

Financial Results for the six months ended June 30, 2019



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Financial Summary

For Earth, For Life
Kubota

(Unit: billions of yen)	Six months ended June 30, 2019	Six months ended June 30, 2018	Changes		Variance from forecast (Feb. 2019)	
			Amount	%	Amount	%
Revenue	970.8	906.2	+64.6	+7.1	-24.2	-2.4
Domestic	310.1	286.5	+23.6	+8.3	-2.9	-0.9
Overseas	660.7	619.7	+41.0	+6.6	-21.3	-3.1
Operating profit	11.4% 110.9	11.2% 101.1	+9.8	+9.7	+8.9	+8.8
Profit before income taxes	11.8% 114.6	11.6% 105.2	+9.5	+9.0	+8.6	+8.2
Profit attributable to owners of the parent	8.4% 81.2	7.9% 71.9	+9.3	+12.9	+8.2	+11.2

(Unit: billions of yen)	As of June 30, 2019	As of Dec. 31, 2018	Changes	
			Amount	%
Total assets	3,034.3	2,895.7	+138.7	+4.8
Equity attributable to owners of the parent	1,380.5	1,339.9	+40.7	+3.0

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 2

- Variance from the forecast announced in February, 2019.
 - ✓ The shortfall of revenue was because wholesales in the U.S. and Europe were carried over to the second half of this year, sales in Australia were stagnant, where there was the negative effect from drought, and sales in Myanmar decreased, where there was the negative effect from the depreciation of local currency, compared to our forecasts.

Revenue by Reportable Segment

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(Unit: billions of yen)	Six months ended June 30, 2019	Six months ended June 30, 2018	Changes	
			Amount	%
Farm & Industrial Machinery (Machinery)	808.8	751.0	+57.8	+7.7
Domestic	167.1	155.9	+11.2	+7.2
Overseas	641.7	595.1	+46.7	+7.8
Water & Environment (Water)	146.1	140.4	+5.7	+4.1
Domestic	127.3	115.9	+11.4	+9.8
Overseas	18.8	24.5	-5.7	-23.3
Other	15.9	14.8	+1.1	+7.3
Domestic	15.7	14.6	+1.0	+7.2
Overseas	0.2	0.2	+0.0	+18.3
Total revenue	970.8	906.2	+64.6	+7.1
Domestic revenue	310.1	286.5	+23.6	+8.3
Overseas revenue	660.7	619.7	+41.0	+6.6

For reference: Changes excluding the effects of fluctuation in exchange [-10.0 billion yen]
>Overseas revenue in Machinery increased by 9%. Total overseas revenue increased by 8%.

Revenue by Reportable Segment (Year-on-Year)

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Machinery: +57.8 billion yen (Domestic: +11.2, Overseas: +46.7)

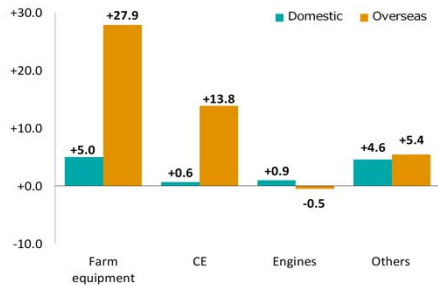
Domestic

- With respect to farm equipment, sales of tractors, rice transplanters and combine harvesters increased.
- Sales of construction machinery (CE) and engines also increased.

Overseas

- Sales of tractors increased due to strong sales in the major regions, such as North America, Europe, and Thailand.
- Sales of combines and rice transplanters decreased significantly due to continuous slump of the market in China.
- Sales of CE increased due to significantly increased sales in North America.
- Sales of engines were almost at the same level as the prior year due to increased sales in North America and China, while sales in Europe decreased due to the negative effect from fluctuations in foreign exchange rates.

■ Changes in revenue by product (Billions of yen)



Water: +5.7 billion yen (Domestic: +11.4, Overseas: -5.7)

Domestic

With respect to pipe- and infrastructure-related products, sales of ductile iron pipes and construction business increased, while sales of industrial castings and spiral-welded steel pipes decreased. Sales of environment-related products increased significantly due to the construction of waste disposal and treatment facility in Futaba town.

Overseas

With respect to pipe- and infrastructure-related products, sales of ductile iron pipes to the Middle East decreased. With respect to environment-related products, sales of pumps and wastewater treatment plants (Johkasou) decreased.

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 4

① Domestic revenue in Farm & Industrial Machinery (Machinery)

- Revenue from farm equipment increased by 5.0 billion yen (+9%) from the prior year mainly due to increased sales of tractors, rice transplanters, and combine harvesters resulting from expanded demand and the positive effect from introduction of new models.
- Revenue from construction machinery (CE) increased by 0.6 billion yen (+4%) from the prior year mainly due to rushed demand before the deadline of the application for tax incentives and the consumption tax hike.
- Revenue from engines increased by 0.9 billion yen (+11%) from the prior year mainly due to strong exports to North America by domestic OEM clients.
- Revenue from Others increased by 4.6 billion yen (+6%) from the prior year mainly due to increased sales of agricultural-related products and service parts.

② Overseas revenue in Machinery

- Revenue from tractors increased by 35.8 billion yen (+17%).
 - ✓ Revenue in North America increased significantly because some shipments, which were delayed in the second half of the prior year resulting from some natural disasters, were realized in this year. In addition, increased demand for compact tractors contributed to an increase in revenue.
 - ✓ Revenue in Europe increased due to a recovery from sluggish sales in the first half of the prior year resulting from delays in the high demand season during the spring along with low temperatures, adverse reaction from rushed demand resulting from introduction of new regulation in Europe, and delays in introduction of new models.
 - ✓ Revenue in Thailand increased mainly due to stable prices of fragrant rice and cassava at a high level.
- Revenue from combine harvesters and rice transplanters decreased by 8.0 billion yen (-19%).
 - ✓ Revenue from both combine harvesters and rice transplanters decreased due to continuing deterioration of the market conditions in China, which is our major market.
- Revenue from CE increased by 13.8 billion yen (+10%).
 - ✓ Revenue in North America increased significantly due to expanded demand for mini-excavators and compact track loaders and the positive effect from newly introduced model of compact track loaders.
 - ✓ Revenue in Europe decreased mainly due to delays in shipping operations and decreased demand in the UK caused by a concern about Brexit, while revenue in Germany increased due to the expansion of demand.
 - ✓ Revenue in China decreased due to intensifying competition particularly in the market of over 4t excavators despite expanded demand.
- Revenue from engines was almost at the same level as the prior year due to increased revenue in North America and China, while there were some negative impacts of adverse reaction from rushed demand caused by tightening of emission regulations in Europe and the yen appreciation against the Euro and the British pound sterling.
- Excluding the effects of fluctuations in exchange rates, revenue in all regions excluding others areas increased. However, revenue translated in yen decreased in Europe and Asia due to the negative effect from the yen appreciation against some local currencies.

③ Water & Environment (Water)

- Domestic revenue increased by 11.4 billion yen (+10%).
 - ✓ With respect to pipe- and infrastructure-related products, revenue from ductile iron pipes and construction business of pipelines increased, while revenue from industrial castings and spiral-welded steel pipes for civil engineering work decreased.
 - ✓ Revenue from environment-related products increased significantly due to the construction of waste disposal and treatment facility in Futaba Town, Fukushima Prefecture.
- Overseas revenue decreased by 5.7 billion yen (-23%).
 - ✓ Revenue from ductile iron pipes to the Middle East decreased.

Operating Profit

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(Unit: billions of yen)	Six months ended June 30, 2019		Six months ended June 30, 2018		Changes	
	Amount	%	Amount	%	Amount	%
Operating profit	110.9	11.4	101.1	11.2	+9.8	+9.7

Factors affecting operating profit (YoY change +9.8 billion yen)

1. Fluctuation in exchange rates	US\$ (109→110 *1) Euro (132→124 *1) Other currencies	+1.5 billion yen -3.0 billion yen -1.5 billion yen	}	-3.0 billion yen
2. Foreign exchange gain/loss				
3. Material	Machinery Water	-4.0 billion yen -1.5 billion yen	}	-5.5 billion yen
4. Change in sales incentive ratio	U.S. : +8.8 billion yen etc.			
5. Impact of increased sales				+17.0 billion yen
6. Sales price increase				+6.5 billion yen
7. Other				-14.9 billion yen

*1: Exchange rates, which affected profit of exported products from Japan in consideration of the period of transportation and inventory, were as follows: US\$:111→112 Euro:133→127

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 5

- Changes in sales incentive ratio (+8.2 billion yen)
 - ✓ This positive impact was mainly due to declined interest rates in the U.S., while strong incentive programs were kept due to continuing fierce sales competition.
- Other (-14.9 billion yen)
 - ✓ This was mainly due to increases in selling, general and administrative expenses and fixed costs of factories.
 - ✓ Costs for air transport of engines decreased from the prior year.
 - ✓ Outsourcing costs related to an increase in production volume increased.

Operating Profit by Reportable Segment

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(Unit: billions of yen)		Six months ended June 30, 2019	Six months ended June 30, 2018	Changes
Machinery	Revenue	808.8	751.0	+57.8
	Operating profit	117.2	108.7	+8.4
	OP margin	14.5%	14.5%	+0.0P
Water	Revenue	146.1	140.4	+5.7
	Operating profit	9.8	9.1	+0.7
	OP margin	6.7%	6.5%	+0.2P
Other	Revenue	15.9	14.8	+1.1
	Operating profit	1.6	1.1	+0.5
	OP margin	10.2%	7.5%	+2.7P
Adjustment	Operating profit	-17.7	-17.8	+0.2
Total	Revenue	970.8	906.2	+64.6
	Operating profit	110.9	101.1	+9.8
	OP margin	11.4%	11.2%	+0.3P

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 6

- Operating profit in Machinery increased due to some positive effects from increased sales in the domestic and overseas markets, decreased sales incentive ratio resulting from declined interest rates in the U.S., and sales price hikes, which compensated for some negative effects from increased fixed costs and a rise in material prices.
- Operating profit in Water increased mainly due to some positive effects mainly from increased sales in the domestic markets and sales price hikes, which compensated for the negative effect from a rise in material prices.

Profit Before Income Taxes/ Profit for the Period

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(Unit: billions of yen)	Six months ended June 30, 2019		Six months ended June 30, 2018		Changes	
	Amount	%	Amount	%	Amount	%
Profit before income taxes	114.6	11.8	105.2	11.6	+9.5	+9.0
Profit for the period	86.7	8.9	78.1	8.6	+8.7	+11.1

Profit attributable to:

Owners of the parent	81.2	8.4	71.9	7.9	+9.3	+12.9
Non-controlling interests	5.5	0.5	6.1	0.7	-0.6	-9.5

Dividend per common share		Year ending Dec. 31, 2019	Year ended Dec. 31, 2018	Changes
		Interim	17 yen	16 yen
Year-end	(Undecided)	18 yen	-	
Total	(Undecided)	34 yen	-	

〈Basic policy for the return of profit〉

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

- We established the program of purchasing own shares not exceeding 20 billion yen.
(Term of validity: From April 24, 2019 to December 19, 2019)
- We have already purchased 11.5 billion yen of own shares as of July 31, 2019.

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 7

- We decided to pay 17 yen per common share as the interim dividend of this fiscal year, which will be 1 yen increase year on year.
- We established the program of purchasing own shares not exceeding 20.0 billion yen in April of this year and have already purchased 11.5 billion yen of own shares as of the end of July, 2019.

Statement of Financial Position (Assets)

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(Unit: billions of yen)	As of June 30, 2019	As of Dec. 31, 2018	Changes	Changes ex the effects of fluctuation in exchange
Current assets	1,708.5	1,639.5	+69.0	
Cash and cash equivalents	220.8	229.1	-8.4	
Trade receivables	688.0	660.4	+27.6	+38.0
Finance receivables	274.1	267.3	+6.9	
Inventories	392.0	370.7	+21.3	+29.0
Other	133.6	112.0	+21.6	
Noncurrent assets	1,325.8	1,256.1	+69.7	
Finance receivables	636.5	621.9	+14.6	
Other	689.3	634.2	+55.1	
Total assets	3,034.3	2,895.7	+138.7	
Total finance receivables	910.6	889.1	+21.5	+34.0
<Reference> Foreign exchange rate at the end of the term (yen)				
U.S. dollar	108	111	-3	
Euro	122	127	-5	

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 8

- Total assets increased by 138.7 billion yen (+4.8%) from the prior fiscal year - end.
- Trade receivables increased by 38.0 billion yen excluding the effects of fluctuation in exchange rate.
 - ✓ Trade receivables increased especially in North America, where sales were strong.
- Inventories increased by 29.0 billion yen excluding the effects of fluctuation in exchange rate.
 - ✓ Inventories in the U.S. increased temporarily due to delays in shipments, while inventories decreased in China, where we promoted to reduce inventories. In addition, inventories of the parent company increased mainly in steel pipes, combine harvesters, and CE whose shipment volume in the second half is normally bigger than that in the first half.
- Total current and noncurrent finance receivables increased by 34.0 billion yen excluding the effects of fluctuation in exchange rate.
 - ✓ Finance receivables increased mainly in North America and Thailand, where retail sales were strong.
 - ✓ Collection status of finance receivables remained favorable.
- “Other” of noncurrent assets increased by 55.1 billion yen.
 - ✓ This increase was mainly due to an increase in property, plant and equipment by 48.2 billion yen.
 - ✓ An increase in property, plant and equipment includes the transitory effects from recognition of right - of - use assets in this fiscal year along with adoption of new accounting standards (IFRS 16, Leases (“IFRS 16”)).

Statement of Financial Position (Liabilities)

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(Unit: billions of yen)	As of June 30, 2019	As of Dec. 31, 2018	Changes	Changes ex the effects of fluctuation in exchange
Current liabilities	936.9	922.8	+14.1	
Bonds and borrowings	322.1	349.1	-26.9	
Trade payables	322.4	306.8	+15.6	
Other	292.4	267.0	+25.4	
Noncurrent liabilities	631.0	546.4	+84.6	
Bonds and borrowings	553.0	490.2	+62.8	
Retirement benefit liabilities	15.0	14.5	+0.5	
Other	63.0	41.7	+21.3	
Total liabilities	1,568.0	1,469.2	+98.7	
Total interest-bearing liabilities	875.1	839.3	+35.9	+50.0
Net debt equity ratio	0.47	0.46	+0.02	
Net debt equity ratio (ex financial services)	-0.14	-0.18	+0.04	

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 9

- Total current and noncurrent interest-bearing liabilities increased by 50.0 billion yen excluding the effects of fluctuation in exchange rate.
 - ✓ Interest-bearing liabilities in North America increased due to an increase in finance receivables.
- Total “Other” in current and noncurrent liabilities increased by 46.7 billion yen.
 - ✓ About 34.0 billion yen of this increase was caused by recognition of lease liabilities along with adoption of IFRS 16.

Statement of Financial Position (Equity)

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(Unit: billions of yen)	As of June 30, 2019	As of Dec. 31, 2018	Changes
Equity attributable to owners of the parent	1,380.5	1,339.9	+40.7
Share capital	84.1	84.1	-
Share premium	85.0	85.3	-0.3
Retained earnings	1,197.8	1,135.4	+62.4
Other components of equity	20.8	35.3	-14.6
Exchange differences on translating foreign operations	-35.7	-19.2	-16.5
Net changes on financial assets measured at FVTOCI	56.5	54.6	+1.9
Treasury shares, at cost	-7.3	-0.3	-6.9
Non-controlling interests	85.8	86.6	-0.7
Total equity	1,466.4	1,426.4	+39.9
Ratio of equity attributable to owners of the parent to total assets	45.5%	46.3%	-0.8point

Statement of Cash Flows

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(Unit: billions of yen)	Six months ended June 30, 2019	Six months ended June 30, 2018	Changes
Net cash provided by operating activities	50.9	58.4	-7.5
Net cash used in investing activities	-64.6	-16.4	-48.2
Acquisition of property, plant, and equipment and intangible assets	-51.7	-23.8	-28.0
Other	-12.9	7.3	-20.2
Net cash provided by (used in) financing activities	6.5	-17.1	+23.6
Effect of exchange rate changes on cash and cash equivalents	-1.1	-3.8	+2.6
Net (decrease) increase in cash and cash equivalents	-8.4	21.1	-29.4
Free cash flow	-0.8	34.6	-35.5

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 11

- Net cash provided by operating activities
 - ✓ Total amount of cash inflow from profit for the period and depreciation and amortization was 117.3 billion yen. Cash outflow caused by an increase in finance receivables was 34.1 billion yen and cash outflow caused by other items was 32.4 billion yen.
 - ✓ Net cash provided by operating activities decreased by 7.5 billion yen from the prior year due to expanded growth rate of trade receivables resulting from significantly increased sales mainly in North America.
- Free cash flow decreased by 35.5 billion yen from the prior year to -0.8 billion yen.
 - ✓ This decrease was mainly due to an increase in payments for the acquisition of property, plant and equipment and intangible assets resulting from aggressive investments such as land acquisition for the construction of the new R&D facility in Japan.

Financial Services <Reference (unaudited)>

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Statement of Financial Position

(Unit: billions of yen)	As of June 30, 2019		As of Dec. 31, 2018	
	Financial services	Equipment operations	Financial services	Equipment operations
Total assets	1,110.6	2,014.6	1,101.1	1,907.1
Cash and cash equivalents	19.9	200.9	20.7	208.4
Trade receivables	34.9	655.2	31.1	631.2
Finance receivables	910.6	-	889.1	-
Inventories	-	392.0	-	370.7
Property, plant, and equipment	0.5	377.8	0.6	329.5
Other	144.7	388.8	159.6	367.3
Total liabilities	939.0	702.5	932.0	634.4
Total interest-bearing liabilities	880.3	21.8	875.7	-
Other	58.7	680.8	56.3	634.4
Total equity	171.6	1,312.1	169.1	1,272.7

Statement of Profit or Loss (Financial Services)

(Unit: billions of yen)	Six months ended	Six months ended	Changes	
	June 30, 2019	June 30, 2018	Amount	%
	Amount	Amount		
Revenue	36.3	31.5	+4.8	+15.2
Operating profit	37.1% 13.5	45.2% 14.2	-0.8	-5.3
Profit attributable to owners of the parent	22.5% 8.2	29.0% 9.1	-1.0	-10.7

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 12

- Total interest-bearing liabilities in equipment operations excluding financial services was 21.8 billion yen. Net debt (subtracting cash and cash equivalents of 200.9 billion yen from total interest-bearing liabilities) was -179.1 billion yen. Therefore, a debt-free status was maintained in equipment operations.
- Operating profit in the financial services decreased slightly due to an increase in selling, general and administrative expenses. However, profitability in financial services remained at the high level.
- High profitability in financial services was because finance receivables have been maintained at healthy status and amount of credit losses were kept in a extremely low level.

Recent Developments
In Machinery

Recent Developments in Machinery (U.S.)

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U.S.

Demand for compact tractors, CE and engines remained strong along with favorable economy. Demand for medium- and large-sized tractors slightly decreased mainly due to the negative impact of inclement weather.

Tractors / RS

Sales of compact tractors continued to expand along with solid economy and firm housing market. Sales of medium-sized tractors increased due to increased market share, while there was a negative impact of low temperatures and heavy rains in some areas. Sales of RTVs increased, while sales of lawn mowers decreased due to low temperatures.

CE / RS

Sales of mini-excavators and compact track loaders increased along with the firm housing and construction market. Sales of skid steer loaders decreased due to the shrink in market. We have started shipping a new model of compact track loaders since 2nd quarter of this year.

Engines / WS

Sales increased due to favorable 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.
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%
2019	0-40hp	+9.6%	+4.9%	-	-	+6.4%	-
	40-120hp	-1.0%	-0.1%	-	-	-0.4%	-
	0-120hp	+6.2%	+3.6%	-	-	+4.5%	-

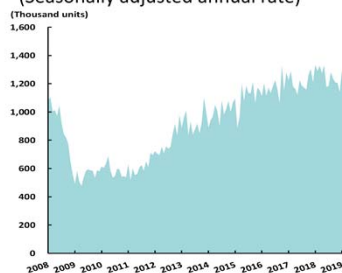
Source: AEM (Association of Equipment Manufacturers)

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.
2018		+5.9%	+15.3%	+14.1%	+0.8%	+11.6%	+9.3%
2019		+2.7%	+7.4%	-	-	+5.6%	-

Source: AEM (Association of Equipment Manufacturers)

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



Source: U.S. Census Bureau

* RS: Retail sales, WS: Wholesale

KUBOTA Corporation

(Financial results for the six months ended June 30, 2019)

14

[1st half Results]

- Economy in the U.S. continued to grow moderately, despite uncertainties in economic outlook resulting from U.S.-China trade frictions.
- In the housing market, the number of housing starts (SAAR) remained at a high level of around 1.2 million, although the positive effect from declined interest rates hasn't appeared so much. In addition, housing prices also remained firm.
- Stock markets remained at a high level, while there were some fluctuations.

① Tractors

- Market conditions
 - ✓ Demand for compact tractors (0-40hp), mainly for home owners, expanded steadily by 6.4% from the prior year. However, temperatures in May and June were lower than usual, and the growth in the market slowed down.
 - ✓ Demand for medium-sized tractors (40-120hp) decreased slightly due to the negative effects from low temperatures and heavy rains mainly in the northern and mid-western areas.
 - ✓ Demand for large-sized tractors (120-160hp), in which our large-sized tractors (M7) were categorized, declined by 1.0% from the prior year due to uncertainty about the agricultural market caused by inclement weather and U.S.-China trade frictions.
- Our retail sales of tractor category including tractors, lawn mowers, and UVs increased by 6.0% from the prior year.
 - ✓ Although demand for compact tractors remained solid, the growth of retail sales in the second quarter slowed down due to low temperatures and heavy rains in some regions in May and June.
 - ✓ Our retail sales of medium-sized tractors increased due to increased market share, while demand for them slightly decreased from the prior year for the same reasons.
 - ✓ Our retail sales of large-sized tractors declined due to a shrink in the market.
 - ✓ Our retail sales of lawn mowers were almost at the same level as the prior year due to the delays in lawn growth caused by low temperatures.
 - ✓ Our retail sales of UVs grew due to the full-scale retail sales of gasoline engine-equipped and high-speed UVs, which had introduced in the prior year.
- Sales of implements of Great Plains Manufacturing, Inc. increased slightly due to strong sales for small- and medium-sized equipment, while sales for large-sized equipment decreased.

② CE

- Market conditions
 - ✓ Demand for mini-excavators and compact truck loaders increased due to solid demand for construction.
 - ✓ On the other hand, demand for skid steer loaders decreased mainly due to the continuing uncertainty in the agricultural market and the shift of demand to compact truck loaders in the construction market.
- Total retail sales increased by 4% from the prior year.
 - ✓ Our retail sales of mini-excavators and compact truck loaders mainly for general customers (other than rental companies), for which we have strengths, increased, while our retail sales of skid steer loaders decreased.
- We have started wholesale of a new model of compact truck loaders since 2nd quarter of this year.

③ Engines

- Sales of engines increased due to strong demand for oil and energy market and favorable demand for construction and industrial machinery.

[Forecasts for 2nd half]

- Although economic uncertainty will remain, demand for compact tractors for home owners is expected to continue to expand.
- Demand for medium-sized tractors and agricultural-use tractors is also expected to recover along with a improvement of weather condition.
- Demand for CE is expected to continue to expand as well. Especially, our sales of compact truck loaders are expected to increase significantly due to the positive effects from introduction of the new model.

Recent Developments in Machinery (Europe)

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Europe

Demand for tractors recovered from the slump in the first half of the prior year caused by inclement weather and adverse reaction from rushed demand resulting from introduction of new regulation in Europe. High demand for CE continued, while there is a concern of negative impact of Brexit.

Tractors / RS

Sales of compact tractors increased due to a recovery from stagnated demand and stagnated sales in the prior year caused by delays in acquisition of certification related to new European regulations for our new products. Sales of large-sized tractors also expanded mainly due to introduction of new models, such as improved models of M7. There are concerns about the impact of drought mainly in France.

Implements / WS

Sales slightly decreased due to uncertainty about the future of the agricultural market.

CE / RS

Sales in Germany continued to grow due to strong demand for construction. Sales in UK decreased because demand shrank due to concerns about an economic downturn caused by Brexit.

Engines / WS

Sales decreased due to adverse reaction from rushed demand caused by tightening of emission regulations, while demand continued to be high level. Toward the second half of this year, it is anticipated that sales will decrease due to adverse reaction from a high level of rushed demand at the end of the prior year.

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 15

[1st half Results]

① Tractors

- Demand for tractors increased mainly due to recovery from sluggish demand in the first half of the prior year caused by inclement weather and adverse reaction from rushed demand resulting from introduction of new regulation in Europe.
- Our retail sales of tractors increased due to adverse reaction from delays in introduction of new products in the prior year caused by delays in acquisition of certification related to new European regulations, in addition to a recovery in the market from the prior year.
 - ✓ Our retail sales of large-sized tractors also increased significantly from the prior year due to the positive effects from introduction of the new models, such as improved models and special models of M7, which have started full-scale shipping since the second half of the prior year.
- Our wholesale of lawn mowers declined mainly due to the negative impact of public budget reductions in UK and drought caused by light rain. On the other hand, our wholesales of tractors increased because new products couldn't be shipped smoothly in the first half of the prior year mainly due to delays in acquisition of certification. In addition, expanded demand in each country contributed to an increase in wholesales.

② Implements

- Sales decreased slightly mainly due to uncertainty about the future of the agricultural market.

③ CE

- Demand for CE in Europe as a whole continued to grow moderately. However, demand in UK decreased from the prior year because a concern about Brexit had a negative impact on investment plans of rental companies.
- Our retail sales of CE decreased due to sluggish demand in UK.
- Our wholesales of CE decreased mainly due to delays in shipments caused by difficulties in parts procurement from suppliers and in adjusting production plans amid the high level of production. In addition, a shrink in demand in UK had negative impact on wholesales.

[Forecasts for 2nd half]

- Demand for tractors is expected to continue to expand, but the pace of expansion is expected to slow down due to drought mainly in France and economic uncertainty in some countries.
- Demand for CE is expected to continue to expand due to strong demand for construction in France and Germany, while economic conditions vary with countries.
 - ✓ However, demand in UK is expected to remain severe conditions due to a concern about the deterioration in the economy caused by Brexit.
- The rate of decline in our sales of engines is expected to expand due to adverse reaction from high level of rushed demand at the end of the prior year.
 - ✓ However, the rate of decline in value is expected to be limited due to sales price increases in response to engine emissions regulations.

Recent Developments in Machinery (Asia)

For Earth, For Life
Kubota

Thailand and neighboring countries

Although there was the negative effect from water shortage in Thailand, demand for farm equipment expanded due to stable prices of jasmine rice and cassava at a high level. With respect to neighboring countries, demand for tractors in Cambodia increased, while that in Myanmar was sluggish mainly due to the depreciation of the local currency.

Tractors / RS

Sales of tractors used in rice cropping-market increased due to stable prices of fragrant rice at a high level. With respect to dry-field cropping-market, sales were almost at the same level as the prior year due to stagnated sales for sugarcane farmers, while sales for cassava farmers were strong.

Combines / RS

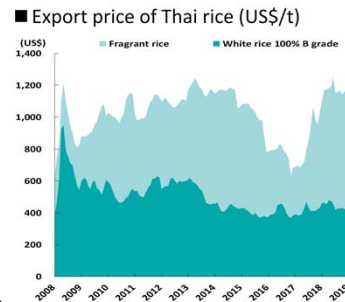
Demand recovered from the slump in the prior year due to stable prices of fragrant rice at a high level.

CE / RS

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

Exports to neighboring countries / RS

Sales in Cambodia increased due to expanded demand for dry-field cropping, such as cassava. Sales in Myanmar significantly decreased mainly due to the impact of increased costs of dealers caused by the depreciation of the local currency against the U.S. dollar.



Source: USDA, Thai Rice Exporters Association

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 16

[1st half Results]

① Tractors (Thailand)

- Demand for tractors continued to expand due to stable prices of jasmine rice and cassava at a high level despite the negative impact of water shortages.
- Our retail sales increased by 10% from the prior year.
 - ✓ Sales for dry-field cropping-market were almost at the same level as the prior year due to decreased sales for sugarcane farmers resulting from a drop in purchase prices of sugarcane, while sales for cassava farmers were strong.
 - ✓ Sales for rice cropping-market increased significantly.
- Our wholesale increased significantly due to adverse reaction from the inventory adjustment in the prior year and strong sales for rice cropping-market.

② Combine harvesters (Thailand)

- Our retail sales increased significantly due to a recovery from the slump in the prior year caused by stable rice prices at a high level.

③ CE (Thailand)

- Our retail sales continued to expand due to progress in labor shortage in urban areas.

④ Exports to neighboring countries

- In Cambodia and Laos, sales of tractors increased significantly due to increased demand for dry-field cropping, such as cassava. However, sales of combine harvesters decreased significantly due to a decrease in the planting areas of double cropping resulting from water shortages.
- Sales in Myanmar remained sluggish because the appreciation of the U.S. dollar against local currency, Myanmar Kyat, led to the deterioration in profitability of dealers and product price increases. In addition, a drop in grain prices resulting from the decline in exports to China had a negative impact on sales.
- Our wholesale decreased due to the significant impacts of decreased sales of combine harvesters and stagnated sales in Myanmar.

[Forecasts for 2nd half]

- Sales are expected to continue to increase due to high grain prices, while there is a concern about the impact of water shortage in Thailand.
- In Cambodia, sales of tractors are expected to remain firm due to high grain prices such as cassava.
- With respect to combine harvesters, whose sales were sluggish in the first half of this year, the full-fledged sales season for single rice cropping will begin and demand is expected to recover due to resolution of water shortage.
- Demand in Myanmar is not expected to recover significantly because it is difficult to expect the correction of appreciated U.S. dollar against Myanmar Kyat.
 - ✓ However, sales in second half of this year are expected to exceed the prior year's level because the sharp decrease in the market caused by the impact of fluctuations in foreign exchange rates began in the second half of the prior year.
- As a result, total revenue is expected to increase in Thailand as a whole, including the 3 neighboring countries.

Recent Developments in Machinery (Asia)

For Earth, For Life
Kubota

China

Budgeted government subsidies for purchasers of farm equipment decreased slightly from the prior year. Demand for farm equipment shrank due to a continuing deterioration in profitability of contractors caused by drop in prices of rice and used machinery. Demand for CE and engines continued to expand, while the pace of their expansion slowed down.

Tractors / RS

Sales decreased due to a shift in demand to high hp range and users' preference for low-priced products with low initial costs due to a deterioration in profitability of users.

Combines / RS

Sales decreased due to declined demand for repurchases caused by a deterioration in profitability of contractors and continuous shift in demand to equipment with high processing capacity.

Rice transplanters / RS

Sales decreased mainly due to a decline in purchase motivation caused by a drop in rice prices and a shrink in demand resulting from a shift to dry-field cropping and others from rice cropping.

CE / RS

Sales decreased due to decreased sales of over 4t excavators resulting from intensified competition. On the other hand, sales of 0-4t excavators, whose penetration rate is still low, increased.

Engines / WS

Sales mainly for construction and industrial machinery continued to be strong.

■ Budgeted government subsidies for purchasers of farm equipment

(Unit: billions of RMB)		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Subsidies	1st stage	-	-	-	11.0	13.0	20.0	17.0	21.0	22.8	18.6	18.6	18.0
	Full year	4.0	13.0	15.5	17.5	21.5	21.8	23.8	23.8	23.7	18.6	18.6	18.0

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 17

[1st half Results]

① Farm equipment

- Budgeted government subsidies for purchasers of farm equipment decreased slightly from the prior year to 18.0 billion RMB.
- However, demand for farm equipment continued to shrink due to a drop in prices of rice and used machinery and a deterioration in profitability of contractors caused by intensifying competition among them.
- Our retail sales of combine harvesters, rice transplanters, and tractors decreased.
 - ✓ Our retail sales of tractors were almost at the same level as the prior year due to a shift in demand to low-cost and high-horsepower equipment caused by deterioration in profitability of users.
 - ✓ Our retail sales of combine harvesters decreased due to shrinking of the market as a result of the deterioration in profitability of contractors, who highly evaluate strengths of our products such as the durability and harvesting efficiency. In addition, part of the market needs moved to low-priced products resulting from such a circumstance, and this shift impacted our sales negatively as well.
 - ✓ Our retail sales of rice transplanters also decreased due to declined demand due to the slump in rice prices and a shift from rice cropping to cultivation and other crops.
 - ✓ We will rebuild our business by reviewing our product strategy and placing more focus on sales to group farmers.

② CE

- Demand for CE expanded due to an increase in construction volume, soaring labor costs, and labor shortages.
- Our retail sales of 0-4t excavators for which we have strengths increased. However, our retail sales of CE in total decreased because we refrained from excessive *low-price* sales of over 4t excavators market, where competitions have been intensified due to low-price sales mainly by local manufactures and Korean, European, and American manufactures which followed them.

③ Engines

- Sales mainly for construction and industrial machinery increased significantly.

[Forecasts for 2nd half]

- Severe market condition of farm equipment is expected to continue.
 - ✓ We will make efforts to secure business result by improving our services, conducting sales activities which meet the characteristics of each region and reducing costs and

inventories.

- Sales of CE are expected to continue the same trend as the first half of this year, when sales of 0-4t excavators grew and sales of over 4t excavators decreased.
- Sales of engines are expected to continue to be strong, mainly for construction and industrial machinery.

Recent Developments in Machinery (Japan)

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Japan

Despite structural factors, such as a decline in the number of farmers, demand for farm equipment remained firm due to a recovery in rice prices and rushed demand before the consumption tax hike. Sales of construction machinery and engines remained strong due to strong demand for construction and industrial machinery.

Farm equipment / RS

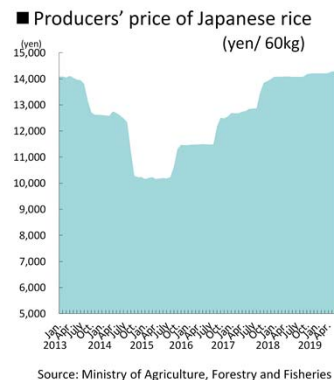
Sales of tractors increased due to introduction of new models in addition to expanded demand. Sales of combine harvesters also increased. However, sales in value were almost at the same level as the prior year due to decreased sales of large-sized equipment caused by adverse reaction from strong sales in the prior year. Sales of rice transplanters increased due to strong sales of large-sized equipment despite the same level of sales in volume.

CE / RS

Sales increased mainly due to solid demand for construction and rushed demand before the end of March 2019, which was the initial deadline of the application for tax incentives.

Engines / WS

Sales increased due to strong demand for construction and industrial machinery, such as exports to North America by OEM clients.



KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 18

[1st half Results]

① Farm equipment

- The market of tractors and combine harvesters expanded due to a recovery in rice prices and rushed demand before the consumption tax hike, despite some structural problems such as a decline in the number of farmers.
- The market of rice transplanters, which are relatively cheap, remained at the same level as the prior year because the impact of rushed demand before the consumption tax hike was small.
- Our retail sales of tractors increased due to a recovery in rice prices, rushed demand before the consumption tax hike, and the positive effects from the introduction of new models.
- Our retail sales of combine harvesters increased on a volume basis, but remained flat on a value basis. Sales of large-sized combine harvesters decreased due to the adverse reaction from the extremely strong sales of the products produced before the tightening of emission regulations in the prior year, while sales of small- and medium-sized combine harvesters increased.
- Retail sales of rice transplanters were flat on a volume basis and increased on a value basis due to increased sales of large-sized new products, which compensated for decreased sales of small-sized products.
- The total market share of 3 types of products increased due to an increase in the shares of tractors and rice transplanters, while the share of combine harvesters decreased slightly.

② CE

- Market, supported by firm construction demand and the rushed demand before the initial deadline of tax incentives at the end of March of this year, expanded.

③ Engines

- Sales were firm due to the strong demand for construction and industrial machinery.

[Forecasts for 2nd half]

- Market of farm equipment is expected to increase moderately for the second half of this year as a whole. The rushed demand is expected before the consumption tax hike in September of this year, while the adverse reaction from rushed demand is expected after September.
- We will make efforts to expand our business by strengthening marketing for large farmers, such as the 130th anniversary campaign.
- Market of CE is expected to increase moderately. Positive effects are expected from the rushed demand before the consumption tax hike and the extension of the tax incentives until the end of March 2021, while adverse reaction from rushed demand after the consumption tax hike is expected.
- Sales of engines are expected to continue to be firm.

Forecast

Anticipated Operating Results

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The forecast for the year ending Dec. 31, 2019 remained unchanged from the previous announcement on Feb. 14, 2019.

(Unit: billions of yen)	Year ending Dec. 31, 2019 (Forecast - Feb. 2019)	Year ended Dec. 31, 2018 (Actual)	Changes	
			Amount	%
Revenue	1,970.0	1,850.3	+119.7	+6.5
Domestic	626.0	577.3	+48.7	+8.4
Overseas	1,344.0	1,273.0	+71.0	+5.6
Operating profit	10.2% 200.0	10.2% 189.3	+10.7	+5.6
Profit before income taxes	10.6% 208.0	10.7% 197.2	+10.8	+5.5
Profit attributable to owners of the parent	7.4% 145.0	7.5% 138.6	+6.4	+4.6

(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 six months ended June 30, 2019) 20

- Forecasts for the year ending Dec. 31, 2019 remain unchanged from the original forecast in Feb. 2019.
- Revenue of 1,970 billion yen is within sights, and operating profit of 200 billion yen is expected to be fully achievable.
- Revenue in the first half of this year fell short of the original forecast, but this was largely attributable to delays in wholesales in the U.S. and Europe. In the domestic business of Water, there were some delays of the shipment timing in the project in Futaba-town, Fukushima Prefecture as well.
- These delays were carried over to the second half of this year, and the decrease in incentive costs resulting from a decline in interest rates in North America is also expected to contribute to higher revenue and profit than the original forecasts. Therefore, it is expected to be possible that the shortfall in revenue in the first half of this year from the original forecast will be absorbed in the second half of this year on the assumption of our forecast of the foreign exchange rates.
- On the other hand, there are concerns about the negative effects from the Brexit in Europe and uncertainty about the economic outlook in North America.
- Besides them, there are some negative factors including water shortages in Thailand and unstable exchange rate movements, so our business environment is uncertain.
- Under these circumstances, we refrained from the upward revision of profit, while the profit in the first half of this year exceeded both the results of the prior year and the original forecasts.

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
		(Forecast)	(Original forecast)	(Actual)	(Actual)
¥/US\$	1st Half (Jan.-Jun.)	-	108	110	109
	2nd half (Jul.-Dec.)	106	108	-	112
	Full year average (Jan.-Dec.)	108	108	-	110
¥/Euro	1st Half (Jan.-Jun.)	-	122	124	132
	2nd half (Jul.-Dec.)	120	122	-	129
	Full year average (Jan.-Dec.)	122	122	-	130

■ CAPEX, Depreciation and R&D expenses

(Unit: billions of yen)	Year ending Dec. 31, 2019		Year ended Dec. 31, 2018
	(Forecast)	(Original forecast)	(Actual)
Capital expenditures *1	100.0	100.0	64.1
Depreciation and amortization *1	51.0	51.0	49.6
R&D expenses	60.0	60.0	53.8

*1 : Recognition of right-of-use assets and depreciation of right-of-use assets along with adoption of IFRS 16 *Leases* are not included.

KUBOTA Corporation (Financial results for the six months ended June 30, 2019) 21

- There is no change in the forecasts for the full year average exchange rates, but the U.S. dollar and the Euro in the second half of this year are forecast to be 106 yen and 120 yen respectively.
- The forecasts of "capital expenditures" and "depreciation and amortization" don't include the recognition of right-of-use assets and depreciation of right-of-use assets along with adoption of IFRS 16.

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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