10.4%	-0.5P
<b>Adjustment</b>	Operating profit	-34.5	-28.2	-6.2
<b>Total</b>	Revenue	1,850.3	1,751.0	+99.3
	Operating profit	189.3	200.0	-10.6
	OP margin	10.2%	11.4%	-1.2P

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- Operating profit in Farm & Industrial Machinery was almost at the same level as the prior year because some positive effects from increased sales in domestic and overseas market and the yen depreciation against the Euro compensated for some negative effects such as a rise in material prices, deteriorated sales incentive ratios, and increased sales expenses.
  - ✓ Increased transportation costs along with air transport of engines, which was resulting from expanded global demand and delayed production due to typhoons, caused operating profit to decrease by 4.0 billion yen.
- Operating profit in Water & Environment decreased mainly due to a rise in material prices and a deterioration of product mix sold resulting from a significant decrease in domestic sales of ductile iron pipes.
- *Adjustment* deteriorated mainly due to an increase in foreign exchange loss.

## Finance Income/ Finance Costs (Net)

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(Unit: billions of yen)	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Changes
Finance income/ finance costs (-)	7.9	14.1	-6.1
Interests and dividends	7.1	6.5	+0.6
Gain on sales of securities *	-	8.4	-8.4
Other	0.8	-0.8	+1.7

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

- The deterioration in finance income and costs (net) was mainly because gain on sales of securities was no longer recorded in finance income from the fiscal year ended December 31, 2018.
- We continued to sell securities during 2018.



## Profit Before Income Taxes/ Profit for the Year

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(Unit: billions of yen)	Year ended Dec. 31, 2018		Year ended Dec. 31, 2017		Changes	
	Amount	%	Amount	%	Amount	%
Profit before income taxes	197.2	10.7	214.0	12.2	-16.8	-7.8
Income tax expenses	-49.1		-73.2		+24.1	
(Effective tax rate)	(24.9%)		(34.2%)			
Share of profits of investments accounted for using the equity method	2.0		2.5		-0.4	
Profit for the year	150.1	8.1	143.3	8.2	+6.8	+4.8

### Profit attributable to:

Owners of the parent	138.6	7.5	134.2	7.7	+4.4	+3.3
Noncontrolling interests	11.6	0.6	9.1	0.5	+2.4	+26.4

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Changes
Dividends (Per share)	34 yen	32 yen	+2 yen
Payout ratio	30 %	30 % *	+1 point
Retirement of treasury shares (Billion yen)	2.9	13.2	-10.3
Shareholder return ratio (Dividends and retirement of treasury shares)	32 %	39 % *	-7 point

\*Payout ratio and Shareholder return ratio in the year ended Dec. 31, 2017 is calculated based on the profit in accordance with IFRS.

Kubota Corp. retired 1,500,000 of treasury shares in December 2018.

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- Profit before income taxes decreased by 8.4 billion yen from the prior year after excluding gain on sales of securities.
- Income tax expenses significantly decreased due to a decrease in effective tax rate along with the federal corporate tax rate cut in the U.S. and reversal of deferred tax assets in 2017 along with the decision of the federal corporate tax rate cut in the U.S.
- Annual cash dividend increased by 2 yen from the prior year to 34 yen.
- Retirement of treasury shares was 2.9 billion yen (1.5 million shares).

## Shareholder Return History

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(Unit: billions of yen)	Year ended Mar. 31, 2015	Nine months ended Dec. 31, 2015	Year ended Dec. 31, 2016	Year ended Dec. 31, 2017	Year ended Dec. 31, 2018	Changes	Total of last 4 years and 9 months
	U.S. GAAP			IFRS			
Profit attributable to owners of the parent (Per share)	139.5 (111.68yen)	110.1 (88.47yen)	132.5 (106.58yen)	136.4 (110.30yen)	138.6 (112.44yen)	+ 2.2 (+2.14yen)	657.2
Total amount of dividend paid (Dividend per share)	34.9 (28yen)	34.9 (28yen)	37.3 (30yen)	39.5 (32yen)	41.9 (34yen)	+ 2.4 (+ 2yen)	188.5
Retirement of treasury shares (Number of shares retired)	7.7 (4.0 mil. shares)	2.5 (1.3 mil. shares)	6.0 (3.8 mil. shares)	13.2 (7.1 mil. shares)	2.9 (1.5 mil. shares)	- 10.3 (- 5.6mil. shares)	32.3
Total shareholder return	42.6	37.4	43.3	52.7	44.8	- 8.0	220.8
Payout ratio	25%	32%	28%	29%	30%	+ 1P	29%
Shareholder return ratio (Dividends and retirement of treasury shares)	31%	34%	33%	39%	32%	▲ 6P	34%

Dividend payout ratio:

30% as a target

Purchase and retirement of treasury shares\*: Carry out every year

Shareholder return ratio:

over 30%

\* Continue share buy-backs and prompt retirement of treasury shares. The proceed from sales of assets such as securities, is appropriated to the resource of share buy-backs so as to control the balance of interest-bearing debt.

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- There is no change in basic policy on shareholder return.
- Dividend payout ratio for 2018 was 30.2% and shareholder return ratio for 2018 was 32.3%. Both of ratios exceeded the target of 30%.

## Statement of Financial Position (Assets)

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(Unit: billions of yen)	As of Dec. 31, 2018	As of Dec. 31, 2017	Changes	Changes ex the effects of fluctuation in exchange
<b>Current assets</b>	<b>1,639.5</b>	<b>1,608.4</b>	<b>+31.1</b>	
Cash and cash equivalents	229.1	230.7	-1.6	
Trade receivables	660.4	639.1	+21.3	+38.0
Finance receivables	267.3	250.7	+16.6	
Inventories	370.7	358.9	+11.8	+26.0
Other	112.0	129.1	-17.0	
<b>Noncurrent assets</b>	<b>1,256.1</b>	<b>1,223.9</b>	<b>+32.2</b>	
Finance receivables	621.9	559.5	+62.4	
Other	634.2	664.5	-30.2	
<b>Total assets</b>	<b>2,895.7</b>	<b>2,832.4</b>	<b>+63.3</b>	
<b>Total finance receivables</b>	<b>889.1</b>	<b>810.2</b>	<b>+79.0</b>	<b>+104.0</b>

<Reference> Foreign exchange rate at the end of the term	(yen)		
U.S. dollar	111	113	-2
Euro	127	135	-8

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- Total assets increased by 63.3 billion yen (+2.2%) from the prior year.
- Trade receivables excluding the effects of fluctuation in exchange rate increased by 38.0 billion yen.
  - Trade receivables increased in sales subsidiaries in the U.S. and Europe where sales were strong.
- Inventories excluding the effects of fluctuation in exchange rate increased by 26.0 billion yen.
  - Inventories increased mainly due to the impact of concentration of shipments from Japan to overseas subsidiaries at the end of the year caused by typhoons while inventories decreased in China, where demand for farm equipment shrank significantly.
- Total current and noncurrent finance receivables excluding the effects of fluctuation in exchange rate increased by 104.0 billion yen.
  - Total finance receivables increased mainly due to strong retail sales in North America and Thailand.
  - Collection status of finance receivables remained favorable.

## Statement of Financial Position (Liabilities)

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(Unit: billions of yen)	As of Dec. 31, 2018	As of Dec. 31, 2017	Changes	Changes ex the effects of fluctuation in exchange
<b>Current liabilities</b>	922.8	917.5	+5.4	
Bonds and borrowings	349.1	363.5	-14.4	
Trade payables	306.8	286.1	+20.6	
Other	267.0	267.8	-0.8	
<b>Noncurrent liabilities</b>	546.4	539.3	+7.1	
Bonds and borrowings	490.2	470.6	+19.6	
Retirement benefit liabilities	14.5	12.9	+1.6	
Other	41.7	55.8	-14.1	
<b>Total liabilities</b>	1,469.2	1,456.8	+12.4	
<b>Total interest-bearing liabilities</b>	839.3	834.1	+5.2	+26.0
<b>Net debt equity ratio</b>	0.46	0.47	-0.01	
<b>Net debt equity ratio (ex financial services)</b>	-0.18	-0.14	-0.04	

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- Total liabilities increased by 12.4 billion yen (+0.9%).
- Total current and noncurrent interest-bearing liabilities excluding the effects of fluctuation in exchange rate increased by 26.0 billion yen.
  - Interest-bearing liabilities increased in North America due to an increase in finance receivables while it decreased in parent due to redemption of bonds.

## Statement of Financial Position (Equity)

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Kubota

(Unit: billions of yen)	As of Dec. 31, 2018	As of Dec. 31, 2017	Changes
<b>Equity attributable to owners of the parent</b>	1,339.9	1,291.1	+48.8
Share capital	84.1	84.1	+0.0
Share premium	85.3	85.0	+0.3
Retained earnings	1,135.4	1,040.2	+95.2
Other components of equity	35.3	81.9	-46.6
Exchange differences on translating foreign operations	-19.2	5.7	-24.9
Net changes on financial assets measured at FVTOCI	54.6	76.3	-21.7
Treasury shares, at cost	-0.3	-0.2	-0.1
<b>Noncontrolling interests</b>	86.6	84.5	+2.1
<b>Total equity</b>	1,426.4	1,375.6	+50.9
<b>Ratio of equity attributable to owners of the parent to total assets</b>	46.3%	45.6%	+0.7point

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- Other components of equity decreased due to fluctuations in foreign exchange rates and prices of securities.

## Return on Equity (ROE) History

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(Unit: billions of yen)	Year ended Mar. 31, 2015	Nine months ended Dec. 31, 2015	Year ended Dec. 31, 2016	Year ended Dec. 31, 2017	Year ended Dec. 31, 2018	Changes
	U.S. GAAP			IFRS		
Equity attributable to owners of the parent (Shareholder's equity)	1,100.1	1,140.3	1,198.8	1,291.1	1,339.9	48.8
Profit attributable to owners of the parent (Net income attributable to Kubota Corp.)	139.5	110.1	132.5	134.2	138.6	+4.4
Return on equity	13.7%	-	11.3%	10.8%	10.5%	-0.2point

[Reference (unaudited)]

(Unit: billions of yen)	Year ended Dec. 31, 2014 (12 months)	Year ended Dec. 31, 2015 (12 months)
Shareholder's equity	1,073.0	1,140.3
Net income attributable to Kubota Corp.	139.3	149.4
Return on equity	14.0%	13.5%

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- Double-digit ROE has been achieved for the seventh consecutive fiscal year.
- ROE declined by 0.2 percentage points from the prior year.

## Statement of Cash Flows

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(Unit: billions of yen)	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Changes
Net cash provided by operating activities	89.1	137.2	-48.0
Net cash used in investing activities	-58.8	-46.0	-12.8
Payments for acquisition of property, plant, and equipment and intangible assets	-63.4	-68.9	+5.5
Other	4.6	23.0	-18.3
Net cash used in financing activities	-27.8	-32.6	+4.8
Effect of exchange rate changes on cash and cash equivalents	-4.2	2.7	-6.9
Net increase (decrease) in cash and cash equivalents	-1.6	61.3	-62.9
Free cash flow	25.8	68.3	-42.5

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- Net cash provided by operating activities was 89.1 billion yen.
  - Total amount of cash inflow from profit for the year and depreciation and amortization was 199.8 billion yen in total. Cash outflow caused by an increase in finance receivables was 97.3 billion yen and cash outflow caused by other items was 13.3 billion yen.
  - Cash inflow/outflow caused by changes in finance receivables is included in net cash provided by (used in) operating activities under IFRS, while it was included in net cash used in investing activities under U.S. GAAP.
  - A decrease in net cash provided by operating activities from the prior year was due to an increase in finance receivables and inventories.
  - We will make efforts to expand net cash provided by operating activities by reducing inventories.

## Financial Services <Reference (unaudited/IFRS)>

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### Statement of Financial Position

(Unit: billions of yen)	As of Dec. 31, 2018		As of Dec. 31, 2017	
	Financial services	Equipment operations	Financial services	Equipment operations
<b>Total assets</b>	<b>1,101.1</b>	<b>1,907.1</b>	<b>996.7</b>	<b>1,920.1</b>
Cash and cash equivalents	20.7	208.4	12.6	218.1
Trade receivables	31.1	631.2	29.1	610.8
Finance receivables	889.1	-	810.2	-
Inventories	-	370.7	-	358.9
Property, plant, and equipment	0.6	329.5	0.5	321.3
Other	159.6	367.3	144.3	411.1
<b>Total liabilities</b>	<b>932.0</b>	<b>634.4</b>	<b>851.5</b>	<b>674.4</b>
Total interest-bearing debt	875.7	-	807.1	51.4
Other	56.3	634.4	44.3	622.9
<b>Total equity</b>	<b>169.1</b>	<b>1,272.7</b>	<b>145.3</b>	<b>1,245.7</b>

### Statement of Profit or Loss (Financial Services)

(Unit: billions of yen)	Year ended Dec. 31, 2018	Year ended Dec 31, 2017	Changes	
	Amount	Amount	Amount	%
Revenue	65.9	59.1	+6.8	+11.5
Operating profit	40.8% 26.9	42.1% 24.9	+2.0	+8.0
Profit attributable to owners of the parent	27.6% 18.2	21.1% 12.5	+5.8	+46.1

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 16

- Equipment operations excluding financial service maintained a debt-free status.
- The financial business maintained sufficient profitability.
  - Profit margin significantly improved due to decreased income tax expenses along with the federal corporate tax rate cut in the U.S.



Recent Developments  
In Machinery

## Recent Developments in Machinery (North America)

For Earth, For Life  
Kubota

### U.S.

Demand for tractor, CE, and engines is expected to grow moderately along with favorable economy, while there is uncertainty about the future of the economy.

#### Tractors

Demand for compact tractor is expected to continue to grow along with solid economy. Demand for mid- and large-sized tractor is expected to bottom out and be restored. Make effort to early market penetration of new UV model launched in the prior year.

#### CE

Demand for CE is expected to grow moderately, while a slowdown in growth rate is anticipated due to a rise in interest rates and soaring housing prices. Significant growth of business is expected by a launch of new model of CTL.

#### Engines

Strong order receipt of engines is expected to continue in response to high demand for construction and industrial machinery.

#### YoY growth rate of retail sales units in the tractor market by horsepower

		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%	+13.1%	+7.3%	+8.3%	+9.2%
	40-120hp	-2.1%	+6.5%	-0.1%	+2.4%	+3.0%	+2.1%
	0-120hp	+0.4%	+10.3%	+8.7%	+5.5%	+6.8%	+7.0%

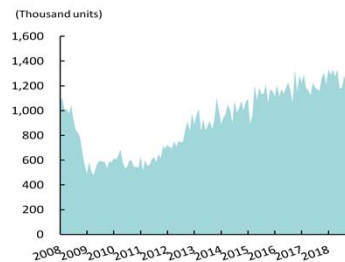
Source: AEM (Association of Equipment Manufacturers)

#### 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%	+14.1%	+0.8%	+11.6%	+9.3%

Source: AEM (Association of Equipment Manufacturers)

#### New privately owned housing units started (Seasonally adjusted annual rate)



Source: U.S. Census Bureau

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 18

- In the U.S. market, the current economy is solid while there is uncertainty about the future of the economy along with U.S.-China trade frictions and the unstable stock market.
  - The number of housing starts (SAAR) remains at the high level around 1.2 million unit.
- Tractors
  - Demand for compact tractors (0-40hp) mainly for home owners is expected to continue to grow moderately.
  - It is unlikely that severe competition will be relaxed, and each manufacturer is expected to maintain same level of incentive program in 2018, which was strong.
  - Demand for mid-sized tractors (40-120hp) in 2018 turned to an increase from the prior year, and demand in 2019 is expected to continue to recover moderately.
  - Demand for large-sized tractors (over 120hp) is also expected to bottom out and turn to moderate recovery.
  - Sales of our large-sized tractor increased by double digits from the prior year in 2018 as well, and we aim to expand our market share and further increase the sales in 2019.
  - With respect to gasoline engine-equipped and high-speed UVs whose retail sales resulted in the inadequate level due to delays in shipments to dealers, we aim to increase the customer awareness and penetrate the market as soon as possible.
- CE
  - The market growth is expected to slow due to a rise in interest rates and soaring housing prices.
  - In addition to the positive effects from a launch of new model of CTL, we expect significant growth of business by cultivation of major rental companies and strengthening of the dealer network.
- Engines
  - Orders from major OEMs, such as manufacturers of construction and industrial machinery and refrigeration equipment, remain favorable currently, and growth is expected to continue in 2019 as well.
- We aim to improve profitability in North America by raising product prices from March in response to increased costs caused by soaring steel prices and a rise in interest rate.

## Recent Developments in Machinery (Europe)

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Kubota

### Europe

Agricultural market is expected to be sluggish due to a decline in farm income resulting from abnormal weather in the prior year. Demand for CE is expected to decrease slightly from the prior year, while high level of demand will continue.

#### Tractors

Demand for compact tractor is expected to show only a slight recovery due to the impact of Brexit and others, while recovery from the abnormal weather in the prior year is expected. Demand for medium- and large-sized tractor is expected to be sluggish due to a decline in farm income. Aiming to increase market share by improvement of product supply capabilities.

#### Implements

Strong demand cannot be expected due to the slump in the agricultural market.

#### CE

Demand for CE is expected to decline resulting from uncertainty about the future resulting from some events, such as Brexit and financial instability in Italy, as well as adverse reaction from a sharp increase in demand in the past few years.

Aiming to expand market share by strengthening sales network and introducing new models.

#### Engines

Orders from major OEM remain strong. A significant decline is not expected, while it is expected to have an impact of adverse reaction from rushed orders by new exhaust emission regulations (StageV) implemented in this year.

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 19

- Tractors
  - Demand for medium-sized tractors (for agricultural market) is expected to be sluggish because farmer income declined due to abnormal weather such as drought that occurred in 2018.
  - Demand for compact tractors is expected to show only a slight recovery mainly due to the impact of Brexit while stagnated demand resulting from abnormal weather in some countries such as France, Germany, Italy in 2018 is expected to recover.
  - Although demand for tractors as a whole is expected to shrink, our sales are expected to increase due to an increase in market share along with improvement of product supply capabilities.
- Implement in agriculture-related market
  - Strong demand cannot be expected due to the slump in agricultural market.
- CE
  - Demand in Europe as a whole is expected to decline from the prior year, albeit at a high level, resulting from uncertainty about the future caused by some events, such as the Brexit and financial instability in Italy, as well as adverse reaction from a sharp increase in demand in the past few years.
  - We aim to expand market share by strengthening sales network and introducing new models.
- Engines
  - A significant decline is not expected due to continued strong orders from major OEMs, while it is expected to have an impact of adverse reaction from rushed orders by new exhaust emission regulations (StageV) implemented in 2019.
  - A decrease in shipments volume is expected to be offset by raising unit prices along with switching to Stage V.

## Recent Developments in Machinery (Asia)

For Earth, For Life  
Kubota

### Thailand and neighboring countries

Demand for farm equipment is expected to grow at a moderate pace mainly due to an increase in yield amount in the prior year.

In Cambodia, demand for farm equipment is expected to expand due to an increase in exports of rice and cassava.

#### Tractors, Combines

Strong demand from rice farmers is expected. Demand for tractor is expected to grow moderately due to the promotion of crop conversion from rice to other crops by government, while market condition itself is expected to be strong. Demand for combine is expected to recover from sluggish caused by drought in Northeast Thailand. Expansion in demand of farm equipment for upland farming is expected due to strong exports of cassava.

#### CE

Demand for CE is expected to expand due to the labor shortage resulting from continuing infrastructure investment in Bangkok and regional cities. Competition is expected to get severer along with the market expansion.

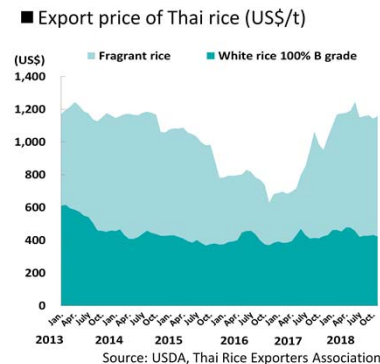
#### Neighboring countries

##### <Cambodia>

Demand for farm equipment is expected to expand due to strong exports of rice and cassava.

##### <Myanmar>

Demand for farm equipment is expected to expand due to mitigation of a negative impact of the sharp decline in Myanmar Kyat and advancement of mechanization.



KUBOTA Corporation (Financial results for the year ended December 31, 2018) 20

- In Thailand, demand is expected to continue to expand moderately this year due to an increase in crop yield amount in the prior year and stable prices of rice at high levels.
- Rice cropping market
  - Demand for tractor is expected to remain to expand moderately despite favorable market conditions because government encourages to shift from rice to other crops along with the high level of crop yield amount in the prior year.
  - Demand for combine harvesters is expected to recover significantly due to adverse reaction from sluggish demand in the prior year caused by drought in Northeast, which is a major region for rice cropping.
- Dry-field cropping market
  - Demand of farm equipment for dry-field cropping market as a whole is expected to expand because cassava exports are continuing to be strong while sugar cane purchase prices are sluggish.
- CE
  - Demand for CE is expected to expand due to continuing infrastructure investment in Bangkok and regional cities.
- Exports to neighboring countries
  - Demand for farm equipment in Cambodia and Laos is expected to expand due to strong exports of rice and cassava.
  - In Myanmar, although the negative impact of the rapid depreciation of Myanmar Kyat since the 2nd half of the prior year is expected to continue, demand for farm equipment is expected to expand moderately due to the gradual mitigation of its impact and the progress of mechanization.

## Recent Developments in Machinery (Asia)

For Earth, For Life  
Kubota

### China

Budgeted government subsidies are not determined. Demand for farm equipment is expected to continue to shrink gradually. Aiming to improve profitability on the assumption that the market shrink continues. Demand for CE is expected to expand.

#### Tractors

The downward trend of demand is expected to continue due to the decline in crop prices and used equipment prices. Demand is expected to continue to move to higher horse power equipment increasingly in response to demand for enhancement of work efficiency.

#### Combines

Demand is expected to shrink due to intensifying competition among contractors and decline in rice prices and used equipment prices. Demand only for corn combine harvesters, which have a low mechanization rate, is expected to expand.

#### Rice transplanters

Demand is expected to continue to shrink moderately.

#### CE

Demand is expected to grow continuously due to strong urban infrastructure construction, labor shortages, and soaring labor costs, while growth rate is expected to slow in response to slowdown trend of economy.

#### Engines

Strong demand of engines for CE is expected to continue.

#### ■ Budgeted government subsidies for purchase of agricultural equipment

(Unit: billions of RMB)		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	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 year ended December 31, 2018) 21

- The volume of budgeted government subsidies for purchase of farm equipment are not determined. However, it is unlikely that the subsidies will exceed the prior year's level.
- Although there is a possibility of having rushed demand partially before the 4th exhaust emission regulations, which will be launched in 2020, the severe market condition is expected to continue due to some factors, such as intensifying competition among contractors and stagnated prices of grain and used products.
- Demand is also expected to continue to move to equipment with higher horse power and higher processing capacity.
- Tractors and rice transplanters
  - Demand is expected to continue to shrink moderately.
- Combines
  - While demand for cone combines, which have a low mechanization rate, is expected to expand, demand for combine harvesters, which are our main products, will continue to shrink moderately.
- On the assumption that demand will continue to shrink in farm equipment business, profitability is expected to be improved despite decreased sales by aiming thorough cost-cutting and a review of sales measures, such as incentive programs.
- CE
  - Demand is expected to grow continuously due to continued active infrastructure investment while growth rate is expected to slow in response to slowdown trend of Chinese economy.
  - Small sized CE (0-4t), which is our strong range, has yet to penetrate adequately in the market, and demand is expected to expand over the medium term due to labor shortages and soaring labor costs in urban areas.
- Engines
  - Demand mainly for CE is expected to remain strong.

## Recent Developments in Machinery (Japan)

For Earth, For Life  
Kubota

### Japan

Demand for farm equipment is expected to show only a slight recovery due to structural matters, such as aging of farmers, while it is expected to have the positive impact of rushed demand by the consumption tax hike and the recovery in rice prices.

Demand for CE is expected to remain at the same level as the prior year as well because Olympic Games-related demand is expected to slow.

### Farm Equipment

Demand is expected to recover moderately due to rushed demand resulting from the consumption tax hike mainly by large farmers and a recovery in rice prices. Demand by large farmers is expected to increase, while demand by small farmers is expected to decrease mainly due to aging of farmers.

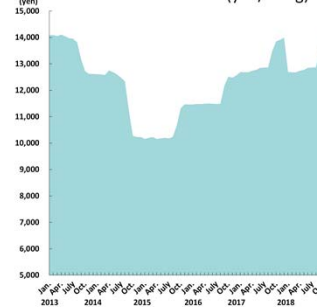
### CE

Demand is expected to remain at the same level as prior year due to a slowdown of the Olympic Games-related construction demand, while rushed demand prior to the consumption tax rate hike is expected.

### Engines

Revenue is expected to remain at the same level as the prior year due to continuing strong demand.

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



Source: Ministry of Agriculture, Forestry and Fisheries

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 22

- The impact of the elimination of government subsidies in the prior year has not been noticeable, and demand for farm equipment is expected to expand moderately mainly due to the recovery in rice prices and rushed demand mainly by the large farmers before the consumption tax hike.
- The construction market related to CE and engines is expected to be solid mainly due to increased construction of infrastructures in urban areas.
- Farm Equipment
  - While demand by small farmers is expected to decrease mainly due to aging of farmers, sales are expected to increase due to increased sales to large farmers, whose demand is expected to expand mainly due to the centralizing of farmland by agricultural administration and the expansion of subsidies to the smart agriculture sector.
- CE
  - Demand is expected to remain at the same level as the prior year due to a gradual slowdown of the Olympic Games-related construction demand, while rushed demand before the consumption tax hike is expected.
  - We aim to expand our market share by introducing new models and expanding sales to rental companies.
- Engines
  - Strong demand is expected to continue and sales are expected to remain at the same level as the prior year when sales increased significantly.

Forecast

## Anticipated Operating Results

For Earth, For Life  
Kubota

(Unit: billions of yen)	Year ending Dec. 31, 2019 (Forecast)	Year ended Dec. 31, 2018 (Actual)	Changes		Six months ending June 30, 2019 (Forecast)
			Amount	%	
<b>Revenue</b>	<b>1,970.0</b>	<b>1,850.3</b>	<b>+119.7</b>	<b>+6.5</b>	<b>995.0</b>
Domestic	626.0	577.3	+48.7	+8.4	313.0
Overseas	1,344.0	1,273.0	+71.0	+5.6	682.0
<b>Operating profit</b>	10.2% <b>200.0</b>	10.2% <b>189.3</b>	<b>+10.7</b>	<b>+5.6</b>	10.3% <b>102.0</b>
<b>Profit before income taxes</b>	10.6% <b>208.0</b>	10.7% <b>197.2</b>	<b>+10.8</b>	<b>+5.5</b>	10.7% <b>106.0</b>
<b>Profit attributable to owners of the parent</b>	7.4% <b>145.0</b>	7.5% <b>138.6</b>	<b>+6.4</b>	<b>+4.6</b>	7.3% <b>73.0</b>



## Anticipated Revenue by Reportable Segment

For Earth, For Life  
Kubota

(Unit: billions of yen)	Year ending Dec. 31, 2019 (Forecast)	Year ended Dec. 31, 2018 (Actual)	Changes	
			Amount	%
<b>Machinery</b>	<b>1,610.0</b>	<b>1,527.6</b>	<b>+82.4</b>	<b>+5.4</b>
Domestic	323.0	308.9	+14.1	+4.6
Overseas	1,287.0	1,218.7	+68.3	+5.6
<b>Water</b>	<b>329.0</b>	<b>292.3</b>	<b>+36.7</b>	<b>+12.6</b>
Domestic	272.0	238.4	+33.6	+14.1
Overseas	57.0	53.9	+3.1	+5.8
<b>Other</b>	<b>31.0</b>	<b>30.4</b>	<b>+0.6</b>	<b>+2.0</b>
Domestic	31.0	30.0	+1.0	+3.3
Overseas	-	0.4	-0.4	-100.0
<b>Total revenue</b>	<b>1,970.0</b>	<b>1,850.3</b>	<b>+119.7</b>	<b>+6.5</b>
<b>Domestic revenue</b>	<b>626.0</b>	<b>577.3</b>	<b>+48.7</b>	<b>+8.4</b>
<b>Overseas revenue</b>	<b>1,344.0</b>	<b>1,273.0</b>	<b>+71.0</b>	<b>+5.6</b>

For reference: Changes excluding the effects of fluctuation in exchange [-47.0 billion yen]  
 >Overseas revenue in Machinery is forecast to increase by 9%. Total overseas revenue is forecast to increase by 9%.

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 25

- Domestic
  - Revenue in Water & Environment is expected to increase significantly mainly due to a project to reduce the volume of radioactive contaminated waste in Futaba Town, Fukushima Prefecture.
  - Revenue in Farm & Industrial Machinery is also expected to increase due to increased sales of farm equipment, agricultural-related products, and CE.
- Overseas
  - Revenue from CE and tractors in Farm & Industrial machinery are expected to increase significantly, while revenue in Water & Environment is expected to increase slightly.
  - Fluctuation of exchange rate is expected to decrease revenue by 47.0 billion yen because the yen will appreciate against all major currencies such as U.S. dollar, Euro, Baht, and RMB.

## Anticipated Operating Profit

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Kubota

(Unit: billions of yen)	Year ending Dec. 31, 2019 (Forecast)		Year ended Dec. 31, 2018 (Actual)		Changes	
	Amount	%	Amount	%	Amount	%
<b>Operating profit</b>	200.0	10.2	189.3	10.2	+10.7	+5.6

### Factors affecting operating profit (YoY change +10.7 billion yen)

<b>1. Fluctuation in exchange rates</b>	US\$ (110→108) Euro (130→122) Other currencies	-3.0 billion yen -5.5 billion yen -6.0 billion yen	}	<b>-14.5 billion yen</b>
<b>2. Foreign exchange gain/loss</b>				
<b>3. Material</b>	Machinery Water	-9.0 billion yen -2.0 billion yen	}	<b>-11.0 billion yen</b>
<b>4. Change in sales incentive ratio</b>	North America : -7.6 billion yen, China: +0.8 billion yen etc.			
<b>5. Impact of increased sales</b>				<b>+46.0 billion yen</b>
<b>6. Sales price increase</b>				<b>+15.0 billion yen</b>
<b>7. Other</b>				<b>-22.0 billion yen</b>

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- The foreign exchange sensitivity of U.S. dollar is 2.7 billion yen per one yen change in the value of U.S. dollar and that of Euro is 0.7 billion yen per one yen change in the value of Euro.
  - Due to increased exports denominated in each currency, the sensitivity of U.S. dollar has been changed from the previous 2.0 billion yen, and those of Euro has been changed from the previous 0.6 billion yen.
- In this fiscal year, the whole effect from raised product prices will contribute to an increase of 15.0 billion yen in operating profit, including raised product prices in the U.S. since 2013.
- Negative impact of *Others* (- 22.0 billion yen) is mainly due to an increase in selling expenses and fixed manufacturing costs.

## Anticipated Operating Profit by Reportable Segment

For Earth, For Life  
Kubota

(Unit: billions of yen)		Year ending Dec. 31, 2019 (Forecast)	Year ended Dec. 31, 2018 (Actual)	Changes
<b>Machinery</b>	Revenue	1,610.0	1,527.6	+82.4
	Operating profit	207.0	200.9	+6.1
	OP margin	12.9%	13.2%	-0.3P
<b>Water</b>	Revenue	329.0	292.3	+36.7
	Operating profit	20.0	19.9	+0.1
	OP margin	6.1%	6.8%	-0.7P
<b>Other</b>	Revenue	31.0	30.4	+0.6
	Operating profit	3.0	3.0	-0.0
	OP margin	9.7%	9.9%	-0.2P
<b>Adjustment</b>	Operating profit	-30.0	-34.5	+4.5
<b>Total</b>	Revenue	1,970.0	1,850.3	+119.7
	Operating profit	200.0	189.3	+10.7
	OP margin	10.2%	10.2%	-0.1P

## Exchange Rate, CAPEX, Depreciation and R&D Expenses

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### ■ Anticipated foreign exchange rate

		Year ending Dec. 31, 2019	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
		(Forecast)	(Actual)	(Actual)
¥/US\$	1st Half (Jan.-Jun.)	108	109	112
	2nd half (Jul.-Dec.)	108	112	112
	Full year average (Jan.-Dec.)	108	110	112
¥/Euro	1st Half (Jan.-Jun.)	122	132	122
	2nd half (Jul.-Dec.)	122	129	132
	Full year average (Jan.-Dec.)	122	130	127

### ■ CAPEX, Depreciation and R&D expenses

(Unit: billions of yen)	Year ending Dec. 31, 2019	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
	(Forecast)	(Actual)	(Actual)
Capital expenditures	100.0	64.1	52.2
Depreciation and amortization	51.0	49.6	45.1
R&D expenses	60.0	53.8	43.4

KUBOTA Corporation (Financial results for the year ended December 31, 2018) 28

- Capital expenditure is up to 100 billion yen.
  - In this fiscal year, we plan to invest in the acquisition of land for the establishment of a new R&D base in Japan and the start-up of the production of new models in engines.

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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