[Translation]

# Annual Securities Report

(The 128th Business Term)
From January 1, 2017 to December 31, 2017

2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, JAPAN

Kubota Corporation

TABLE OF CONTENTS

COVER

| | |
|---|---|
| [Document Filed] | Annual Securities Report (“Yukashoken Hokokusho”) |
| [Applicable Law] | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| [Filed to] | Director, Kanto Local Finance Bureau |
| [Filing Date] | March 23, 2018 |
| [Fiscal Year] | 128th Business Term<br>(from January 1, 2017 to December 31, 2017) |
| [Company Name] | Kabushiki Kaisha Kubota |
| [Company Name in English] | Kubota Corporation |
| [Title and Name of Representative] | Masatoshi Kimata, President and Representative Director |
| [Address of Head Office] | 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, JAPAN |
| [Phone No.] | +81-6-6648-2622 |
| [Contact Person] | Setsuo Harashima, General Manager of Accounting Dept. |
| [Contact Address] | 1-3, Kyobashi 2-chome, Chuo-ku, Tokyo, JAPAN,<br>Kubota Corporation, Tokyo Head Office |
| [Phone No.] | +81-3-3245-3111 |
| [Contact Person] | Tamaki Kunimasa, General Manager of Tokyo Administration Dept. |
| [Place Where Available for Public Inspection] | Kubota Corporation, Hanshin Office<br>(1-1, Hama 1-chome, Amagasaki-shi, Hyogo, JAPAN)<br><br>Kubota Corporation, Tokyo Head Office<br>(1-3, Kyobashi 2-chome, Chuo-ku, Tokyo, JAPAN)<br><br>Kubota Corporation, Chubu Regional Office<br>(22-8, Meieki 3-chome, Nakamura-ku, Nagoya, JAPAN)<br><br>Kubota Corporation, Yokohama Branch<br>(6, Onoe-cho 1-chome, Naka-ku, Yokohama, JAPAN)<br><br>Tokyo Stock Exchange, Inc.<br>(2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo, JAPAN) |

---

This is an English translation of the original Annual Securities Report (“Yukashoken Hokokusho”) filed with the Director of the Kanto Local Finance Bureau via Electronic Disclosure for Investors’ NETwork (“EDINET”) pursuant to the Financial Instruments and Exchange Act of Japan.

The translations of the Independent Auditors’ Report (filed under the Financial Instruments and Exchange Act of Japan), the Confirmation Letter, and Management’s Report on Internal Control over Financial Reporting for the original Annual Securities Report are included at the end of this document.

For the purposed of this Annual Securities Report, the “Company” refers to Kubota Corporation and its subsidiaries unless context indicates otherwise.

References in this document to the “Financial Instruments and Exchange Act of Japan” are to the Financial Instruments and Exchange Act of Japan and other laws and regulations amending and/or supplementing the Financial Instruments and Exchange Act of Japan.

**Cautionary Statement 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 forecasted 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; and the Company's ability to continue to gain acceptance of its products.

# 1. Overview of the Company

## 1. Key Financial Data

| Fiscal period | | 128th Business term | 127th Business term | 126th Business term | 125th Business term | 124th Business term | 123rd Business term |
|---|---|---|---|---|---|---|---|
| Period ended | | December 2017 | December 2016 | December 2015 | March 2015 | March 2014 | March 2013 |
| Revenues | (¥ in millions) | 1,751,535 | 1,596,091 | 1,244,775 | 1,584,265 | 1,510,528 | 1,221,544 |
| Income before income taxes and equity in net income of affiliated companies | (¥ in millions) | 212,901 | 196,971 | 169,504 | 210,709 | 212,382 | 126,815 |
| Net income attributable to Kubota Corporation | (¥ in millions) | 136,445 | 132,485 | 110,107 | 139,534 | 132,666 | 77,761 |
| Comprehensive income | (¥ in millions) | 166,441 | 112,599 | 82,060 | 228,886 | 188,044 | 157,535 |
| Kubota Corporation shareholders' equity | (¥ in millions) | 1,301,345 | 1,198,761 | 1,140,310 | 1,100,079 | 935,757 | 794,501 |
| Total equity | (¥ in millions) | 1,385,435 | 1,271,925 | 1,218,558 | 1,178,466 | 1,001,575 | 853,193 |
| Total assets | (¥ in millions) | 2,853,930 | 2,670,582 | 2,532,926 | 2,472,163 | 2,110,687 | 1,852,577 |
| Kubota Corporation shareholders' equity per common share | (¥) | 1,054.86 | 966.19 | 916.28 | 883.10 | 748.76 | 632.59 |
| Net income attributable to Kubota Corporation per common share: | | | | | | | |
| Basic | (¥) | 110.30 | 106.58 | 88.47 | 111.68 | 105.74 | 61.91 |
| Diluted | (¥) | — | — | — | — | — | — |
| Kubota Corporation shareholders' equity ratio | (%) | 45.6 | 44.9 | 45.0 | 44.5 | 44.3 | 42.9 |
| Return on equity | (%) | 10.9 | 11.3 | 9.8 | 13.7 | 15.3 | 10.6 |
| Price earnings ratio | (times) | 20.03 | 15.65 | 21.34 | 17.04 | 12.93 | 21.61 |
| Net cash provided by operating activities | (¥ in millions) | 222,288 | 184,978 | 197,040 | 85,880 | 82,981 | 45,604 |
| Net cash used in investing activities | (¥ in millions) | (130,339) | (167,525) | (130,307) | (117,227) | (104,555) | (79,167) |
| Net cash provided by (used in) financing activities | (¥ in millions) | (32,575) | 11,364 | (27,671) | 47,994 | 6,771 | 30,864 |
| Cash and cash equivalents, end of period | (¥ in millions) | 230,720 | 169,416 | 146,286 | 112,428 | 88,405 | 98,445 |
| Number of employees (Average number of part-time employees) | (number of persons) | 39,410 (3,031) | 38,291 (3,280) | 36,233 (3,650) | 35,487 (3,981) | 33,845 (4,623) | 31,436 (4,558) |

(Notes)

1. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP".)
2. Revenues do not include consumption taxes.
3. Amounts less than presentation units are rounded.
4. "Net income attributable to Kubota Corporation per common share—Diluted" is not stated because Kubota Corporation did not have potentially dilutive common shares that were outstanding during the period.
5. Beginning with the 124th business term, the Company aligned the reporting periods of certain subsidiaries and affiliated companies with different financial statement closing dates to that of Kubota Corporation. To reflect the impact of these changes, the Company has retrospectively adjusted the consolidated financial statements for all periods presented.
6. Kubota Corporation changed its fiscal year-end from March 31 to December 31, from the 126th business term. The same changes in the fiscal year-ends were made to subsidiaries in Japan that had fiscal year-ends other than December 31. Accordingly, the 126th business term, the transitional period for the change in the fiscal year-end, was the nine-month period that commenced on April 1, 2015 and ended on December 31, 2015. In addition, certain subsidiaries and an affiliated company aligned their reporting periods, which were previously consolidated using their own reporting periods, to that of Kubota Corporation. To reflect the impact of these changes, the Company has retrospectively adjusted the consolidated financial statements for all periods presented.
7. The Company adopted a new accounting standard related to debt issuance costs on January 1, 2016. To reflect the impact of the adoption, the Company has retrospectively adjusted the consolidated financial statements for all periods presented.

## 2. History

| Month/Year | History |
|---|---|
| Feb. 1890 | Founder Gonshiro Kubota established Kubota Tekko-jo in Okuraato-cho, Minami-ku, Osaka, JAPAN and started manufacturing and sales of various cast metal products. |
| Jul. 1893 | Started production of cast iron pipes for water supply. |
| Feb. 1922 | Started production of compact engines for agro-industrial purposes. |
| Feb. 1927 | Acquired Sumidagawa Seitetsuzyo K.K. and expanded the cast iron pipes business. |
| Dec. 1930 | Established K.K. Kubota Tekko-jo and K.K. Kubota Tekko-jo Machinery Department. |
| Mar. 1937 | Consolidated K.K. Kubota Tekko-jo Machinery Department with K.K. Kubota Tekko-jo. |
| Nov. 1937 | Established Sakai Plant and started mass-production of engines for agro-industrial purposes. |
| Oct. 1940 | Established Mukogawa Plant and expanded the industrial machinery business, and started production of casting of centrifugal cast-iron pipes the following October. |
| May. 1949 | Listed on the Tokyo Stock Exchange and Osaka Securities Exchange (integrated with Tokyo Stock Exchange in July, 2013.) |
| Aug. 1950 | Adopted divisionalized organization by product. |
| Dec. 1952 | Started production of pumps in Mukogawa Machinery Plant. |
| Jun. 1953 | Changed its corporate name to Kubota Tekko K.K. |
| Apr. 1954 | Established a plant for vinyl pipes and started full production of plastic pipes. |
| Nov. 1957 | Established Kubota Kenzai Kogyo K.K. and advanced into the housing materials business. |
| Dec. 1960 | Established Funabashi Plant (relocated from Sumidagawa Plant) and completed a mass-production system of cast iron pipes. |
| May. 1961 | Established Water Laboratory. Also established the Water Treatment Division for full-scale entry into the environmental improvement business the following December. |
| May. 1962 | Established Hirakata machinery Plant and Hirakata steel casting Plant and completed building an integrated system for industrial machinery and steel casting products. |
| Jan. 1967 | Established Odawara Plant. Absorbed manufacturing sector of Kubota Kenzai Kogyo K.K. for full-scale entry into the housing materials business in June of the same year. |
| May. 1969 | Established Utsunomiya Plant and completed a mass-production system of rice transplanters and reaper binders. |
| Jun. 1972 | Absorbed Kanto Daikei Koukan K.K. Changed its name to Ichikawa Plant and continued to manufacture spiral welded steel pipes. |
| Sep. 1972 | Established Kubota Tractor Corporation in the U.S. and strengthened the selling system of tractors in North America. |
| Sep. 1973 | Established Kyuhoji Plant as a plant for precision equipment by relocating manufacturing facilities from Funademachi Plant. |
| Mar. 1974 | Established Kubota Tractor Europe S.A. (currently Kubota Europe S.A.S.) in France and strengthened the selling system for farm equipment in Europe. |
| Aug. 1975 | Established Tsukuba Plant as a specialized mass production factory for tractors. |
| Nov. 1976 | Listed on the New York Stock Exchange (delisted from it in Jul.2013). |
| Apr. 1980 | Established Kashima Plant as a specialized factory for siding materials. |
| Jan. 1985 | Established Sakai-Rinkai Plant in Sakai Plant as a specialized factory for engines. |
| Apr. 1990 | Changed its corporate name to Kubota Corporation. |
| Oct. 2002 | Established Hanshin Office as a hub for environmental engineering in the Kansai area. |
| Dec. 2003 | Separated the housing materials business and Kubota Matsushitadenko Exterior Works, Ltd. (currently KMEW Co., Ltd.) took over its business. |
| Aug. 2004 | Acquired additional shares of The Siam Kubota Industry Co., Ltd. (currently SIAM KUBOTA Corporation Co., Ltd.), which had been an affiliated company in Thailand, to make it a consolidated subsidiary and strengthened development, manufacturing, and sales of farm equipment in Southeast Asia. |
| Apr. 2005 | Established Kubota-C.I. Co., Ltd. by business integration of plastic pipes with C.I. Kasei Co., Ltd. (currently Kubota ChemiX Co., Ltd.) |
| Sep. 2007 | Established Siam Kubota Tractor Co., Ltd. (currently SIAM KUBOTA Corporation Co., Ltd.) as a manufacturing base for tractors in Thailand. |
| Dec. 2009 | Established Kubota Saudi Arabia Company, LLC as a hub for the steel casting business in Saudi Arabia. |
| Mar. 2012 | Acquired ownership interest in Kverneland ASA (currently Kverneland AS,) a manufacturer of upland farming implements in Norway, and made it a consolidated subsidiary. |
| Dec. 2013 | Established Kubota Farm Machinery Europe S.A.S. in France as a manufacturing base for upland farming tractors. |
| Jul. 2016 | Acquired ownership interest in Great Plains Manufacturing, Inc., a manufacturer of implements in the U.S., and made it a consolidated subsidiary. |

## 3. Description of Business

The Company is comprised of Kubota Corporation and 187 affiliates (as of December 31, 2017, 173 subsidiaries, including variable interest entities, and 14 affiliated companies) and engages in various fields of business and industry by providing products and services which are categorized into the three segments: Farm & Industrial Machinery, Water & Environment, and Other as of December 31, 2017.

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP. The scope of consolidation is also defined in accordance with these accounting principles. The same applies to "2. Business Overview" and "3. Property, Plant, and Equipment."

The business and role of the Company by reporting segment are as follows:

### (1) Farm & Industrial Machinery

Farm & Industrial Machinery mainly engages in manufacturing and sales of products which are comprised of farm equipment, agricultural-related products, engines, construction machinery, and electronic equipped machinery.

1) Main Products

| | |
|---|---|
| Farm equipment and agricultural-related products | Tractors, Power tillers, Combine harvesters, Rice transplanters, Lawn mowers, Utility vehicles, Other agricultural machineries, Implements, Attachments, Post-harvest machineries, Vegetable production equipment, Other equipment for agricultural use, Cooperative drying facilities, Rice seedling facilities, Rice mill plants, and Gardening facilities |
| Engines | Engines (for farming, construction, industrial machinery, and generators) |
| Construction machinery | Mini excavators, Wheel loaders, Compact track loaders, Skid steer loaders, and Other construction machinery related products |
| Electronic equipped machinery | Scales, Weighing and measuring control systems, Air-conditioning equipment, and Air purifier with humidification function |

2) Main Subsidiaries and Affiliated Companies

(Manufacturing and Sales)

(Domestic) Kubota Air Conditioner, Ltd.

(Overseas) Kubota Manufacturing of America Corporation
Kubota Industrial Equipment Corporation
Great Plains Manufacturing, Inc. and its 19 subsidiaries
Kubota Farm Machinery Europe S.A.S
Kubota Baumaschinen GmbH,
Kverneland AS and its 35 subsidiaries
Kubota Agricultural Machinery (SUZHOU) Co., Ltd.
Kubota Construction Machinery (Wuxi) Co., Ltd.
SIAM KUBOTA Corporation Co., Ltd.
KUBOTA Engine (Thailand) Co., Ltd.

(Sales and Other Services)

(Domestic) 15 farm equipment sales companies including Hokkaido Kubota Corporation
KUBOTA Construction Machinery Japan Corporation

(Overseas) Kubota North America Corporation
Kubota Tractor Corporation
Kubota Engine America Corporation
Kubota Canada Ltd.
Kubota Holdings Europe B.V.
Kubota Europe S.A.S.,
Kubota (Deutschland) GmbH

Kubota (U.K.) Ltd.
Kubota Tractor Australia Pty Ltd

(Financial Leasing)

(Domestic) Kubota Credit Co., Ltd.

(Overseas) Kubota Credit Corporation, U.S.A.
Siam Kubota Leasing Co., Ltd.

## (2) Water & Environment

Water & Environment mainly engages in manufacturing and sales of pipe-related products (ductile iron pipes, plastic pipes, pumps, valves, and other products), environment-related products (environmental control plants and other products), and social infrastructure-related products (industrial casting, ceramics, spiral welded steel pipes, and other products).

1) Main Products

| | |
|---|---|
| Pipe-related products | Ductile iron pipes, Plastic pipes, Pumps and plants, Valves, Single stack drain fittings, and Design and construction of construction works |
| Environment-related products | Waste water treatment equipment and plants, Water purification plants, Membrane solutions, Night-soil treatment plants, Waste incinerating and melting plants, Waste shredding and sorting plants, Flue gas desulfurization apparatus, Membrane methane fermentation plants, Wastewater treatment plant (Johkasou), and Bathtubs |
| Social infrastructure-related products | Reformer and cracking tubes, Hearth rolls, Rolls for steel mills, Ceramics, TXAX (friction materials), and Spiral welded steel pipes (steel pipe piles, steel pipe sheet piles) |

2) Main Subsidiaries and Affiliated Companies

(Manufacturing and Sales)

(Domestic) Kubota ChemiX Co., Ltd.
NIPPON PLASTIC INDUSTRY CO., LTD.

(Overseas) Kubota Materials Canada Corporation
Kubota Saudi Arabia Company, LLC

(Maintenance and Repair)

(Domestic) Kubota Environmental Service Co., Ltd.

(Design and Construction)

(Domestic) Kubota Construction Co., Ltd.

## (3) Other

Other mainly engages in offering a variety of other services.

1) Main Products

| | |
|---|---|
| Other | Services, such as logistics, financing, and roofing and siding materials |

2) Main Subsidiaries and Affiliated Companies

(Manufacturing and Sales)

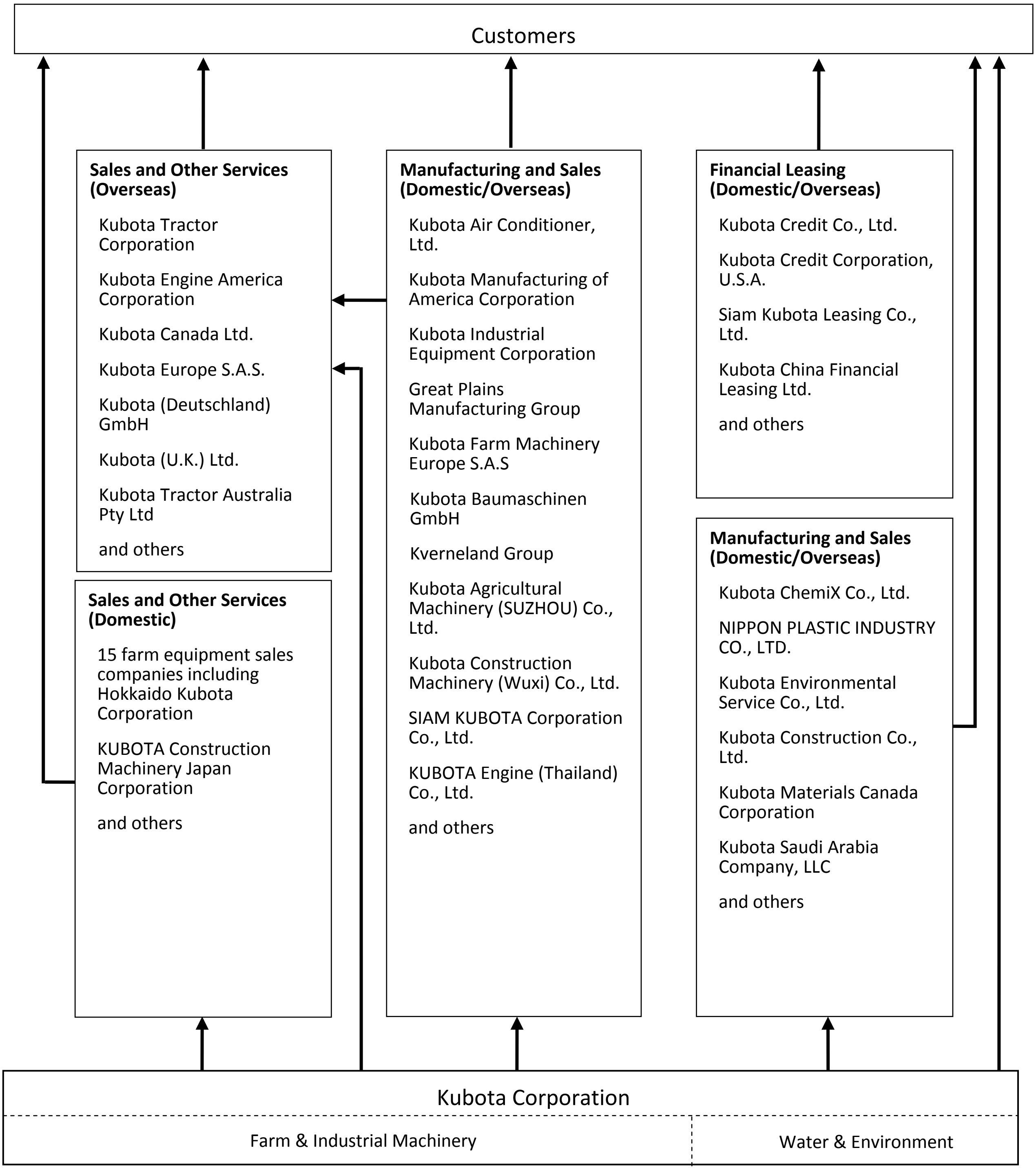
(Domestic) KMEW Co., Ltd.

(Other Services)

(Domestic) KUBOTA LOGISTICS Corporation

(Overseas) Kubota China Holdings Co., Ltd.,
Kubota China Financial Leasing Ltd.

(Business distribution diagram)


Customers
Sales and Other Services (Overseas)
Kubota Tractor Corporation
Kubota Engine America Corporation
Kubota Canada Ltd.
Kubota Europe S.A.S.
Kubota (Deutschland) GmbH
Kubota (U.K.) Ltd.
Kubota Tractor Australia Pty Ltd
and others
Sales and Other Services (Domestic)
15 farm equipment sales companies including Hokkaido Kubota Corporation
KUBOTA Construction Machinery Japan Corporation
and others
Manufacturing and Sales (Domestic/Overseas)
Kubota Air Conditioner, Ltd.
Kubota Manufacturing of America Corporation
Kubota Industrial Equipment Corporation
Great Plains Manufacturing Group
Kubota Farm Machinery Europe S.A.S
Kubota Baumaschinen GmbH
Kverneland Group
Kubota Agricultural Machinery (SUZHOU) Co., Ltd.
Kubota Construction Machinery (Wuxi) Co., Ltd.
SIAM KUBOTA Corporation Co., Ltd.
KUBOTA Engine (Thailand) Co., Ltd.
and others
Financial Leasing (Domestic/Overseas)
Kubota Credit Co., Ltd.
Kubota Credit Corporation, U.S.A.
Siam Kubota Leasing Co., Ltd.
Kubota China Financial Leasing Ltd.
and others
Manufacturing and Sales (Domestic/Overseas)
Kubota ChemiX Co., Ltd.
NIPPON PLASTIC INDUSTRY CO., LTD.
Kubota Environmental Service Co., Ltd.
Kubota Construction Co., Ltd.
Kubota Materials Canada Corporation
Kubota Saudi Arabia Company, LLC
and others
Kubota Corporation
Farm & Industrial Machinery
Water & Environment

## 4. Information on Subsidiaries and Affiliated Companies

(As of December 31, 2017)

| Company Name | Location | Common stock (¥ in millions) | Principal business activities | Ownership percentage of voting rights (%) | Relationship<br>Business transaction, etc. |
|---|---|---|---|---|---|
| (Subsidiaries) | | | | | |
| 8 domestic farm equipment sales companies including Hokkaido Kubota Corporation | Nishi-ku, Sapporo, JAPAN, etc. | 100 | Sales of farm equipment, etc. | 78.7 | Lease of facilities from Kubota Corporation and sales of Kubota Corporation's products |
| KUBOTA Construction Machinery Japan Corporation | Amagasaki-shi, Hyogo, JAPAN | 300 | Sales of construction machinery, etc. | 100.0 | Lease of facilities from Kubota Corporation and sales of Kubota Corporation's products |
| Kubota Credit Co., Ltd. | Naniwa-ku, Osaka, JAPAN | 500 | Retail financing to purchasers of farm equipment, and related products | (22.9)<br>77.8 | Loans from Kubota Corporation, lease of facilities from Kubota Corporation, credit guarantees, and interlocking Directors |
| KUBOTA Seiki Co., Ltd. | Mihara-ku, Sakai, JAPAN | 480 | Manufacturing and sales of hydraulic equipment | 100.0 | Material supplies to Kubota Corporation |
| Kubota Machinery Trading Co., Ltd. | Naniwa-ku, Osaka, JAPAN | 30 | Export and import of repair parts related to farm equipment, engines, and construction machinery | 100.0 | Lease of facilities from Kubota Corporation and material supplies to Kubota Corporation |
| Kubota Engine Japan Corporation | Naniwa-ku, Osaka, JAPAN | 310 | Sales, service, and engineering of industrial engines for OEM | 100.0 | Lease of facilities from Kubota Corporation and sales of Kubota Corporation's products |
| Kubota Air Conditioner, Ltd. | Chuo-ku, Tokyo, JAPAN | 400 | Manufacturing, sales, and maintenance of air conditioning equipment for business use | 100.0 | Loans from Kubota Corporation and lease of facilities from Kubota Corporation |
| Kubota North America Corporation. (Note 3) | Delaware, U.S.A. | (thousands of US$) 597,100 | Administration of subsidiaries in North America | 100.0 | Interlocking Directors |
| Kubota Tractor Corporation (Note 3) (Note 4) | Texas, U.S.A. | (thousands of US$) 37,000 | Sales of tractors, outdoor power equipment, construction machinery, and implements | (100.0)<br>100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota Credit Corporation U.S.A. | Texas, U.S.A. | (thousands of US$) 8,000 | Retail financing to purchasers of tractors, outdoor power equipment, construction machinery, and implements | (90.0)<br>100.0 | Interlocking Directors |
| Kubota Manufacturing of America Corporation | Georgia, U.S.A. | (thousands of US$) 10,900 | Manufacturing of tractors and outdoor power equipment | (100.0)<br>100.0 | Interlocking Directors |
| Kubota Industrial Equipment Corporation | Georgia, U.S.A. | (thousands of US$) 70,000 | Manufacturing of implements, tractors, and construction machinery | (100.0)<br>100.0 | Interlocking Directors |
| Kubota Engine America Corporation | Illinois, U.S.A. | (thousands of US$) 10,000 | Sales, engineering, and after-sales service of engines, engine parts, and engine accessories | (100.0)<br>100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota Insurance Corporation | Hawaii, U.S.A. | (thousands of US$) 2,000 | Underwriting non-life insurance in the U.S. | (100.0)<br>100.0 | Interlocking Directors |
| Great Plains Manufacturing, Inc. and its 19 subsidiaries | Kansas, U.S.A | (thousands of US$) 90 | Manufacturing and sales of implements | (100.0)<br>100.0 | Interlocking Directors |

| | | | | | |
|---|---|---|---|---|---|
| Kubota Canada Ltd. | Ontario, CANADA | (thousands of CAN$) 6,000 | Sales of tractors, outdoor power equipment, construction machinery, and implements | 100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota Holdings Europe B.V. | Noord-Holland NETHERLANDS | (thousands of EUR) 451,188 | Administration of subsidiaries in Europe | 100.0 | Interlocking Directors |
| Kubota Europe S.A.S. | Val-d'Oise, FRANCE | (thousands of EUR) 11,167 | Sales of construction machinery, tractors, outdoor power equipment, and engines | (100.0) 100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota Farm Machinery Europe S.A.S. | Nord, FRANCE | (thousands of EUR) 57,000 | Manufacturing of upland farming tractors | (100.0) 100.0 | |
| Kubota Baumaschinen GmbH | Rhineland-Palatinate, GERMANY | (thousands of EUR) 14,316 | Manufacturing and sales of construction machinery | (100.0) 100.0 | Purchase of Kubota Corporation's products |
| Kubota (Deutschland) GmbH | Hessen, GERMANY | (thousands of EUR) 3,579 | Sales of tractors, outdoor power equipment, and engines | (100.0) 100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota (U.K.) Ltd. | Oxfordshire, U.K. | (thousands of £STG) 2,000 | Sales of construction machinery, tractors, outdoor power equipment, and engines | (100.0) 100.0 | Sales of Kubota Corporation's products and interlocking Directors |
| Kubota Norway Holdings AS | Oslo, NORWAY | (thousands of NOK) 1,300 | A subsidiary established for acquisition | (100.0) 100.0 | Interlocking Directors |
| Kverneland AS and its 35 subsidiaries | Rogaland, NORWAY | (thousands of EUR) 17,440 | Manufacturing and sales of agricultural implements | (100.0) 100.0 | Interlocking Directors |
| SIAM KUBOTA Corporation Co., Ltd. (Note 3) | Pathumthani, THAILAND | (thousands of THB) 2,739,000 | Manufacturing and sales of tractors, combine harvesters, and horizontal type diesel engines | 60.0 | Purchase of Kubota Corporation's products and interlocking Directors |
| Siam Kubota Leasing Co., Ltd. | Pathumthani, THAILAND | (thousands of THB) 2,000,000 | Retail financing to purchasers of tractors and combine harvesters, etc. | (100.0) 100.0 | Interlocking Directors |
| KUBOTA Engine (Thailand) Co., Ltd. | Chachoengsao, THAILAND | (thousands of THB) 1,400,000 | Manufacturing of vertical type diesel engines | 100.0 | Interlocking Directors |
| Kubota Agricultural Machinery (SUZHOU) Co., Ltd. | Jiangsu, CHINA | (thousands of RMB) 170,999 | Manufacturing and sales of combine harvesters, rice transplanters, and tractors | (100.0) 100.0 | Purchase of Kubota Corporation's products and interlocking Directors |
| Kubota Construction Machinery (Wuxi) Co., Ltd. | Jiangsu, CHINA | (thousands of RMB) 289,035 | Manufacturing of construction machinery | (100.0) 100.0 | Interlocking Directors |
| Kubota China Holdings Co., Ltd. (Note 3) | Shanghai, CHINA | (thousands of RMB) 1,701,861 | Administration of subsidiaries in China | 100.0 | Interlocking Directors |
| Kubota China Financial Leasing Ltd. | Shanghai, CHINA | (thousands of RMB) 527,092 | Finance leasing of construction machinery and farm equipment, and factoring service | (100.0) 100.0 | Interlocking Directors |
| Kubota Korea Co., Ltd. | Seoul, KOREA | (thousands of KRW) 200,000 | Sales of tractors, combine harvesters, rice transplanters, construction machinery, and engines | 80.0 | Sales of Kubota Corporation's products |
| Kubota Tractor Australia Pty Ltd. | Victoria, AUSTRALIA | (thousands of A$) 6,000 | Sales of tractors, outdoor power equipment, construction machinery, and engines | 80.0 | Sales of Kubota Corporation's products |
| Kubota ChemiX Co., Ltd. | Naniwa-ku, Osaka, JAPAN | 3,198 | Manufacturing and sales of plastic pipes and fittings | (0.2) 100.0 | Loans from Kubota Corporation, lease of facilities from Kubota Corporation, and interlocking Directors |

| | | | | | |
|---|---|---|---|---|---|
| Kubota Environmental Service Co., Ltd. | Chuo-ku, Tokyo, JAPAN | 90 | Operation, maintenance, design, construction, remodeling, repair, and modifying of water treatment facilities, sanitation facilities, and waste treatment facilities | 100.0 | Lease of facilities from Kubota Corporation, maintenance, remodeling and repair of facilities constructed by Kubota Corporation, and interlocking Directors |
| NIPPON PLASTIC INDUSTRY CO., LTD. | Komaki-shi, Aichi, JAPAN | 175 | Manufacturing and sales of plastic products | (67.0)<br>67.0 | |
| Kubota Materials Canada Corporation | Ontario, CANADA | (thousands of CAN$)<br>15,000 | Manufacturing and sales of cast steel products and TXAX products | 100.0 | Purchase of Kubota Corporation's products |
| Kubota Saudi Arabia Company, LLC | Ash Sharqiyah, SAUDI ARABIA | (thousands of SR)<br>56,250 | Manufacturing and sales of steel casting products, sales of pumps and valves, and maintenance of valves | 51.0 | Purchase of Kubota Corporation's products and debt guarantees |
| Kubota Construction Co., Ltd. | Naniwa-ku, Osaka, JAPAN | 400 | Design and construction of water and sewage, civil engineering | 100.0 | Loans from Kubota Corporation, lease of facilities from Kubota Corporation, contracting and construction of Kubota Corporation's works, and interlocking Directors |
| KUBOTA SYSTEMS INC. | Naniwa-ku, Osaka, JAPAN | 400 | Development of system, data processing service, and sales of hardware | 100.0 | Lease of facilities from Kubota Corporation, and development of system and data processing service |
| KUBOTA LOGISTICS Corporation | Naniwa-ku, Osaka, JAPAN | 75 | Management of logistics and logistics information service related to transportation, storage, cargo handling, and Distribution processing | 100.0 | Lease of facilities from Kubota Corporation, and transportation and storage of Kubota Corporation's products |
| Heiwa Kanzai Co., Ltd. | Chuo-ku, Tokyo, JAPAN | 50 | Maintenance of building, security guarding, and facility management | 60.0 | Lease of facilities from Kubota Corporation and contracting on building maintenance of Kubota Corporation |
| Other 70 companies | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| (Affiliated companies) | | | | | |
| 7 domestic farm equipment sales companies including Akita Kubota Corporation | Akita-shi, Akita, JAPAN, etc. | 60 | Sales of farm equipment, etc. | 35.7 | Lease of facilities from Kubota Corporation and sales of Kubota Corporation's products |
| KMEW Co., Ltd. | Chuo-ku, Osaka, JAPAN | 8,000 | Manufacturing and sales of roofing, siding materials, and rain gutter | 50.0 | Lease of facilities from Kubota Corporation and interlocking Directors |
| Other 6 companies | | | | | |

(Notes)

1. There is no company which files an annual securities report.
2. The amounts in parentheses in the upper row of the "Ownership percentage of voting rights" column represent the percentage of voting rights owned by subsidiaries out of the total ownership percentage.
3. Specified companies under the Financial Instruments and Exchange Act of Japan
4. Revenues of Kubota Tractor Corporation (excluding intercompany transfers) exceeded 10% of total consolidated revenues of the Company. Its major financial data for the year ended December 31, 2017 were: revenues, ¥354,032 million; income before income taxes, ¥10,811 million; and net income, ¥94 million; and at December 31, 2017 were: total equity, ¥180,490 million; and total assets, ¥334,992 million.

## 5. Employees

### (1) Consolidated basis

(As of December 31, 2017)

| Reporting segment | Number of employees | |
|---|---|---|
| Farm & Industrial Machinery | 29,139 | (2,454) |
| Water & Environment | 7,084 | (371) |
| Other | 1,526 | (206) |
| Corporate | 1,661 | (—) |
| Total | 39,410 | (3,031) |

(Note)

The number of employees refers solely to full-time employees of the Company on a consolidated basis. In addition, the number in parentheses in the “Number of employees” column is the average number of part-time employees for the fiscal year.

### (2) Kubota Corporation

(As of December 31, 2017)

| Number of employees | Average age | Average length of service | Average annual salary |
|---|---|---|---|
| 11,266 | 40.5 | 15.5 years | ¥ 7,922,008 |

| Reporting segment | Number of employees |
|---|---|
| Farm & Industrial Machinery | 6,690 |
| Water & Environment | 2,915 |
| Corporate | 1,661 |
| Total | 11,266 |

(Notes)

1. The number of employees refers solely to full-time employees of Kubota Corporation.
2. Average annual salary includes bonuses and extra wages.

### (3) Relationship with labor unions

The relationship between management and labor unions is quite stable and smooth.

## 2. Business Overview

### 1. Summary of Business Results

#### (1) Analysis of Results of Operations

For the year ended December 31, 2017, revenues of the Company increased by ¥155.4 billion (9.7%) from the prior year to ¥1,751.5 billion.

Domestic revenues increased by ¥12.8 billion (2.3%) from the prior year to ¥564.2 billion because of increased revenues in Farm & Industrial Machinery, which was mainly due to strong sales of agricultural-related products and tractors. Meanwhile, revenues in Water & Environment, the businesses of which are mainly related to public works projects, remained at almost the same level as in the prior year.

Overseas revenues increased by ¥142.7 billion (13.7%) from the prior year to ¥1,187.3 billion. Sales of construction machinery and engines increased significantly due to worldwide favorable business conditions, and strong demand in the construction industry. Sales of tractors increased steadily as well. On the other hand, sales of ductile iron pipes (mainly sold in the Middle East) were weak due to stagnant crude oil prices.

Operating income increased by ¥10.0 billion (5.3%) from the prior year to ¥198.8 billion. The positive impact of increased revenues compensated for increases in selling expenses and material costs. Income before income taxes and equity in net income of affiliated companies (which was equivalent to operating income plus other income of ¥14.1 billion) increased by ¥15.9 billion (8.1%) from the prior year to ¥212.9 billion. Income taxes increased by ¥13.4 billion from the prior year to ¥69.9 billion due partly to the reversal of deferred tax assets resulted from the federal corporate tax rate cut enacted in the United States in December 2017. Equity in net income of affiliated companies was ¥2.4 billion. Net income attributable to Kubota Corporation increased by ¥4.0 billion (3.0%) from the prior year to ¥136.4 billion after deducting ¥8.9 billion in net income attributable to non-controlling interests.

Revenues from external customers and operating income by each reportable segment were as follows:

1) Farm & Industrial Machinery

Farm & Industrial Machinery is comprised of farm equipment, agricultural-related products, engines, construction machinery, and electronic equipped machinery.

Revenues in this segment increased by 12.9% from the prior year to ¥1,436.6 billion and accounted for 80.2% of the consolidated revenues.

Domestic revenues increased by 4.6% from the prior year to ¥294.5 billion, as sales of tractors recovered from stagnation caused by stronger emissions regulations. Sales of agricultural-related products and construction machinery also increased.

Overseas revenues increased by 15.3% from the prior year to ¥1,142.1 billion. In North America, sales of compact tractors remained strong due to the expanding market for compact tractors used by home owners and others. Sales of construction machinery and engines grew as well. A business acquired in the prior year also contributed to higher revenues. In Europe, sales of construction machinery and engines grew in response to steady demand for construction of housing and infrastructure, as well as higher sales in the implements business in the agriculture-related market. In Asia outside Japan, revenues in Thailand resulted in a minor increase. Sales of farm equipment were strong over the first half of the year, but severe rain caused second-half sales to stagnate. Revenues in China increased significantly due to an increase in sales of rice transplanters, construction machinery, and engines. Sales of combines were weak due to the reduction in budgeted government subsidies.

Operating income in this segment increased by 7.1% from the prior year to ¥198.2 billion mainly due to the positive impact of increased sales in domestic and overseas markets, which compensated for some negative impacts, such as increased selling expenses.

2) Water & Environment

Water & Environment is comprised of pipe-related products (ductile iron pipes, plastic pipes, pumps, valves, and other products), environment-related products (environmental control plants and other products), and social infrastructure-related products (industrial castings, ceramics, spiral welded steel pipes, and other products).

Revenues in this segment decreased by 2.9% from the prior year to ¥286.1 billion and accounted for 16.3% of consolidated revenues.

Domestic revenues increased by 0.1% from the prior year to ¥241.1 billion. Revenues from pipe-related products decreased slightly mainly due to lower revenues from the construction business, although revenues from plastic pipes increased. Revenues from environment-related products decreased as well, due to a decrease in sales in operations and maintenance related to the facilities business. On the other hand, revenues from social infrastructure-related products increased in response to increased sales from the spiral-welded steel pipes business.

Overseas revenues decreased by 16.2% from the prior year to ¥45.0 billion, mainly due to lower export sales of ductile iron pipes to the Middle East.

Operating income in this segment increased by 18.3% from the prior year to ¥26.2 billion. Profitability was improved as the Company reduced fixed costs and selected orders based strictly on their profitability. These positive factors exceeded the negative effects of lower revenues in the overseas markets.

3) Other

Other is comprised of a variety of services.

Revenues in this segment decreased by 1.9% from the prior year to ¥28.9 billion and accounted for 1.7% of consolidated revenues.

Operating income in this segment decreased by 21.2% from the prior year to ¥2.9 billion.

### (2) Analysis of Cash Flows

Net cash provided by operating activities during the year ended December 31, 2017 was ¥222.3 billion, an increase of ¥37.3 billion in net cash inflow compared with the prior year. This increase resulted from an increase in net income, and changes in working capital, such as inventories, and trade notes and accounts payable.

Net cash used in investing activities was ¥130.3 billion, a decrease of ¥37.2 billion in net cash outflow compared to the prior year. This result was mainly due to a decrease in cash outflow related to business acquisitions, while cash outflow related to an increase in finance receivables rose.

Net cash used in financing activities was ¥32.6 billion as compared to ¥11.4 billion of net cash inflow for the prior year, mainly resulting from a decrease in net cash inflow from borrowings.

As a result of the above, and after taking into account of the effect of exchange rate changes, cash and cash equivalents at December 31, 2017 were ¥230.7 billion, an increase of ¥61.3 billion from the beginning of the current fiscal year.

## 2. Production, Orders Received, and Revenues

### (1) Production Results

Consolidated production results by reporting segment for the year ended December 31, 2017 were as follows:

| Reporting segment | Amount (¥ in millions) | Change from the prior year (%) |
|---|---|---|
| Farm & Industrial Machinery | ¥ 1,399,150 | 12.8 |
| Water & Environment | 286,048 | 0.4 |
| Other | 28,993 | (0.6) |
| Total | ¥ 1,714,191 | 10.3 |

(Notes)
1. Intersegment transfers are eliminated.
2. Amounts are recorded at sales price.
3. Amounts do not include consumption taxes.

### (2) Orders Received

Consolidated orders received by reporting segment for the year ended December 31, 2017 were as follows:

Except for Electronic Equipped Machinery, Farm & Industrial Machinery products are not made-to-order and some Water & Environment and Other products are not made-to-order, either.

| Reporting segment | Amount (¥ in millions) | Change from the prior year (%) | Balance (¥ in millions) | Change from the prior year (%) |
|---|---|---|---|---|
| Farm & Industrial Machinery | ¥ 11,975 | (1.4) | ¥ 2,837 | (11.9) |
| Water & Environment | 241,800 | 5.4 | 181,557 | 18.7 |
| Other | 5,293 | (8.7) | 2,159 | (2.4) |
| Total | ¥ 259,068 | 4.8 | ¥ 186,553 | 17.7 |

(Notes)
1. Intersegment transfers are eliminated.
2. Amounts do not include consumption taxes.

### (3) Revenues

Consolidated revenues by reporting segment for the year ended December 31, 2017 were as follows:

| Reporting segment | Amount (¥ in millions) | Change from the prior year (%) |
|---|---|---|
| Farm & Industrial Machinery | ¥ 1,436,578 | 12.9 |
| Water & Environment | 286,095 | (2.9) |
| Other | 28,862 | (1.9) |
| Total | ¥ 1,751,535 | 9.7 |

(Notes)
1. Intersegment transfers are eliminated.
2. There was no single customer from whom revenues exceeded 10% or more of the Company’s total consolidated revenues for the year ended December 31, 2017 and 2016.
3. Amounts do not include consumption taxes.

## 3. Business Issues to Address

The Company’s long-term goal is to become a “Global Major Brand,” or in other words a “brand that can make the greatest social contribution as a result of being trusted by the largest number of customers.” The Company has been promoting key measures, listed below, aimed at achieving that objective and accordingly, is working to further enhance its competencies for resolving challenges in the fields of food, water and the environment. As the Company strives to contribute to the maximum extent possible toward success of the Sustainable Development Goals (SDGs) promoted by the United Nations. It also aims to achieve sustainable development acting as a “Global Major Brand.”

### (1) Pursuit of Renewed Growth Opportunities by Expanding the Business Domains

Previously, the Company forged ahead with respect to introducing new products in strategic fields, and establishing business foundations in areas such as production, sales and services, having cited the “acceleration of business development in strategic fields” as a key measure to pursue. Currently, the Company is extending and increasing such efforts toward achieving “pursuit of renewed growth opportunities by expanding the business domains,” thereby aiming to link such efforts to sound accomplishments.

In the upland farming machinery business, the Company’s full-scale entry into the market for large tractors has enabled it to pinpoint customer needs and business challenges that differ from those in the past. As such, the Company will work to expand business and increase profitability by swiftly implementing specific measures to address such needs and challenges. Moreover, the Company will create new opportunities with respect to developing business in emerging markets, such as those of India, Eastern Europe, Turkey and Mexico, as well as in the markets, such as those of Brazil and Kenya, by tapping diverse needs in respective geographic areas through efforts that involve tirelessly pursuing its “Priority Onsite” approach, unfettered by conventional practices. Through these initiatives, the Company aims to make great strides toward becoming a leading manufacturer of full-line farming machinery throughout the world.

In the overseas construction machinery business, the Company has achieved high rates of growth as a result of a succession of new model introductions aimed at offering a good selection of small-sized construction machinery. Going forward, the Company will accelerate its pace in areas that include further expansion of its product lineup, strengthening local production and adopting innovative technologies, while also placing focus on ASEAN economies and other emerging markets. The Company will work on developing its construction machinery business into another pillar of the Company along with its farming machinery business.

In the engine business, the Company has been steadily developing the technologies to satisfy emissions regulations in respective geographic regions, and achieving growth stemming from its efforts to carry out product development which answers market needs. As a result, the Company recorded all-time-high results with respect to shipment volume in the fiscal year ended December 31, 2017. Going forward, the Company aims to become the world’s top manufacturer of industrial engines in the under-200 horsepower category, while increasing efforts involving development of larger engines, addressing needs for clean engine exhaust systems that meet or exceed environmental regulations, and expanding its lineup of small engines.

The Company will also embark on the task of making further strides with respect to its turf and utility vehicle (multipurpose four-wheel-drive vehicles) business. This will involve working toward substantially expanding the Company’s customer base primarily with respect to its growing lineup of lawn mowers and gasoline engine-equipped high-speed utility vehicles being introduced in 2018 by leveraging its U.S. operations, which have ramped up production capacity.

## (2) Improvement of Profitability and Enhancement of the Business Structure

The Company will work scrupulously to increase profitability and enhance its business structure with the aim of ensuring that the Company responds strongly to intensifying competition, and achieves sustainable growth.

In the overseas farming machinery business, the Company will place focus on substantially cutting costs at its plants in Japan, its core manufacturing base, while also fully leveraging its overseas plants which have ramped up production capacity. In addition, with respect to Kverneland AS, for which sales of agricultural implements have begun to recover, the Company will forge ahead with efforts in terms of boosting profitability and further giving rise to synergies with Great Plains Manufacturing, Inc.

Amid a persistently difficult business environment, the farming machinery business in Japan will manage operations with a focus on ensuring steady profits, particularly by heightening productivity of sales and distribution channels. The Company will also pursue differentiation from others by providing carefully crafted, high-quality services and solutions, while also striving to bring about commercial applications geared to addressing various needs related to agriculture including farmers and agricultural produce, and working to transform into a “comprehensive agricultural services business.”

In the Water & Environment business, the Company has been attaining positive results with respect to structural improvement and reforms which have been implemented thus far, and has achieved an increase in the segment’s profits in the fiscal year ended December 31, 2017, despite lower revenues. In addition to increasing such efforts, the Company will also enhance its product strengths by implementing innovative pricing and boost competitive strengths by bolstering ties among related products. Overseas, momentum has been grown with respect to environment-related businesses such as wastewater treatment plant (Johkasou) and membrane solutions in Asia where demand with respect to water engineering and solutions is growing. The Company will further accelerate integrated operations of its business locations in Japan and overseas, including group companies of Kubota Corporation. By making use of its Kubota Smart Infrastructure System (KSIS) services, which involve providing comprehensive solutions that make use of IoT technologies in the fields of water and environment, the Company will generate new forms of value acting as a “water environment solution provider,” thereby addressing customer needs with respect to saving energy, reducing labor and achieving greater convenience.

Meanwhile, the Company is working to substantially reduce inventories as part of its policy to improve its business efficiency. Going forward, the Company will promote specific measures on the basis of global supply chain management geared to swiftly achieving objectives that have been set for its respective business locations. The Company is also increasing efforts to boost productivity, and aims to dramatically improve productivity by carrying out thorough operational streamlining based on the Kubota Production System that extends to our sales and support services operations, beyond manufacturing operations.

In the fiscal year ended December 31, 2017, management made the decision to withdraw from the vending machine business. Management concluded that the move was unavoidable given the Company's aim of increasing the entire Group's profitability. Consequently, by redistributing operational resources related to the vending machine business, the Company will be able to further promote growth of other businesses.

### (3) Enhancement of Technology Development and Improvement of Efficiency

The Company's aim of becoming a "Global Major Brand" capable of addressing diverse customer needs calls for further improvement in the Company's capability to develop technologies. As such, the Company will build on its global development methodology and structure through sweeping improvements to such systems in Europe, after such efforts in North America and Thailand. Moreover, the Company will expand its recruitment and training programs with its sights set on improving skill levels of its research and development workforce which forms the basis for that methodology and structure, and will also take steps to reduce development periods of new products through efforts taken under its Product Development Process Reform Project.

On the technology front, the Company will swiftly respond to changing customer needs by placing priority on developing advanced technologies in select strategic fields, and through efforts that include expanding and upgrading autonomous vehicle operation and enhancing energy-saving plant technologies.

### (4) Globalization of Corporate Management as a Whole

The Company will develop more sophisticated management functions with its sights set on achieving increasingly global operations, commensurate with its "Global Major Brand" approach.

Efforts to spread the Kubota Production System involve instilling the basic concept of "thorough elimination of waste" into all operational processes. In addition, the Company will build a highly efficient production system that is world-class, through efforts that entail developing mechanisms that realize shorter lead times and production of only those items that have generated sales.

With respect to promoting use of information technologies, the Company's past efforts have led to plans for standardizing, integrating and centralizing its IT infrastructure across the Group with a goal of developing sophisticated mission-critical systems. Cutting-edge IT infrastructure is essential in underpinning the Company's regional strategies and promoting its operational reforms. The Company will accelerate efforts geared to building an IT infrastructure that outperforms those of its competitors.

## 4. Risk Factors

The Company considers that the following risks may adversely affect the Company's results of operations and financial condition. Forward-looking statements contained in this section are made based on the assumptions as of the current fiscal year-end.

### (1) Declines in economic conditions in the Company's major markets, including private-sector capital expenditures, construction investment, and domestic public investment, may adversely impact the results of operations of the Company.

Industrial and capital goods make up a substantial portion of the Company's products. Accordingly, the Company may see reduced demand resulting from declines in general economic conditions, including private-sector capital expenditures, construction investment, and domestic public investment. In addition, the agricultural policies set by the national government may adversely affect domestic sales of agriculture-related products. In the overseas markets, especially those of North America and Europe, sales of the Company's products, such as utility/compact tractors, may decrease due to declines in general economic conditions, including private consumption and residential construction investment in those regions.

### (2) If the prices of raw materials increase or the Company has difficulties in procuring adequate supplies of raw materials, there may be a material adverse effect on the Company's results of operations.

The Company purchases substantial raw materials and parts from outside suppliers. If the prices of raw materials substantially increase due to the supply and demand gap and changes in the market conditions and stay at high levels for a long time, they may have an adverse effect on the Company's profitability. Also, if the Company has difficulties in procuring adequate supplies of raw materials and parts, there may be a material adverse effect on the Company's results of operations due to difficulties in production and sales activities.

### (3) The risks associated with international operations may adversely affect the Company's results of operations.

In some businesses of the Company, substantial overseas operations are conducted. Accordingly, the Company is subject to a number of risks inherent in conducting business in those markets. Such risks may cause the Company to face difficulties in stable production and sales of products in the overseas markets that may affect the Company's results of operations or which may hinder growth of the Company in specific countries. The following risks are serious concerns for the Company:

1) Unexpected changes in international or an individual country's tax regulations;
2) Unexpected legal or regulatory changes in a country;
3) Unexpected results of transfer pricing issues or negotiation for an advanced pricing agreement;
4) Unexpected changes in government policies for approvals and licenses or subsidy program in certain significant markets;
5) Unexpected changes in import and export duties and quotas over the international trade decided by the negotiation among governments;
6) Difficulties in retaining qualified personnel;
7) Under qualified technological skills or instability between management and employee unions in developing countries; and
8) Political instability in those countries.

### (4) Fluctuations in foreign currency exchange rates, in particular a stronger yen, may adversely affect the Company's results of operations and financial condition.

The Company has overseas revenues and foreign subsidiaries which significantly contribute to the Company's results of operations and impact the Company's financial condition. Since the transactions between Kubota Corporation and foreign subsidiaries or customers are generally denominated in the local currencies and also the foreign subsidiaries' results of operations, which are prepared in the local currencies and are then consolidated into the Company's consolidated results of operations after translation into Japanese yen, fluctuations in foreign currency exchange rates, in particular a stronger yen against other currencies, may adversely affect the Company's results of operations and financial condition. In order to minimize adverse effects from fluctuations in foreign currency exchange rates, the Company has been transferring its production bases to those countries and regions where its products are actually sold. Also, the Company enters into foreign exchange forward contracts, cross-currency swap contracts, and cross-currency interest rate swap contracts to mitigate its exposure to these risks. Despite the Company's efforts, fluctuations in foreign currency exchange rates may adversely affect the Company's consolidated results of operations and financial condition.

### (5) Interest rate hike may have a material adverse effect on the Company's results of operations.

Interest rates hike may increase the Company's interest expenses, which may have a material adverse effect on the Company's results of operations.

### (6) Stock market fluctuations may have a material adverse effect on the Company's results of operations and financial condition.

Stock market declines may cause impairment losses on the Company's investments in marketable securities or cause an increase in actuarial loss on the Company's retirement and pension plans as a result of a decline in the fair value of pension plan assets, which may have a material adverse effect on the Company's results of operations and financial condition.

### (7) If strategic alliances, mergers, and acquisitions do not generate successful results as planned, then the Company's profitability may deteriorate.

The Company expects to use strategic alliances, mergers, and acquisitions to seek further growth. The success of these activities depends on factors such as the Company's business environment, the abilities of its business counterparts, and whether the Company and its counterparts share common goals. Therefore, if these activities are not successful and returns on related investments are lower than expected, the Company's profitability may deteriorate.

(8) The Company is subject to intensifying competitive pressures. Unless the Company performs better than other companies in each of its businesses, the Company's results of operations may decrease in the future.

The Company is exposed to significant competition in each of its businesses. Unless the Company performs better than other companies in areas such as terms of trade conditions, R&D, and quality of goods or services, the Company's results of operations may decrease in the future.

(9) If the Company's products and services are alleged to have serious defects, such allegations may have a material adverse effect on the Company's results of operations and financial condition.

If the Company's products and services are alleged to have serious defects, the Company may be liable for significant damages, and there may be a material adverse effect on the Company's results of operations and financial condition. If such claims are asserted, the Company's reputation and brand value may be damaged, which may cause a decline in demand for its products and result in decreased revenues.

(10) The Company may be required to incur significant expenses in connection with environmental damage that its activities may allegedly cause. Such expenses may have a material adverse effect on the Company's results of operations and financial condition.

Claims may arise that the Company's activities have caused environmental contamination, including the emission of hazardous materials, air pollution, water pollution, and/or soil contamination. In such an event, the Company may elect or be required to implement costly corrective actions to resolve any issues associated with the emission or presence of such hazardous materials or contamination and may face associated litigation. These factors may have a material adverse effect on the Company's results of operations and financial condition.

(11) If the Company is required to incur significant expenses relevant to asbestos-related issues, then there may be a material adverse effect on the Company's results of operations, financial condition and liquidity.

The Company previously manufactured products containing asbestos from 1954 to 2001. If the Company is required to incur additional expenses, including payments to the individuals concerned or expenses arising from litigation related to the asbestos-related health hazards and such expenses become significant, they may result in a material adverse effect on the Company's results of operations, financial condition and liquidity.

(12) The Company may experience a material effect on its results of operations and financial condition if it faces issues related to compliance.

The Company has declared its intention to conduct its corporate activities in compliance with legal regulations and ethical principles, and to make efforts to ensure that all management and staff of the group companies comply with various legal regulations, ethical standards, and internal regulations. However, in the event that compliance issues arise, there is a possibility that the Company may be subject to disciplinary action by government ministries supervising its activities or to lawsuits, or may suffer a loss of public confidence, any of which could have a material adverse effect on the Company's results of operations and financial condition.

(13) Security breaches and other disruptions in the Company's Information Technology (IT) system and networks may have a material adverse effect on the Company's results of operations and financial condition.

The Company faces certain security threats, including threats to the confidentiality, availability and integrity of our data and systems. In order to manage such risks, we implemented our information security system, an integrated set of policies, processes, methodologies, teams and technologies aimed at ensuring appropriate protection of our data. Despite such efforts, if the Company's IT system and networks are disrupted or experience a security breach, the Company may suffer from an opportunity loss due to production downtime or may be subject to litigation or threat of litigation for information leakage, which in turn may cause a material adverse effect on the Company's results of operations and financial condition. If such security breaches and other disruptions occur, the Company's reputation and brand value may be damaged, which may cause a decline in demand for its products and result in decreased revenues.

(14) The Company may be required to incur considerable expenses in order to comply with various environmental laws and regulations. Such expenses may have a material adverse effect on the Company's results of operations and financial condition.

The Company is subject to various environmental laws and regulations that apply to its products and activities. If these environmental laws and regulations, such as those that impose carbon dioxide emission controls, other emission controls, and usage restrictions for certain materials which are used in the Company's products, are strengthened or newly established in jurisdictions in which the Company conducts its businesses, the Company may be required to incur considerable expenses in order to comply with such laws and regulations. Such expenses may have a material adverse effect on the Company's results of operations and financial condition. To the extent that the Company determines that it is not economical to continue to comply with such laws and regulations, the Company may have to curtail or discontinue its activities in the affected business areas.

(15) If the Company is damaged by natural disasters or other unpredictable events, it may have an adverse effect on the Company's results of operations and financial condition.

The Company conducts business activities in Japan, North America, Europe, Asia and other regions. If natural disasters or other unpredictable events, such as earthquakes, tsunamis, floods, typhoons, pandemics, wars, terrorist attacks, fires, information system or communication network breakdowns or improper operations occur in countries and regions in which the Company operates, the Company's production, distribution, and sales activities may be disrupted, which could have an adverse effect on the Company's results of operations and financial condition. In particular, Japan is a country with frequent earthquakes, and as a result, the Company has a reasonable probability of suffering from a strong earthquake or tsunami.

## 5. Material Contracts

### (1) As Licensee

The details of contracts for which the Company is a licensee are as follows:

| Licensee | Licensor | Country | Contract description | Contract period |
|---|---|---|---|---|
| Kubota Environmental Services Co., Ltd. | Steinmuller Babcock Environment GmbH | Germany | Technology introduction regarding boiler for waste incineration plant | From: Oct. 22, 1998<br>To: Oct. 21, 2018<br>(automatic extension clause) |
| Kubota Corporation | NOVA Chemicals Corporation | Canada | Technology introduction regarding film-forming technology based on surface modification of the casting tube | From: Mar. 20, 2002<br>To: Dec. 31, 2018<br>(automatic extension clause) |

(Note)

The Company principally pays royalities depending on sales amount or sales quantity.

### (2) As Licensor

Not applicable

### (3) Committed Line of Credit

For the purpose of efficient financing in working capital, a committed line of credit with five financial institutions was available as of December 31, 2017. For further details, please refer to Note 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT on page F-22.

## 6. Research and Development (R&D)

The Company's corporate mission is "recognizing food, water, and environment to be a singular theme and linked closely to each other, to continue to support the future of the earth and humanity by solving issues through its superior products, technologies and services." Being motivated by this mission, each R&D department takes the initiative to develop products and technologies directly linked to each business and to develop medium-to long-term R&D which supports its continuous growth.

The total R&D expenses for the year ended December 31, 2017 were ¥48.1 billion. The R&D expenses and major achievements of R&D activities by reporting segment were as follows. The R&D expenses in the Other segment and basic research expenses which are difficult to link to a particular reportable segment are collectively reported in Other and Corporate.

### (1) Farm & Industrial Machinery

The R&D department in this segment conducts development of farm equipment, agricultural-related products, engines, construction machinery, and electronic equipped machinery and advanced research related to the aforementioned products. Its major achievements are as follows:

Development of autonomous tractor, or Agrirobo, called the "SL60A"

In the tractor business, the third model of farm equipment with a global positioning system ("GPS") called the "Farm Pilot" series, the "SL60A" has been newly developed, which is an autonomous tractor, also known as Agrirobo. The Company has started to sell Agrirobo at a discounted price to test performers and is the first company in the industry to sell farm equipment that utilizes GPS.

Major performance features of the "SL60A" are as follows:

1) ability to automatically carry out tilling and soil pudding operations without a driver through a remote control under the supervision of an operator, and ability to operate one tractor with an operator and another tractor without an operator simultaneously and in a coordinated manner, which improves efficiency and reduces the workload;
2) ability to accurately and precisely perform straight operations, such as levee plastering and fertilizer distribution, by being equipped with an automatic steering system, which would free an operator from steering in a straight line; and
3) to improve safety by being equipped with a variety of safety systems, such as an automatic stopping device, which automatically activates when it detects signs of an obstacle with a laser scanner or an ultrasonic sonar and when a tractor deviates from a planned route or moves away more than a certain distance from the remote control or a real time kinematic GPS station.

A tractor also allows a supervisor to monitor its surroundings and status, such as movements with four equipped cameras by transmitting data to a terminal monitor or tablet, as the tractor's lights are on during the automatic operations.

Development of a winched-model power assist suit, called the "Win-One"

In the agriculture solution business, a winched-model power assist suit called the "Win-One" has been newly developed in order to meet the demand to reduce the workload in carrying heavy agricultural products.

Major performance features of the "Win-One" are as follows:

1) to assist multiple build-ups and build-downs with a winch wire which has the tow power of up to 20 kg, and with a winched assist system, to hang and transport agricultural products of up to 30 kg without requiring much human efforts;
2) being equipped with a assist system to reduce a burden onto a worker's lower back, to assist a worker in getting up his or her upper body by pushing his or her thighs with a "Win-One"'s right-and-left arms and to reduce the burden on the lower back of the worker when he or she lifts heavy agricultural products up from the floor to it;
3) to distribute the weight of agricultural products and the suit itself and to reduce the burden of weight by securing it tightly at the lower back, and to lighten and downsize by using carbon fiber for frames, which all make it possible for workers to operate easily even in a narrow space; and
4) to be operated in a natural way by a bar with easy-to-use operation buttons on it at hand, which have a three-leveled assist mode in order to be used easily by a wide range of workers, from low-to high-skilled workers.

Development of large displacement diesel engines, called the “V5009 (5.0 liter displacement)”

In the engine business, the “V5009 (5.0 liter displacement)” engines have been newly developed. These engines are equipped with a device reducing certain emissions, such as a SCR (Selective Catalytic Reduction) technique for emissions and a DPF (Diesel Particulate Filter), which collects particulate substances, and are designed to meet the EU Stage Five Emissions Regulations, which will be implemented from the year 2019.

Major performance features of the “V5009 (5.0 liter displacement)” are as follows:

1) to provide the highest output and the lowest fuel consumption among the same power range engines by a compactly designed a four-cylinder engine, which generates 213.9 horsepower (157.3 kW);
2) to realize the flexibility of the engineering design for industrial and construction machinery with a variety of PTO (Power Take Off) options available at three different parts of the body; and
3) to provide easy maintenance and operability by adopting automotive belt tensioners and concentrating maintenance needed parts at one side of the body.

The Company has taken measures to comply with the various needs from the users, aiming to become the top chosen diesel engine maker under 100 horsepower and decided to enforce and expand the line up to the 200 horsepower class.

The R&D expenses in this segment were ¥38.2 billion.

## (2) Water & Environment

The R&D department in this segment conducts product development of pipe-related products (ductile iron pipes, plastic pipes, pumps, valves, and other products), environment-related products (environmental control plants and other products), social infrastructure-related products (industrial castings, spiral welded steel pipes, and other products) and advanced research related to the aforementioned products. Its major achievements are as follows:

Development of a new steel pipe sheet pile with a mechanical joint, called the “Laqnican Joint (stepped-type)”

In the materials and ceramics business, after the Company reviewed its steel pipe sheet pile with a mechanical joint called the “Laqnican,” in various aspects from its materials to configurations, which is used as a foundation pile to support architectural buildings, and the “Laqnican Joint (stepped-type)” has been newly developed in order to be used in a variety of construction methods with further price competitiveness.

Major performance features of the “Laqnican Joint (stepped-type)” are as follows:

1) to shorten the jointing process and save costs resulting in reducing jointing time by about five minutes for each joint, which is about half as long as the existing model took, regardless of the thickness or external diameter of a steel pipe;
2) to allow easy removal by improving the structure of a load transfer key and using bolts for pushing and fixing a key; and
3) to provide stable quality, which enables any construction method to be applicable at both the domestic and overseas construction site, as it is easy for anyone to joint “Laqnican Joint” regardless of construction skills, methods, or conditions.

Development of a new service with utilization of IoT, called the “Kubota Smart Infrastructure System (KSIS)”

In the Water and Environmental business, the Company developed a new service with utilization of IoT, called the “KSIS.”

Major performance features of the “KSIS” are as follows:

1) based on more than 5,000 experiences of remote monitoring on facilities, to simplify maintenance and control services by providing total solutions in stages from monitoring to analysis with utilization of IoT;
2) to be able to provide maintenance and control services based on data from monitoring and analysis, with Kubota Corporation, which is a machinery manufacturer and a plant construction company, and its group companies, such as Kubota Environmental Service Co., Ltd., which provides maintenance and control services, working in an integrated manner; and
3) based on a partnership agreement with NTT (Nippon Telegraph and Telephone Corporation) started in 2016, trying to be able to provide and develop new services and products, such as diagnosis devices for pumps and waste water

treatment equipment with utilization of AI (Artificial Intelligence) technology, and energy-saving products.
The R&D expenses in this segment were ¥ 5.4 billion.

### (3) Other and Corporate

R&D activities in Other and Adjustments focus on the enhancement of optical imaging technology, sensing, ICT (Information Communication Technology), and highly functional control technology that are the Company's fundamental technologies. The Company has enhanced the above technologies into other preceding technology applied to internal manufacturing products of each business, such as inspection equipment to innovate the quality of manufacturing and system, remote monitoring system, and diagnosis technology used for solutions to issues related to food, water, and environment.

The R&D expenses in this segment were ¥4.4 billion.

## 7. Analysis of Consolidated Financial Condition, Results of Operations, and Cash Flows

Forward-looking statements contained in this section are made based on the assumptions as of the current fiscal year-end.

### (1) Results of Operations

See "(1) Analyses of Results of Operations" of "1. Summary of Business Results" of "2. Business Overview."

### (2) Liquidity and Capital Resources

1) Finance and Liquidity Management

The Company's financial policy is to ensure adequate financing and liquidity for its operations and to maintain the strength of its balance sheets.

Through efficient management of working capital, the Company intends to optimize the efficiency of capital utilization throughout its business operations. The Company seeks to improve its group cash management by centralizing cash management among Kubota Corporation and its overseas financing subsidiaries.

The Company's internal sources of funds include cash flows generated by operating activities and cash and cash equivalents. In addition, the Company raises funds by borrowings from financial institutions, financing by securitization of receivables, and the issuance of bonds and commercial paper (CP) in capital markets, if necessary. The Company's policy is to finance capital expenditures primarily by internally-generated funds and, to a lesser extent, by funds raised through borrowings from financial institutions, etc. The Company has established committed lines of credit totaling ¥20.0 billion with certain Japanese banks, however, the Company currently has not used these lines.

There are restrictive covenants related to the borrowings, including negative pledges, a rating trigger and minimum net worth. The rating trigger states that the Company shall keep or be higher than the "BBB-" rating by Rating and Investment Information, Inc. and the minimum net worth covenant states that the Company shall maintain total equity of more than ¥853.0 billion on the consolidated financial statements and more than ¥389.1 billion on the separate financial statements of Kubota Corporation. The Company is in compliance with these restrictive covenants as of December 31, 2017.

All things considered, the Company believes that it can support its current and anticipated capital and operating requirements for the foreseeable future.

2) Assets, Liabilities, and Equity

<u>Assets</u>

Total assets at December 31, 2017 amounted to ¥2,853.9 billion, an increase of ¥183.3 billion from the prior fiscal year-end.

With respect to assets, trade accounts increased due to expanded sales in the overseas market. In addition, short and long-term finance receivables increased due to expansion in sales financing operations in North America, where retail sales were strong.

Liabilities

With respect to liabilities, trade notes payable and trade accounts payable increased. In addition, the aggregate amount of interest-bearing debt, which is composed of short-term borrowings, current portion of long-term debt, long-term debt, increased.

Equity

Equity increased due to cumulative retained earnings, and improved accumulated other comprehensive income. The shareholders' equity ratio stood at 45.6%, which is 0.7 percent higher than at the prior fiscal year-end.

## (3) Cash Flows

See "(2) Analysis of Cash Flows" of "1. Summary of Business Results" of "2. Business Overview."

## 3. Property, Plant, and Equipment

### 1. Summary of Capital Investment

The Company primarily makes capital investments in order to meet increasing demand, promote rationalization for enhancement of competitiveness in its markets, and develop new products for future business expansion. Also, the Company makes investments related to environmental conservation and safety sanitation.

The capital investment for the year ended December 31, 2017 was ¥52,227 million, which was comprised of the following:

| | For the year ended December 31,2017 (¥ in millions) | For the year ended December 31,2016 (¥ in millions) | Change from the prior year (%) |
|---|---|---|---|
| Farm & Industrial Machinery | ¥ 43,222 | ¥ 54,637 | 79.1 |
| Water & Environment | 5,178 | 7,834 | 66.1 |
| Other | 557 | 788 | 70.7 |
| Corporate | 3,270 | 2,148 | 152.2 |
| Total | ¥ 52,227 | ¥ 65,407 | 79.8 |

(Note)

The amounts do not include consumption taxes.

The details of major investments are as follows:

Farm & Industrial Machinery

In Japan, the Company invested in manufacturing facilities for farm equipment. In China, the Company invested in the construction of new facilities to increase production of tractors and combine harvesters.

Water & Environment

The Company invested in facilities to renew obsolete equipment.

Corporate

The Company invested in information systems.

For the year ended December 31, 2017, there was no sale, removal, or damage of property, plant, and equipment that resulted in a significant adverse impact on productive capacity.

Also, loss on sales and disposals for routine upgrades were ¥1,077 million, ¥1,320 million, and ¥923 million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively.

## 2. Major Property, Plant, and Equipment

The Company's major property, plant, and equipment at December 31, 2017 were as follows:

The amounts in each table do not include consumption taxes. Also, the "Machinery and equipment and others" column includes "machinery and equipment," "tools, furniture, and fixtures," and "motor vehicles and transport equipment."

### (1) Kubota Corporation

(As of December 31, 2017)

| Facility (Main location) | Reporting segment | Details of production item or business contents | Book value (¥ in millions) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery and equipment and others | Land | | Construction in progress | Total | |
| | | | | | Area (m² in thousands) | Amount | | | |
| Hanshin Plant (Amagasaki-shi, Hyogo, JAPAN) | Water & Environment | Ductile iron pipes, mill rolls | 2,201 | 5,853 | (1) 365 | 2,254 | 372 | 10,680 | 802 |
| Keiyo Plant (Funabashi-shi, Chiba, JAPAN etc.) | Water & Environment | Ductile iron pipes, spiral welded steel pipes | 2,568 | 3,739 | (15) 506 | 12,117 | 360 | 18,784 | 544 |
| Okajima Business Center (Taisho-ku, Osaka, JAPAN) | Farm & Industrial Machinery, Water & Environment | Casting parts, drainage pipes | 1,018 | 1,100 | 78 | 42 | 186 | 2,346 | 320 |
| Sakai Plant (Sakai-shi, Osaka, JAPAN) | Farm & Industrial Machinery | Farm equipment, engines, construction machinery | 14,928 | 14,185 | (15) 598 | 8,017 | 2,146 | 39,277 | 3,647 |
| Utsunomiya Plant (Utsunomiya-shi, Tochigi, JAPAN) | Farm & Industrial Machinery | Farm equipment | 1,104 | 1,492 | 146 | 188 | 36 | 2,821 | 439 |
| Tsukuba Plant (Tsukubamirai-shi, Ibaraki, JAPAN) | Farm & Industrial Machinery | Farm equipment, engines | 5,679 | 7,361 | (31) 342 | 1,151 | 183 | 14,374 | 1,679 |
| Hirakata Plant (Hirakata-shi, Osaka, JAPAN) | Farm & Industrial Machinery, Water & Environment | Construction machinery, pumps, valves, steel castings | 4,190 | 4,517 | 306 | 672 | 608 | 9,987 | 1,348 |
| Shiga Plant (Konan-shi, Shiga, JAPAN) | Water & Environment | Wastewater treatment plant (Johkasou) | 364 | 118 | 178 | 1,032 | 5 | 1,518 | 56 |
| Kyuhoji Business Center (Yao-shi, Osaka, JAPAN) | Farm & Industrial Machinery | Precision equipment | 530 | 247 | 38 | 661 | 7 | 1,444 | 235 |
| Head Office, Tokyo Head Office, Other regional offices, etc. (Naniwa-ku, Osaka, JAPAN, etc.) (Note 2) | Farm & Industrial Machinery, Water & Environment, Corporate | Administration, sales, R&D, etc. | 13,229 | 1,057 | 1,728 | 28,100 | 22 | 42,409 | 2,196 |

(Notes)

1. Kubota Corporation leases part of its land and buildings, and the related rental expenses for such assets were ¥1.6 billion for the year ended December 31, 2017. The areas of the leased land are stated in parentheses. Also, leased land and buildings are mainly used for storage yards for iron pipes and sales bases.
2. Land is used for factories, distribution and sales bases, recreation facilities, and other purposes.

## (2) Domestic subsidiaries

(As of December 31, 2017)

| Company name | Facility (Main location) | Reporting segment | Details of production item or business contents | Book value (¥ in millions) Buildings and structures | Machinery and equipment and others | Land Area (㎡ in thousands) | Land Amount | Construction in progress | Total | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| Kubota ChemiX Co., Ltd. | Head office, regional offices, factories (Naniwa-ku, Osaka, JAPAN, etc.) | Water & Environment | Plastic pipes, fittings | 283 | 2,165 | (124) — | — | 856 | 3,304 | 612 |

(Note)

The area of the leased land is stated in parentheses. Leased land and buildings are mainly used for the head office, regional offices, and manufacturing bases.

## (3) Overseas subsidiaries

(As of December 31, 2017)

| Company name | Facility (Main location) | Reporting segment | Details of production item or business contents | Book value (¥ in millions) Buildings and Structures | Machinery and equipment and others | Land Area (㎡ in thousands) | Land Amount | Construction in progress | Total | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| Kubota Tractor Corporation | Head office, regional offices (Texas, etc., U.S.A.) | Farm & Industrial Machinery | Administration, sales, etc. | 5,063 | 416 | 916 | 2,209 | 567 | 8,255 | 680 |
| Kubota Manufacturing of America Corporation | Head Factory (Georgia, U.S.A.) | Farm & Industrial Machinery | Tractors, outdoor power equipment | 5,546 | 9,308 | 1,010 | 1,914 | 685 | 17,453 | 1,416 |
| Kubota Industrial Equipment Corporation | Head Factory (Georgia, U.S.A.) | Farm & Industrial Machinery | Implements, tractors, construction machinery | 4,117 | 3,368 | 356 | 335 | 146 | 7,966 | 777 |
| SIAM KUBOTA Corporation Co., Ltd. | Head office, factories (Pathumthani, etc., THAILAND) | Farm & Industrial Machinery | Tractors, combine harvesters, horizontal type diesel engines | 8,726 | 8,645 | 518 | 2,963 | 465 | 20,799 | 2,784 |

## 3. Plans for Capital Investment and Disposals of Property, Plant, and Equipment

The Company plans its capital investments considering its forecast for future business demand and cash flows comprehensively.

As of December 31, 2017, the Company plans capital investment of approximately ¥70.0 billion for the 129th business term. The Company intends to fund capital investment mainly through internally-generated fund financing and partially through available borrowings from financial institutions.

Major plans for new construction, expansion, renovation, disposition, and sale as of December 31, 2017 were as follows:

New Construction

| Company name (Location) | Reporting segment | Description | Estimated amount of expenditures | | Schedule | |
|---|---|---|---|---|---|---|
| | | | Total amount of expenditures | Amount already paid | Commenced | To be completed |
| Kubota Corporation Hirakata Plant (Hirakata-shi, Osaka, JAPAN) | Farm & Industrial Machinery, Water & Environment | Building of new general facilities | (millions of JPY) 4,040 | (millions of JPY) 77 | Oct. 2016 | Aug. 2018 |
| Kubota Tractor Corporation (Texas, U.S.A.) | Farm & Industrial Machinery | Building of new facilities of North American Distribution Center | (millions of US$) 88 | (millions of US$) — | Jul. 2017 | Apr. 2019 |

There are no major plans for expansion, renovation, disposition, or sale.

# 4. Information on Kubota Corporation

## 1. Information on the Shares of Kubota Corporation

### (1) Total Number of Shares

1) Total Number of Shares

| Class | Total number of shares authorized to be issued (shares) |
|---|---|
| Common shares | 1,874,700,000 |
| Total | 1,874,700,000 |

2) Issued Shares

| Class | Number of shares issued as of end of period (shares) (December 31, 2017) | Number of shares issued as of filing date (shares) (March 23, 2018) | Stock exchange on which Kubota Corporation is listed | Description |
|---|---|---|---|---|
| Common shares | 1,234,024,216 | 1,234,024,216 | Tokyo Stock Exchange (the first section) | The number of shares per unit of shares is 100 shares. |
| Total | 1,234,024,216 | 1,234,024,216 | — | — |

### (2) Information on Share Acquisition Rights

Not applicable

### (3) Information on Moving Strike Convertible Bonds

Not applicable

### (4) Information on Shareholder Right Plans

Not applicable

### (5) Changes in the Total Number of Issued Shares, the Amount of Common Stock, and Other

| Date | Changes in the total number of issued shares (thousands of shares) | Balance of the total number of issued shares (thousands of shares) | Changes in common stock (¥ in millions) | Balance of common stock (¥ in millions) | Changes in capital reserve (¥ in millions) | Balance of capital reserve (¥ in millions) |
|---|---|---|---|---|---|---|
| March 29, 2013 (Note 1) | (29,500) | 1,256,419 | ¥ — | ¥ 84,070 | ¥ — | ¥ 73,057 |
| March 31, 2014 (Note 1) | (6,200) | 1,250,219 | ¥ — | ¥ 84,070 | ¥ — | ¥ 73,057 |
| March 31, 2015 (Note 1) | (4,000) | 1,246,219 | ¥ — | ¥ 84,070 | ¥ — | ¥ 73,057 |
| December 30, 2015 (Note 1) | (1,300) | 1,244,919 | ¥ — | ¥ 84,070 | ¥ — | ¥ 73,057 |
| December 30, 2016 (Note 1) | (3,800) | 1,241,119 | ¥ — | ¥ 84,070 | ¥ — | ¥ 73,057 |
| April 21, 2017 (Note 2) | 35 | 1,241,154 | ¥ 30 | ¥ 84,100 | ¥ 30 | ¥ 73,087 |
| December 29, 2017 (Note 1) | (7,130) | 1,234,024 | ¥ — | ¥ 84,100 | ¥ — | ¥ 73,087 |

(Notes)

1. Kubota Corporation retired its treasury stocks.
2. Kubota Corporation issued new shares as consideration for monetary remuneration under the restricted stock compensation plan.

| | |
|---|---|
| Price of issuance (per share): | ¥ 1,718.50 |
| Price of paid-in-capital (per share): | ¥ 859.25 |
| Recipients of shares to be allocated | 6 Directors of Kubota Corporation, excluding Outside Directors |

## (6) Shareholders' Composition

(As of December 31, 2017)

| Class of shareholders | Status of shares (one unit of shares: 100 shares) | | | | | | | | Number of shares less than one unit (shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Government and municipality | Financial institution | Financial instruments business operator | Other institution | Overseas shareholders: Corporations | Overseas shareholders: Individuals | Individuals and others | Total | |
| Number of shareholders | — | 140 | 40 | 761 | 758 | 25 | 36,131 | 37,855 | — |
| Share Ownership (units) | — | 5,600,386 | 247,599 | 488,789 | 5,062,966 | 242 | 937,672 | 12,337,654 | 258,816 |
| Ownership percentage of shares (%) | — | 45.38 | 2.01 | 3.96 | 41.03 | 0.00 | 7.62 | 100.00 | — |

(Notes)

1. Of 24,958 shares of treasury stock, 249 units are included in the "Individuals and others" column while 58 shares are included in the "Number of shares less than one unit" column.
2. The "Other institution" column includes 10 units registered in the name of Japan Securities Depository Center, Incorporated.

## (7) Major Shareholders

(As of December 31, 2017)

| Name | Address | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust account) | 11-3, Hamamatsu-cho 2-chome, Minato-ku Tokyo, JAPAN | 106,071 | 8.59 |
| Nippon Life Insurance Company | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo, JAPAN | 62,542 | 5.06 |
| Meiji Yasuda Life Insurance Company | 1-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, JAPAN | 59,929 | 4.85 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo, JAPAN | 56,496 | 4.57 |
| Sumitomo Mitsui Banking Corporation | 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, JAPAN | 36,006 | 2.91 |
| Mizuho Bank, Ltd. | 5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo, JAPAN | 36,006 | 2.91 |
| GIC PRIVATE LIMITED-C (Standing proxy: Bank of Tokyo-Mitsubishi UFJ, Ltd.) | 168 Robinson Road No.37-01, Capital Tower Singapore 068912 (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, JAPAN | 22,056 | 1.78 |
| Moxley & Co. LLC (Standing proxy: Sumitomo Mitsui Banking Corporation) | 270 Park Avenue New York N.Y. 10017-2070 U.S.A. (3-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, JAPAN) | 21,014 | 1.70 |
| Japan Trustee Services Bank, Ltd. (Trust account 5) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo, JAPAN | 20,572 | 1.66 |
| Japan Trustee Services Bank, Ltd. (Trust account 7) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo, JAPAN | 19,789 | 1.60 |
| Total | — | 440,483 | 35.69 |

(Notes)

1. Numbers less than presentation units are rounded down in the columns of "Share ownership" and "Ownership percentage to the total number of issued shares."
2. The shares held by The Master Trust Bank of Japan, Ltd. (Trust account), Japan Trustee Services Bank, Ltd. (Trust account), Japan Trustee Services Bank, Ltd. (Trust account 5), and Japan Trustee Services Bank, Ltd. (Trust account 7) are invested as their fiduciary services.
3. Change reports pertaining to large shareholding reports by Nippon Life Insurance Company dated November 9, 2015 are available for public inspection. However, the information in the reports is not stated in the above table since Kubota Corporation has not confirmed the actual status of shareholdings as of December 31, 2017, except that of Nippon Life Insurance Company. A summary of the reports as of October 30, 2015 is as follows:

| Name | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|
| Nippon Life Insurance Company | 65,124 | 5.23 |
| Nissay Asset Management Corporation | 15,268 | 1.23 |
| Total | 80,392 | 6.45 |

4. Large shareholding reports by BlackRock Japan Co., Ltd. dated November 19, 2015 are available for public inspection. However, the information in the reports is not stated in the above table since Kubota Corporation has not confirmed the actual status of shareholdings as of December 31, 2017. A summary of the reports as of November 13, 2015 is as follows:

| Name | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|
| BlackRock Japan Co., Ltd. | 14,825 | 1.19 |
| BlackRock Advisers, LLC | 3,489 | 0.28 |
| BlackRock Investment Management LLC | 1,532 | 0.12 |
| BlackRock (Luxembourg) S.A. | 1,454 | 0.12 |
| BlackRock Life Limited | 2,780 | 0.22 |
| BlackRock Asset Management Ireland Limited | 5,510 | 0.44 |
| BlackRock Fund Advisors | 15,101 | 1.21 |
| BlackRock Institutional Trust Company, N.A. | 15,751 | 1.26 |
| BlackRock Investment Management (UK) Limited | 1,936 | 0.16 |
| Total | 62,381 | 5.01 |

5. Change reports pertaining to large shareholding reports by Mizuho Bank, Ltd. dated April 21, 2017 are available for public inspection. However, the information in the reports is not stated in the above table since Kubota Corporation has not confirmed the actual status of shareholdings as of December 31, 2017, except that of Mizuho Bank, Ltd. A summary of the reports as of April 14, 2017 is as follows:

| Name | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|
| Mizuho Bank, Ltd. | 36,006 | 2.90 |
| Asset Management One Co., Ltd. | 37,999 | 3.06 |
| Total | 74,005 | 5.96 |

6. Change reports pertaining to large shareholding reports by The Bank of Tokyo-Mitsubishi UFJ, Ltd. dated June 19, 2017 are available for public inspection. However, the information in the reports is not stated in the above table since Kubota Corporation has not confirmed the actual status of shareholdings as of December 31, 2017. A summary of the reports as of June 12, 2017 is as follows:

| Name | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 18,156 | 1.46 |
| Mitsubishi UFJ Trust and Banking Corporation | 80,448 | 6.48 |
| Mitsubishi UFJ Kokusai Asset Management Co., Ltd. | 5,660 | 0.46 |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 1,337 | 0.11 |
| Total | 105,603 | 8.51 |

7. Change reports pertaining to large shareholding reports by Sumitomo Mitsui Trust Holdings Inc. dated January 10, 2018 are available for public inspection. However, the information in the reports is not stated in the above table since Kubota Corporation has not confirmed the actual status of shareholdings as of December 31, 2017. A summary of the reports as of December 29, 2017 is as follows:

| Name | Share ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|
| Sumitomo Mitsui Trust Bank, Limited | 52,401 | 4.25 |
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 1,499 | 0.12 |
| Nikko Asset Management Co., Ltd. | 20,912 | 1.69 |
| Total | 74,813 | 6.06 |

## (8) Information on Voting Rights

### 1) Issued Shares

(As of December 31, 2017)

| Classification | | Number of shares (shares) | Number of voting rights | Description |
|---|---|---|---|---|
| Shares without voting rights | | — | — | — |
| Shares with restricted voting rights (treasury stock, etc.) | | — | — | — |
| Shares with restricted voting rights (others) | | — | — | — |
| Shares with full voting rights (treasury stock, etc.) | (Treasury stock) Common shares: | 24,900 | — | — |
| | (Crossholding stock) Common shares: | 718,400 | | |
| Shares with full voting rights (others) | Common shares: | 1,233,022,100 | 12,330,221 | — |
| Shares less than one unit | Common shares: | 258,816 | — | Shares less than one unit (100 shares) |
| Number of issued shares | | 1,234,024,216 | — | — |
| Total number of voting rights | | — | 12,330,221 | — |

(Note)

The "Shares with full voting rights (others)" column includes 1,000 shares (10 voting right) registered in the name of Japan Securities Depository Center, Incorporated.

### 2) Treasury Stock

(As of December 31, 2017)

| Name of shareholder | Address | Number of shares held under own name (shares) | Number of shares held under the names of others (shares) | Total shares held (shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---|---|---|---|
| (Treasury stock) | | | | | |
| Kubota Corporation | 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, JAPAN | 24,900 | — | 24,900 | 0.00 |
| (Crossholding stock) | | | | | |
| Akita Kubota Corporation | 295-38, Terauchikamiyashiki, Akita-shi, Akita, JAPAN | 41,400 | — | 41,400 | 0.00 |
| Minami Tohoku Kubota Corporation | 16-1, Takakura Sugishita, Hiwadamachi, Koriyama-shi, Fukushima, JAPAN | 102,000 | — | 102,000 | 0.00 |
| Hokuriku Kinki Kubota Corporation | 956-1, Shimokashiwanomachi, Hakusan-shi, Ishikawa, JAPAN | 9,000 | — | 9,000 | 0.00 |
| Fukuoka Kyushu Kubota Corporation | 11-36, Noma 1-chome, Minami-ku, Fukuoka-shi, Fukuoka, JAPAN | 566,000 | — | 566,000 | 0.04 |
| Total crossholding stock | — | 718,400 | — | 718,400 | 0.05 |
| Total | — | 743,300 | — | 743,300 | 0.06 |

## (9) Details of Stock Option Plans

Not applicable

## 2. Information on Acquisition of Treasury Stock

Class of Shares: Acquisition of common shares under article 155, item 3 & 7 of the Companies Act.

### (1) Acquisition of Treasury Stock Resolved at the General Meeting of Shareholders

Not applicable

### (2) Acquisition of Treasury Stock Resolved at the Meetings of the Board of Directors

Acquisition of common shares under Article 155, Item 3 of the Companies Act

| Classification | Number of shares (shares) | Total amount (¥) |
|---|---|---|
| Details on resolution at the Meeting of the Board of Directors held on May 10, 2016 (Term of validity: from May 11, 2016 to May 10, 2017) | 8,000,000 | ¥ 10,000,000,000 |
| Treasury stock acquired before the year ended December 31, 2017 | 3,798,200 | 6,002,438,950 |
| Treasury stock acquired for the year ended December 31, 2017 | 1,755,700 | 3,194,310,250 |
| Treasury stock not acquired for the year ended December 31, 2017 | 2,446,100 | 803,250,800 |
| The percentage of remaining treasury stock not acquired as of December 31, 2017 (%) | 30.6 | 8.0 |
| Treasury stock acquired during the current period | — | — |
| The percentage of remaining treasury stock not acquired as of filing date (%) | 30.6 | 8.0 |

| Classification | Number of shares (shares) | Total amount (¥) |
|---|---|---|
| Details on resolution at the Meeting of the Board of Directors held on May 10, 2017 (Term of validity: from May 11, 2017 to December 20, 2017) | 7,500,000 | ¥ 10,000,000,000 |
| Treasury stock acquired before the year ended December 31, 2017 | — | — |
| Treasury stock acquired for the year ended December 31, 2017 | 5,372,600 | 9,999,703,569 |
| Treasury stock not acquired for the year ended December 31, 2017 | 2,127,400 | 296,431 |
| The percentage of remaining treasury stock not acquired as of December 31, 2017 (%) | 28.4 | 0.0 |
| Treasury stock acquired during the current period | — | — |
| The percentage of remaining treasury stock not acquired as of filing date (%) | 28.4 | 0.0 |

### (3) Details of Acquisition of Treasury Stock Not Based on the Resolutions of the General Meeting of Shareholders or the Meetings of the Board of Directors

Acquisition of common stock under Article 155, Item 7 of the Companies Act

| Classification | Number of shares (shares) | Total amount (¥) |
|---|---|---|
| Treasury stock acquired for the year ended December 31, 2017 | 1,825 | ¥ 3,399,407 |
| Treasury stock acquired during the current period | 90 | ¥ 198,288 |

(Note)

Treasury stock acquired during the current period does not include shares consisting of less than one unit purchased during the period from March 1, 2018 to the filing date of this report.

### (4) Status of the Disposition and Holding of Acquired Treasury Stock

| Classification | Year ended December 31, 2017 Number of shares (shares) | Year ended December 31, 2017 Total disposition amount (¥) | Current period Number of shares (shares) | Current period Total disposition amount (¥) |
|---|---|---|---|---|
| Acquired treasury stock for which subscribers were solicited | — | ¥ — | — | ¥ — |
| Acquired treasury stock which was retired | 7,130,000 | 13,190,571,300 | — | — |
| Acquired treasury stock for which transfer of shares was conducted due to merger, share exchange or company separation | — | — | — | — |
| Others (sold shares consisting of less than one unit) | 87 | 156,389 | — | — |
| Total number of treasury stock held | 24,958 | ¥ — | 25,048 | ¥ — |

(Note)

The number of shares and total disposition amount during the current period does not include shares consisting of less than one unit acquired or sold during the period from March 1, 2018 to the filing date of this report.

## 3. Dividend Policy

Kubota Corporation's basic policy for the return of profit to shareholders is to maintain stable dividends and raise dividends. Kubota Corporation decides how to allocate its retained earnings in consideration of maintaining sound business operations and accommodating the future business environment.

Based on the above policy, ¥15 per share was resolved for an interim dividend and ¥17 per share was resolved for a year-end dividend for the current fiscal year, resulting in the total amount of annual dividend of ¥32 per share.

In accordance with its basic policy, Kubota Corporation pays dividends twice a year, an interim dividend and a year-end dividend, with appropriation from retained earnings. Dividends are resolved at the Meetings of the Board of Directors.

Kubota Corporation stipulates in its Article of Incorporation the possibility of resolution of interim dividends, which is defined under Article 454, Paragraph 5 of the Companies Act. For further details, please refer to "5. Stock-Related Administration of Kubota Corporation".

Dividends with record dates falling in the current fiscal year are as follows:

| Date of resolution | Cash dividends (¥ in millions) | Cash dividends per share (¥) |
|---|---|---|
| The Meeting of the Board of Directors on August 3, 2017 | ¥ 18,564 | ¥ 15.00 |
| The Meeting of the Board of Directors on February 14, 2018 | ¥ 20,978 | ¥ 17.00 |

## 4. Share Prices

### (1) Highest and Lowest Share Prices in Each of the Recent Five Fiscal Years

| Fiscal year | 124th business term | 125th business term | 126th business term | 127th business term | 128th business term |
|---|---|---|---|---|---|
| Year end | March 2014 | March 2015 | December 2015 | December 2016 | December 2017 |
| Highest (¥) | ¥ 1,852 | ¥ 2,019.5 | ¥ 2,193.5 | ¥ 1,895.0 | ¥ 2,232.5 |
| Lowest (¥) | ¥ 1,202 | ¥ 1,276.0 | ¥ 1,581.0 | ¥ 1,270.0 | ¥ 1,606.0 |

(Note)

1. The share prices are market prices on the first section of the Tokyo Stock Exchange (the "TSE").
2. The 126th business term was the nine-month period that commenced on April 1, 2015 and ended December 31, 2015.

### (2) Highest and Lowest Share Prices in Each of the Recent Six Months

| Month | July 2017 | August 2017 | September 2017 | October 2017 | November 2017 | December 2017 |
|---|---|---|---|---|---|---|
| Highest (¥) | ¥ 1,991.0 | ¥ 2,080.5 | ¥ 2,079.5 | ¥ 2,137.0 | ¥ 2,176.0 | ¥ 2,232.5 |
| Lowest (¥) | ¥ 1,882.5 | ¥ 1,874.5 | ¥ 1,884.0 | ¥ 1,953.5 | ¥ 1,932.5 | ¥ 2,035.5 |

(Note)

The share prices are market prices on the first section of the TSE.

## 5. Directors and Senior Management

Male: 15, Female: 0 (percentage of females among Directors and Audit & Supervisory Board Members: 0%)

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| President and Representative Director of Kubota Corporation | | Masatoshi Kimata | Jun. 22, 1951 | Apr. 1977 | Joined Kubota Corporation | Note 3 | 71,840 |
| | | | | Oct. 2001 | General Manager of Tsukuba Plant | | |
| | | | | Jun. 2005 | Director of Kubota Corporation | | |
| | | | | Apr. 2007 | Deputy General Manager of Sales Headquarters in Farm & Industrial Machinery Consolidated Division of Kubota Corporation | | |
| | | | | Apr. 2008 | Managing Director of Kubota Corporation | | |
| | | | | Apr. 2009 | Director and Managing Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2009 | Deputy General Manager of Farm and Industrial Machinery Consolidated Division, and<br>General Manager of Sales Headquarters in Farm and Industrial Machinery Consolidated Division of Kubota Corporation | | |
| | | | | Jun. 2009 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Jul. 2010 | Senior Managing Executive Officer of Kubota Corporation | | |
| | | | | Aug. 2010 | President of SIAM KUBOTA Corporation Co., Ltd. | | |
| | | | | Apr. 2012 | General Manager of Water and Environment Domain,<br>General Manager of Tokyo Head Office of Kubota Corporation | | |
| | | | | Jun. 2012 | Director and Senior Managing Executive Officer of Kubota Corporation | | |
| | | | | Aug. 2012 | Administrative Officer- Corporate Staff, General Manager of Water Engineering and Solution Division of Kubota Corporation | | |
| | | | | Apr. 2013 | General Manager of Procurement Headquarters of Kubota Corporation | | |
| | | | | Apr. 2014 | Representative Director and Executive Vice President of Kubota Corporation | | |
| | | | | Jul. 2014 | President and Representative Director of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Representative Director and Executive Vice President of Kubota Corporation | General Manager of Water and Environmental Infrastructure Domain, General Manager of Human Resources and General Affairs Headquarters, General Manager of Head Office | Toshihiro Kubo | Apr. 5, 1953 | Apr. 1979 | Joined Kubota Corporation | Note 3 | 41,204 |
| | | | | Apr. 2003 | General Manager of Duct Iron Pipe R&D Dept. of Kubota Corporation | | |
| | | | | Oct. 2005 | General Manager of Planning Dept. in Ductile Iron Pipe Division of Kubota Corporation | | |
| | | | | Jun. 2007 | Director of Kubota Corporation | | |
| | | | | Jun. 2007 | General Manager of Coordination Dept. in Water, Environment and Infrastructure Consolidated Division, General Manager of Production Control Headquarters in Water, Environment and Infrastructure Consolidated Division of Kubota Corporation | | |
| | | | | Apr. 2009 | Director and Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2009 | Deputy General Manager of Water and Environment Systems Consolidated Division, General Manager of Water and Environment Systems, Social Infrastructure Business Promotion Headquarters, General Manager of Water and Environment Systems, Social Infrastructure Production Control Dept. of Kubota Corporation | | |
| | | | | Jun. 2009 | Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2010 | General Manager of Head Office (to present) | | |
| | | | | Apr. 2010 | In charge of Personnel Dept., Secretary and Public Relations Dept., General Affairs Dept., and Tokyo Administration Dept. of Kubota Corporation | | |
| | | | | Jun. 2010 | In charge of Secretary Dept. and Corporate Communications Dept. of Kubota Corporation | | |
| | | | | Apr. 2011 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Jun. 2011 | Director and Managing Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2012 | General Manager of Human Resources and General Affairs Headquarters (to present) | | |
| | | | | Apr. 2013 | Director and Senior Managing Executive Officer of Kubota Corporation | | |
| | | | | Jul. 2014 | Representative Director and Executive Vice President of Kubota Corporation (to present) | | |
| | | | | Oct. 2014 | General Manager of CSR Planning & Coordination Headquarters of Kubota Corporation | | |
| | | | | Jan. 2016 | General Manager of Water and Environment Domain of Kubota Corporation | | |
| | | | | Jan. 2017 | General Manager of Water and Environmental Infrastructure Domain of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director and Senior Managing Executive Officer of Kubota Corporation | General Manager of Planning & Control Headquarters, General Manager of Global IT Management Department | Shigeru Kimura | Sep. 10, 1953 | Apr. 1977 | Joined Kubota Corporation | Note 3 | 33,698 |
| | | | | Dec. 2002 | General Manager of Finance and Accounting Dept. of Kubota Corporation | | |
| | | | | Jun. 2008 | Director of Kubota Corporation | | |
| | | | | Apr. 2009 | Director and Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2009 | In charge of Corporate Planning & Control Dept. of Kubota Corporation (assistant) | | |
| | | | | Jun. 2009 | Executive Officer of Kubota Corporation | | |
| | | | | Oct. 2010 | General Manager of Planning & Control Headquarters (to present) | | |
| | | | | Apr. 2011 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Jun. 2012 | Director and Managing Executive Officer of Kubota Corporation | | |
| | | | | Oct. 2013 | General Manager of Corporate Planning & Control Dept. of Kubota Corporation | | |
| | | | | Apr. 2014 | Director and Senior Managing Executive Officer of Kubota Corporation (to present) | | |
| | | | | Apr. 2016 | General Manager of Global IT Management Department of Kubota Corporation (to present) | | |
| Director and Senior Managing Executive Officer of Kubota Corporation | General Manager of Manufacturing Headquarters | Kenshiro Ogawa | Jul. 23, 1953 | Apr. 1979 | Joined Kubota Corporation | Note 3 | 49,998 |
| | | | | Apr. 2003 | General Manager of Sakai Engine Manufacturing Dept.,<br>General Manager of Rinkai Engine Manufacturing Dept. of Kubota Corporation | | |
| | | | | Apr. 2007 | General Manager of Tsukuba Plant,<br>General Manager of Production Engineering Center of Emission of Kubota Corporation | | |
| | | | | Jun. 2007 | Director of Kubota Corporation | | |
| | | | | Apr. 2009 | Director and Executive Officer of Kubota Corporation | | |
| | | | | Jun. 2009 | Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2010 | General Manager of Sakai Plant of Kubota Corporation | | |
| | | | | Apr. 2011 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2011 | General Manager of Construction Machinery Division, and<br>General Manager of Construction Machinery Planning and Coordinate Dept. of Kubota Corporation | | |
| | | | | Apr. 2012 | General Manager of Quality Assurance & Manufacturing Headquarters of Kubota Corporation | | |
| | | | | Jan. 2013 | General Manager of Health and Safety Promotion Headquarters of Kubota Corporation | | |
| | | | | Apr. 2014 | Senior Managing Executive Officer of Kubota Corporation | | |
| | | | | Jun. 2014 | Director and Senior Managing Executive Officer of Kubota Corporation (to present) | | |
| | | | | Jul. 2014 | General Manager of Procurement Headquarters of Kubota Corporation | | |
| | | | | Apr. 2015 | General Manager of Manufacturing Engineering Headquarters of Kubota Corporation | | |
| | | | | Jan. 2018 | General Manager of Manufacturing Headquarters of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director and Senior Managing Executive Officer of Kubota Corporation | General Manager of Farm & Industrial Machinery Domain, General Manager of Farm & Utility Machinery Division | Yuichi Kitao | Jul. 15, 1956 | Apr. 1979 | Joined Kubota Corporation | Note 3 | 50,198 |
| | | | | Apr. 2005 | General Manager of Tractor Engineering Dept. of Kubota Corporation | | |
| | | | | Apr. 2009 | Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2009 | General Manager of Tractor Division of Kubota Corporation | | |
| | | | | Jan. 2011 | President of Kubota Tractor Corporation | | |
| | | | | Apr. 2013 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Oct. 2013 | General Manager of Farm and Utility Machinery Division of Kubota Corporation (to present) | | |
| | | | | Oct. 2013 | General Manager of Farm and Utility Machinery International Operations Headquarters of Kubota Corporation | | |
| | | | | Jun. 2014 | Director and Managing Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2015 | Director and Senior Managing Executive Officer of Kubota Corporation (to present) | | |
| | | | | Apr. 2015 | General Manager of Farm and Industrial Machinery Domain of Kubota Corporation (to present) | | |
| Director and Senior Managing Executive Officer of Kubota Corporation | President of Kubota Tractor Corporation | Masato Yoshikawa | Jan. 27, 1959 | Apr. 1981 | Joined Kubota Corporation | Note 3 | 14,400 |
| | | | | Feb. 2008 | General Manager of Ductile Iron Pipe Planning Dept. of Kubota Corporation | | |
| | | | | Oct. 2009 | General Manager of Pipe System Planning Dept., and General Manager of Ductile Iron Pipe Planning Dept. of Kubota Corporation | | |
| | | | | Oct. 2010 | General Manager of Corporate Planning and Control Dept. | | |
| | | | | Apr. 2012 | Executive Officer of Kubota Corporation | | |
| | | | | Oct. 2013 | President of Kubota Tractor Corporation (to present) | | |
| | | | | Apr. 2015 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Mar. 2017 | Director and Managing Executive Officer of Kubota Corporation | | |
| | | | | Jan. 2018 | Director and Senior Managing Executive Officer of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director and Senior Managing Executive Officer of Kubota Corporation | General Manager of Research and Development Headquarters | Shinji Sasaki | Sep. 11, 1954 | Apr. 1978 | Joined Kubota Corporation | Note 3 | 34,700 |
| | | | | Apr. 2004 | General Manager of Engine Engineering Dept. of Kubota Corporation | | |
| | | | | Apr. 2009 | Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2009 | General Manager of Engine Division of Kubota Corporation | | |
| | | | | Apr. 2013 | Managing Executive Officer of Kubota Corporation | | |
| | | | | Apr. 2015 | Senior Managing Executive Officer of Kubota Corporation (to present) | | |
| | | | | Jan. 2017 | Deputy General Manager of Farm and Industrial Machinery Domain, and General Manager Construction Machinery Division of Kubota Corporation | | |
| | | | | Jan. 2018 | General Manager of Research and Development Headquarters of Kubota Corporation (to present) | | |
| | | | | Mar. 2018 | Director and Senior Managing Executive Officer of Kubota Corporation (to present) | | |
| Director of Kubota Corporation | | Yuzuru Matsuda | Jun. 25, 1948 | Apr. 1977 | Joined Kyowa Hakko Kogyo Co., Ltd. (currently, Kyowa Hakko Kirin Co., Ltd.) | Note 3 | 7,300 |
| | | | | Jun. 1999 | Director of Drug Discovery Research Laboratories, Pharmaceutical Research Institute of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Jun. 2000 | Executive Officer of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Jun. 2000 | Executive Director of Pharmaceutical Research Institute of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Jun. 2002 | Executive Director of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Jun. 2002 | Director of Corporate Planning Department of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Jun. 2003 | President and Chief Operating Officer of Kyowa Hakko Kogyo Co., Ltd. | | |
| | | | | Oct. 2008 | President and Chief Executive Officer of Kyowa Hakko Kirin Co., Ltd. | | |
| | | | | Mar. 2012 | Senior Advisor of Kyowa Hakko Kirin Co., Ltd. | | |
| | | | | Jun. 2012 | President of Kato Memorial Bioscience Foundation (to present) | | |
| | | | | Jun. 2014 | Director of Kubota Corporation (to present) | | |
| | | | | Jun. 2014 | Director of BANDAI NAMCO Holdings, Inc. (to present) | | |
| | | | | Jun. 2015 | Director of JSR Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director of Kubota Corporation | | Koichi Ina | May 6, 1948 | Apr. 1973 | Joined Toyota Motor Corporation | Note 3 | 10,000 |
| | | | | Jan. 1998 | General Manager of Motomachi Plant Machining Division of Toyota Motor Corporation | | |
| | | | | Jun. 2000 | Division General Manager of Motomachi Plant Administration Division of Toyota Motor Corporation | | |
| | | | | Jun. 2002 | Board of Director of Toyota Motor Corporation | | |
| | | | | Jun. 2002 | Plant Manager, Honsha Plant, Plant Manager, Motomachi Plant of Toyota Motor Corporation | | |
| | | | | Jun. 2003 | Managing Officer of Toyota Motor Corporation | | |
| | | | | Jun. 2003 | General Manager of Global Production Center of Toyota Motor Corporation | | |
| | | | | Jun. 2004 | Plant Manager, Myochi Plant of Toyota Motor Corporation | | |
| | | | | Jun. 2005 | Plant Manager, Takaoka Plant, Plant Manager, Tsutsumi Plant of Toyota Motor Corporation | | |
| | | | | Jun. 2006 | Plant Manager, Miyoshi Plant of Toyota Motor Corporation | | |
| | | | | Jun. 2007 | Senior Managing Director of Toyota Motor Corporation | | |
| | | | | Jun. 2007 | Chief Officer, Production Planning Group, Chief Officer, Manufacturing Group of Toyota Motor Corporation | | |
| | | | | Jun. 2009 | Adviser of Toyota Motor Corporation | | |
| | | | | Jun. 2009 | Executive Vice President of Daihatsu Motor Co., Ltd. | | |
| | | | | Jun. 2010 | President of Daihatsu Motor Co., Ltd. | | |
| | | | | Jun. 2013 | Chairman of Daihatsu Motor Co., Ltd. | | |
| | | | | Jun. 2015 | Director of Kubota Corporation (to present) | | |
| | | | | Jun. 2016 | Adviser to the Board of Daihatsu Motor Co., Ltd. (to present) | | |

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director of Kubota Corporation | | Yutaro Shintaku | Sep. 19, 1955 | Apr. 1979 | Joined Toa Nenryo Kogyo K.K. (Currently, JXTG Nippon Oil & Energy Corporation) | Note 3 | — |
| | | | | Jan. 1999 | Joined Terumo Corporation | | |
| | | | | Jun. 2005 | Executive Officer of Terumo Corporation | | |
| | | | | Jun. 2006 | Director and Executive Officer of Terumo Corporation | | |
| | | | | Jun. 2007 | Director and Senior Executive Officer of Terumo Corporation | | |
| | | | | Jun. 2007 | In charge of R&D Center, Intellectual Property Dept. and Legal Dept. of Terumo Corporation | | |
| | | | | Jun. 2009 | Director and Managing Executive Officer of Terumo Corporation | | |
| | | | | Jun. 2009 | General Manager of Strategy Planning Dept.,<br>In charge of Human Resources Dept. and Accounting & Finance Dept. of Terumo Corporation | | |
| | | | | Jun. 2010 | President and Representative Director of Terumo Corporation | | |
| | | | | Apr. 2017 | Director and Adviser of Terumo Corporation | | |
| | | | | Jun. 2017 | Corporate Adviser of Terumo Corporation (to present) | | |
| | | | | Jun. 2017 | Director of Santen Pharmaceutical Co., Ltd. (to present) | | |
| | | | | Jun. 2017 | Director of J-Oil Mills, Inc. (to present) | | |
| | | | | Jun. 2017 | Executive Trustee of Tonen International Scholarship Foundation (to present) | | |
| | | | | Mar. 2018 | Director of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Audit & Supervisory Board Member of Kubota Corporation (Full-time) | | Toshikazu Fukuyama | Jun. 11, 1955 | Apr. 1979 | Joined Kubota Corporation | Note 4 | 11,000 |
| | | | | Oct. 2005 | General Manager of Corporate Planning and Control Dept. of Kubota Corporation | | |
| | | | | Oct. 2009 | Vice President of The Siam Kubota Industry Co., Ltd. (currently, SIAM KUBOTA Corporation Co., Ltd.), Director of Siam Kubota Leasing Co., Ltd. | | |
| | | | | Aug. 2010 | Vice President of SIAM KUBOTA Corporation Co., Ltd., Director of Siam Kubota Leasing Co., Ltd. | | |
| | | | | Jun. 2014 | Audit & Supervisory Board Member of Kubota Corporation (to present) | | |
| Audit & Supervisory Board Member of Kubota Corporation (Full-time) | | Yasuhiko Hiyama | Dec. 25, 1957 | Apr. 1981 | Joined Kubota Corporation | Note 4 | 17,100 |
| | | | | Apr. 2008 | President of Kubota Industrial Equipment Corporation | | |
| | | | | Apr. 2010 | General Manager of Tractor Planning and Sales Promotion Dept. of Kubota Corporation | | |
| | | | | Apr. 2012 | General Manager of Farm and Utility Machinery Planning and Sales Promotion Dept. of Kubota Corporation | | |
| | | | | Apr. 2014 | General Manager of Farm and Utility Machinery Business Unit 1, General Manager of Farm and Utility Machinery Planning and Sales Promotion Dept. 1, General Manager of Farm and Utility Machinery Planning and Sales Promotion Dept. 2 of Kubota Corporation | | |
| | | | | Apr. 2015 | General Manager of Tractor and Utility Machinery Business Unit of Kubota Corporation | | |
| | | | | Jan. 2016 | Executive Officer of Kubota Corporation | | |
| | | | | Jan. 2017 | General Manager of Compact Tractor, Turf and Utility Vehicle Business Unit of Kubota Corporation | | |
| | | | | Jan. 2018 | Deputy General Manager of tractor Division of Kubota Corporation | | |
| | | | | Mar. 2018 | Audit & Supervisory Board Member of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Audit & Supervisory Board Member of Kubota Corporation (Part-time) | | Akira Morita | Jan. 15, 1949 | Apr. 1979 | Assistant professor of Law, Faculty of Law, Kobe Gakuin University | Note 5 | 3,500 |
| | | | | Apr. 1987 | Professor of Law, Faculty of Law, Kobe Gakuin University,<br>Professor of Law, Graduate School of Law, Kobe Gakuin University | | |
| | | | | Apr. 1991 | Professor of Law, Faculty of Law, Doshisha University | | |
| | | | | Apr. 1991 | Professor of Law, Graduate School of Law, Doshisha University (to present) | | |
| | | | | Oct. 2003 | Attorney at Law of Kyoto Bar Association | | |
| | | | | Apr. 2004 | Professor of Law, Doshisha Law School (to present) | | |
| | | | | Mar. 2005 | Visiting attorney at law of Miyake & Partners Law Firm (to present) | | |
| | | | | Mar. 2005 | Attorney at law of Osaka Bar Association (to present) | | |
| | | | | Jun. 2015 | Audit & Supervisory Board Member of Kubota Corporation (to present) | | |
| Audit & Supervisory Board Member of Kubota Corporation (Part-time) | | Teruo Suzuki | Oct. 21, 1949 | Apr. 1973 | Joined Tokyo Branch of Arthur Andersen & Co. | Note 5 | — |
| | | | | Aug. 1978 | Registered as a Certified Public Accountant of Japan | | |
| | | | | Apr. 1989 | Representative Partner of Eiwa Audit Corporation (currently, KPMG AZSA LLC) | | |
| | | | | Jun. 1993 | Representative Partner of Asahi & Co. (currently, KPMG AZSA LLC) | | |
| | | | | Jun. 2003 | Board Member of Asahi & Co. | | |
| | | | | Jun. 2004 | Board Member of AZSA & Co. (currently, KPMG AZSA LLC) | | |
| | | | | Jun. 2006 | Executive Board Member of AZSA & Co. | | |
| | | | | Jun. 2010 | Deputy Managing Partner of AZSA & Co. | | |
| | | | | Sep. 2011 | Partner of KPMG AZSA LLC | | |
| | | | | Jun. 2012 | Audit & Supervisory Board Member of Kao Corporation | | |
| | | | | Jul. 2013 | Adviser of Seven-Eleven Japan Co., Ltd. (to present) | | |
| | | | | Jun. 2015 | Audit & Supervisory Board Member of Kubota Corporation (to present) | | |

| Position | Responsibility | Name | Date of birth | | Business experience | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Audit & Supervisory Board Member of Kubota Corporation (Part-time) | | Masaki Fujiwara | Dec. 23, 1953 | Apr. 1977 | Joined Matsushita Electric Industrial Co., Ltd. (currently, Panasonic Corporation) | Note 4 | 3,000 |
| | | | | Jan. 2000 | Director of Malaysia Matsushita Television Co., Ltd. | | |
| | | | | Nov. 2004 | General Manager of Technical Accounting Center of Matsushita Electric Industrial Co., Ltd. | | |
| | | | | Dec. 2006 | General Manager of Accounting Center of Panasonic Corporation, AVC Networks Company | | |
| | | | | May. 2010 | President and Representative Director of Panasonic Insurance Services Japan Co., Ltd. | | |
| | | | | Mar. 2014 | Joined Sansha Electric Manufacturing Co., Ltd. | | |
| | | | | Mar. 2014 | Adviser of Sansha Electric Manufacturing Co., Ltd. | | |
| | | | | Jun. 2014 | Director and Senior Managing Executive Officer of Sansha Electric Manufacturing Co., Ltd. (to present) | | |
| | | | | Jun. 2014 | General Manager of Administrative Division of Sansha Electric Manufacturing Co., Ltd. (to present) | | |
| | | | | Mar. 2018 | Audit & Supervisory Board Member of Kubota Corporation (to present) | | |
| | | | | Total | | | 347,938 |

(Notes)

1. Among the Directors, Yuzuru Matsuda, Koichi Ina, and Yutaro Shintaku are the Outside Directors.
2. Among the Audit & Supervisory Board Members, Akira Morita, Teruo Suzuki, and Masaki Fujiwara are the Outside Audit & Supervisory Board Members.
3. The terms of office of the Directors will expire at the close of the Ordinary General Meeting of Shareholders for the year ending December 31, 2018 from the election at the Ordinary General Meeting of Shareholders for the year ended December 31, 2017.
4. The terms of office of the Audit & Supervisory Board Members will expire at the close of the Ordinary General Meeting of Shareholders for the year ending December 31, 2021 from the election at the Ordinary General Meeting of Shareholders for the year ended December 31, 2017.
5. The terms of office of the Audit & Supervisory Board Members will expire at the close of the Ordinary General Meeting of Shareholders for the year ending December 31, 2018 from the election at the Ordinary General Meeting of Shareholders for the year ended March 31, 2015.
6. Kubota Corporation adopted the Executive Officer System. The Executive Officers, excluding persons who also hold the post of Director as of the filing date, are as follows:

| Title | Name | Responsibility |
|---|---|---|
| Managing Executive Officer of Kubota Corporation | Kunio Suwa | General Manager of CSR Planning & Coordination Headquarters, General Manager of Legal Department |
| Managing Executive Officer of Kubota Corporation | Toshihiko Kurosawa | Deputy General Manager of Water and Environmental Infrastructure Domain, General Manager of Environmental Solutions Division, General Manager of Tokyo Head Office |
| Managing Executive Officer of Kubota Corporation | Yoshiyuki Fujita | Deputy General Manager of Planning & Control Headquarters |
| Managing Executive Officer of Kubota Corporation | Kaoru Hamada | Deputy General Manager of Research and Development Headquarters, General Manager of Water and Environment R&D |
| Managing Executive Officer of Kubota Corporation | Yasuo Nakata | General Manager of Quality Assurance Headquarters |
| Managing Executive Officer of Kubota Corporation | Kazuhiro Kimura | Deputy General Manager of Human Resources and General Affairs Headquarters |
| Managing Executive Officer of Kubota Corporation | Dai Watanabe | General Manager of Agricultural Implement Division, President of Kverneland AS, President of Kubota Holdings Europe B.V. |

| | | |
|---|---|---|
| Managing Executive Officer of Kubota Corporation | Haruyuki Yoshida | General Manager of Farm and Industrial Machinery Domain, Strategy and Operations Headquarters |
| Managing Executive Officer of Kubota Corporation | Takao Shomura | General Manager of Procurement Headquarters, General Manager of Sakai Plant |
| Managing Executive Officer of Kubota Corporation | Yuji Tomiyama | General Manager of Tractor Division |
| Managing Executive Officer of Kubota Corporation | Kazunari Shimokawa | President of Kubota Europe S.A.S., Vice President of Kubota Holdings Europe B.V. |
| Managing Executive Officer of Kubota Corporation | Mutsuo Uchida | General Manager of Pipe Systems Division, General Manager of Pipe Systems Business Unit |
| Managing Executive Officer of Kubota Corporation | Nobuyuki Ishii | Deputy General Manager of Farm and Industrial Machinery Domain, Strategy and Operations Headquarters, General Manager of Farm and Industrial Machinery Strategy and Operations Department |
| Executive Officer of Kubota Corporation | Junji Ogawa | Deputy General Manager of CSR Planning & Coordination Headquarters |
| Executive Officer of Kubota Corporation | Kazuhiro Shinabe | Deputy General Manager of Environmental Solutions Division, General Manager of Environmental Engineering Business Unit |
| Executive Officer of Kubota Corporation | Ryuichi Minami | General Manager of Harvester and Transplanter Division |
| Executive Officer of Kubota Corporation | Yoshimitsu Ishibashi | Deputy General Manager of Tractor Division, General Manager of Compact Tractor, Turf and Utility Vehicle Business Unit |
| Executive Officer of Kubota Corporation | Ryoji Kuroda | General Manager of Health Safety Promotion Headquarters |
| Executive Officer of Kubota Corporation | Eiji Yoshioka | General Manager of Materials Division |
| Executive Officer of Kubota Corporation | Yasukazu Kamada | General Manager of Engine Division |
| Executive Officer of Kubota Corporation | Muneji Okamoto | General Manager of Farm and Utility Machinery Engineering Headquarters |
| Executive Officer of Kubota Corporation | Hiroto Kimura | President of SIAM KUBOTA Corporation Co., Ltd. |
| Executive Officer of Kubota Corporation | Katsuhiko Yukawa | General Manager of Construction Machinery Division |
| Executive Officer of Kubota Corporation | Koichiro Kan | General Manager of Agricultural Tractor Business Unit |
| Executive Officer of Kubota Corporation | Hirohiko Arai | President of Kubota Manufacturing of America Corporation, President of Kubota Industrial Equipment Corporation |
| Executive Officer of Kubota Corporation | Tomohiro Iitsuka | General Manager of Farm Machinery Japan Operation, President of Kubota Agri Service Corporation |
| Executive Officer of Kubota Corporation | Kazushi Ito | Deputy General Manager of Planning and Control Headquarters, General Manager of Global Management Promotion Department, General Manager of Strategic Planning Department |

## 6. Corporate Governance

### (1) Corporate Governance

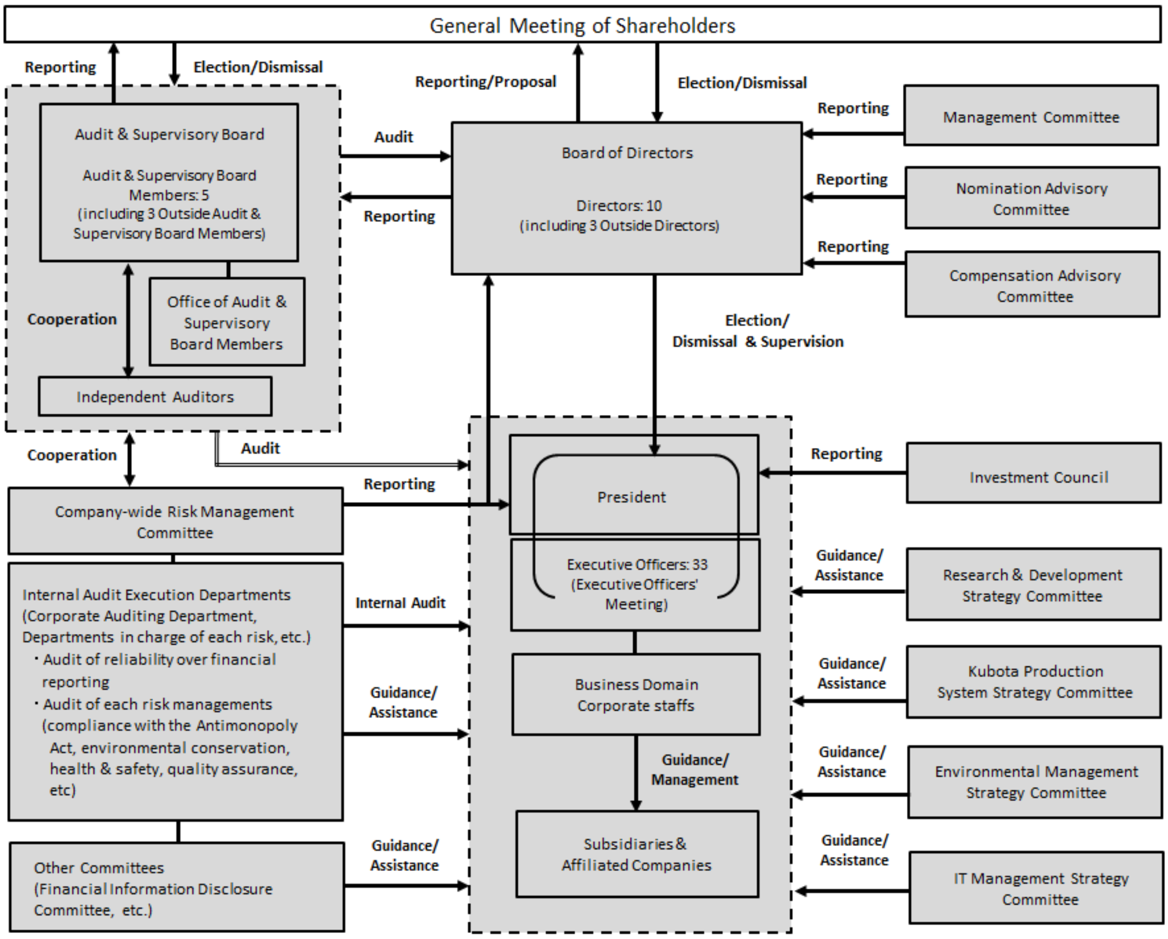
Among various tasks for management, Kubota Corporation puts the highest priority on stable and sustainable enhancement of corporate value. To realize the above, Kubota Corporation considers it critical to enhance its corporate value as a whole by satisfying all surrounding stakeholders and by balancing the following three values: economic value, social value, and environmental value. Being more competitive as a global company, Kubota Corporation places its top priority on the enhancement of its corporate governance and has been continuously working on such enhancement.

To increase the confidence and understanding by shareholders, investors, and society, Kubota Corporation will make accurate and timely disclosures of corporate information, such as results of operations on quarterly basis and management policies, and fulfill its responsibilities for transparency and accountability in corporate activities.

1) Corporate Governance Structure

a) Outline of Corporate Governance Structure and Reasons for Such Structure

In order to respond timely to business environment and achieve enhanced transparency in its management structure, Kubota Corporation has adopted the following corporate governance structure (as of March 23, 2018).




The Board of Directors makes strategic decisions and oversees the execution of duties by the Executive Officers. It consists of ten Directors (three of whom are the Outside Directors). In addition to its regular monthly board meetings, it also meets as and when required to discuss and make decisions relating to management planning, financial planning, investment, business restructuring and other important management issues.

The Audit & Supervisory Board oversees and audits the execution of duties by the Directors. It consists of five Audit & Supervisory Board Members (three of whom are the Outside Audit & Supervisory Board Members). In addition to its regular monthly Audit & Supervisory Board Meetings, it also meets as and when required to discuss and make decisions with regard to auditing policy, audit reports, and other matters.

Kubota Corporation has adopted the Executive Officer System in order to strengthen business execution by each department and make prompt and appropriate business decisions. The Executive Officers' Meeting consists of the President and Representative Director (the "President") and 33 Executive Officers. In addition to its regular monthly meetings, it also meets as and when required. The President instructs the Executive Officers on policies and decisions made by the Board of Directors. The Executive Officers report to the President regarding the status of their execution of duties.

Kubota Corporation has a Management Committee and Investment Council in place in order to discuss and make decisions in regard to specific and important issues. The Management Committee meets to deliberate on important management matters such as investments, loans, and mid-term management plans before they are discussed by the Board of Directors. The Investment Council gives the President advice on matters to be decided by the President, except those deliberated by the Management Committee, as well as special matters.

In addition, Kubota Corporation has a Nomination Advisory Committee and Compensation Advisory Committee in place, in which more than half of the members are the Outside Directors, to give advice to the Board of Directors. The Nomination Advisory Committee and Compensation Advisory Committee meet to deliberate on nominations of candidates for Directors, and the compensation system and compensation level of the Directors with appropriate involvement and advice from the Outside Directors.

Pursuant to Article 427, Paragraph 1 of the Companies Act, Kubota Corporation enters into Liability Limitation Agreements with each of the Outside Directors and the Outside Audit & Supervisory Board Members, acting in good faith and without significant negligence, which limit the maximum amount of their liabilities owed to Kubota Corporation arising in connection with their failure to perform their duties to the extent permitted by the Companies Act.

b) Status of the Development of Internal Control System

As a basis of the system to ensure that the Directors, the Executive Officers and employees perform their duties in compliance with laws and regulations and its Articles of Incorporation, Kubota Corporation established the Kubota Group Charter for Action & Code of Conduct to be observed by all Directors, Executive Officers, and employees of the Kubota Group.

Kubota Corporation has a Company-wide Risk Management Committee in place in order to properly control material risks the Kubota Group might face and ensure its appropriate growth and development based on its management principles.

Under the Company-wide Risk Management Committee, a department in charge designated for each risk category of management risks (the "Department in Charge") undertakes activities such as education and training to promote compliance with laws and ethics, and performs internal audits. Kubota Corporation has established the Kubota Hot Line, a service counter for in-house whistle-blowing and consultations, to discover at an early stage any improper conduct that infringes on laws or other regulations and to prevent such infringements from occurring. The interest and privacy of the informant are fully protected by internal rules and regulations.

Kubota Corporation has a Financial Information Disclosure Committee in place in order to review and assess the adequacy of significant financial reporting, such as the Annual Securities Report, etc. and the effectiveness of internal controls over financial reporting.

c) Status of Risk Control Structure and Development of Information Risk Control Structure

Kubota Corporation manages risks related to compliance with laws and regulations, environment, health and safety, disasters, quality, and other risks related to the business performance of the entire Kubota Group by establishing the Department in Charge or relevant committees which are supervised by the Company-wide Risk Management Committee, and by providing internal rules, regulations, and manuals and other guidelines to address such risks. In order to address the new risks that the Kubota Group will face, the Company-wide Risk Management Committee will assign a Department in Charge which will manage such new risks.

Kubota Corporation properly keeps and controls information on the execution of duties by the Directors and the Executive Officers in accordance with its in-house rules and regulations, such as the regulations on custody of documents. Kubota Corporation also maintains a standard by which such documents are available for examination, as necessary.

d) Status of System to Ensure Appropriateness of Subsidiaries' Business Performance

Kubota Corporation put in place a system to supervise and manage both domestic and overseas subsidiaries and affiliated companies by assigning a Department in Charge and requiring them to report operation results and plans in a business review meeting held by senior management of Kubota Corporation.

2) Status of Internal Audit, Audit by Audit & Supervisory Board Members, and Audit by Independent Auditors

Internal audit on the Company's internal control over financial reporting is conducted by the Corporate Auditing Department, which is independent from all other departments of the Company and made up of 15 employees who have the necessary expertise. Internal audits on other risks are conducted by the relevant Department in Charge and secondary internal audits are conducted by the independent Corporate Auditing Department in order to ensure the adequacy of preceding internal audits. Internal audits are conducted on site or remotely through documentation reviews, based on audit plans previously approved by the President.

The Audit & Supervisory Board Members attend important meetings such as the Meetings of the Board of Directors and audit the execution of the duties by the Directors, business operation departments, indirect departments, subsidiaries and affiliated companies in accordance with the auditing principles determined in the Audit & Supervisory Board. They also supervise Kubota Corporation's financial reporting system and accounting principles and review its material documents such as (consolidated) financial statements pursuant to the fourth paragraph of Article 444 of the Companies Act. A system is established where any issues that affect the Company's business operation are to report to the Audit & Supervisory Board Members with no delay. Kubota Corporation established the Office of Audit & Supervisory Board Members and has assigned five employees to exclusively support the Audit & Supervisory Board Members in performing their duties. Those employees' independence is ensured as the employees' appointment and evaluation require a discussion with and consent from the Audit & Supervisory Board Members. Kubota Corporation has placed four members in the Office of Audit & Supervisory Board Members; the new members engage in audits exclusively for subsidiaries in order to provide support for the Kubota Corporation's Audit & Supervisory Board Members and improve internal control over the Kubota Group. Also, Kubota Corporation put in place a system where any expenses incurred related to execution of duties by the Audit & Supervisory Board Members are to be disbursed with no delay. Mr. Teruo Suzuki, an Outside Audit & Supervisory Board Member of Kubota Corporation, is a certified public accountant and has adequate knowledge regarding accounting and finance, including U.S. GAAP.

Kubota Corporation appointed Deloitte Touche Tohmatsu LLC ("DTT") as Independent Auditors of Kubota Corporation. The certified public accountants ("CPA(s)") belonging to DTT, Mr. Koichiro Tsukuda, Mr. Akihiro Okada, and Mr. Takeshi Io, audit the financial statements of Kubota Corporation. 30 other CPAs, seven junior accountants, and 26 other staff members assist in the execution of the audits as instructed by the above three CPAs.

Internal audit departments and Independent Auditors of Kubota Corporation report audit plans and the results of audits to the Audit & Supervisory Board Members periodically, and as needed, collaborate with each other. Effective cooperation in the auditing activities between the internal audit departments and Independent Auditors of Kubota Corporation is also established, whereby they are able to exchange information with each other, if such need arises.

Audit findings are discussed for improvements by each department and the Department in Charge and audits are reimplemented to ensure that the necessary improvements are being made. Risk control activities, such as awareness-raising, educational activities, audits, identifications, improvements, and reimplemented audits, are conducted during these audits by each department. The results and countermeasures developed are reported to the Company-wide Risk Management Committee, which is responsible for internal controls. The Company-wide Risk Management Committee reports the status of Kubota Corporation's internal controls to the President and the Board of Directors. Through these activity cycles, Kubota Corporation seeks to establish and strengthen its internal controls and enhances the quality of business execution.

3) Outside Directors and Outside Audit & Supervisory Board Members

Kubota Corporation elects three Outside Directors and three Outside Audit & Supervisory Board Members. In selecting candidates for the positions of the Outside Directors and the Outside Audit & Supervisory Board Members, Kubota Corporation considers their experience outside Kubota Corporation, professional insight, and other qualifications, and recommends them to the General Meeting of Shareholders after approval by the Board of Directors. Kubota Corporation established policies as to criteria for independence when electing the Outside Directors by reference to the rules for Independent Executives defined by the TSE. Kubota Corporation elects those who have no conflict of interest with ordinary shareholders accordingly.

Kubota Corporation elected Yuzuru Matsuda as an Outside Director since Kubota Corporation wishes to receive his advice about general management based on his adequate experience and considerable insight in management which he acquired through his duties as the long-time president of a listed company. Kubota Corporation has no business relationship with Kyowa Hakko Kirin Co., Ltd., for which Mr. Matsuda used to serve as a director, and Kato Memorial Bioscience Foundation, BANDAI NAMCO Holdings, Inc., and JSR Corporation, for which Mr. Matsuda currently serves as a director. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there appears to be no conflict of interest with ordinary shareholders.

Kubota Corporation elected Koichi Ina as an Outside Director since Kubota Corporation wishes to receive his advice about general management based on his adequate experience and considerable insight into management which he acquired through his duties as a president, chairman, and plant and manufacturing manager in the motor vehicle industry. Kubota Corporation has no business relationship with Toyota Motor Corporation, for which Mr. Ina used to serve as a director and adviser. Kubota Corporation has a business relationship with Daihatsu Motor Co., Ltd., for which Mr. Ina currently serves for adviser, but the amount arising from the above transactions for the year ended December 31, 2017 was less than 1% of total consolidated revenues of the Company. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there appears to be no conflict of interest with ordinary shareholders.

Kubota Corporation elected Yutaro Shintaku as an Outside Director since Kubota Corporation wishes to receive his advice about general management based on his experience and accomplishments at having actively promoted strategy which he acquired through his duties as a member of top managements of a medical device manufacturer. Kubota Corporation has no business relationship with Terumo Corporation, Santen Pharmaceutical Co., Ltd., J-Oil Mills, Inc., and Tonen International Scholarship Foundation, for which Mr. Shintaku currently serves as an advice, director, and executive trustee. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there appears to be no conflict of interest with ordinary shareholders.

Kubota Corporation elected Akira Morita as an Outside Audit & Supervisory Board member since Kubota Corporation wishes him to conduct audits from a broad-ranging and high-level perspective based on his adequate experience and considerable insight as a jurist. Kubota Corporation has no business relationship with Doshisha University and Miyake & Partners Law Firm, for which Mr. Morita currently serves as an attorney. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there seems to be no conflict of interest with ordinary shareholders.

Kubota Corporation elected Teruo Suzuki as an Outside Audit & Supervisory Board Member since Kubota Corporation wishes him to conduct audits from a broad-ranging and high-level perspective based on his adequate experience and considerable insight as a CPA in corporate accounting and finance. Kubota Corporation has no business relationship with KPMG AZSA LLC, for which Mr. Suzuki initially started his career as a CPA, and Seven-Eleven Japan Co., Ltd., for which Mr. Suzuki currently serves as an adviser. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there seems to be no conflict of interest with ordinary shareholders.

Kubota Corporation elected Masaki Fujiwara as an Outside Audit & Supervisory Board Member since Kubota Corporation expects him to further enhance its auditing procedures during this period of further global advancement. Having served in key administrative and executive roles at Panasonic Corporation and its subsidiaries and affiliated companies, he has both considerable knowledge relating to administration and corporate accounting, and a good feel for global business through his long-standing experience stationed overseas. Kubota Corporation has a business relationship with Panasonic Corporation, for which Mr. Fujiwara initially stated his carrier, but the amount arising from the above transactions for the year ended December 31, 2017 was less than 1% of total consolidated revenues of the Company. Kubota Corporation has no business relationship with Sansha Electric Manufacturing Co., Ltd., for which Mr. Fujiwara currently serves as a director. Kubota Corporation places him as an Independent Executive since there is no particular vested interest between Kubota Corporation and him, and there seems to be no conflict of interest with ordinary shareholders.

Share ownership of Kubota Corporation by the Outside Directors and the Outside Audit & Supervisory Board Members is stated in “5. Directors and Senior Management” in “4. Information on Kubota Corporation.” There is no material vested interest which might have a conflict of interest with ordinary shareholders. Kubota Corporation has notified the TSE that all Outside Directors and Audit & Supervisory Board Members are Independent Executives as defined by the TSE.

The Outside Directors also collaborate with Independent Auditors and internal control departments as described in "2) Status of Internal Audit, Audit by Audit & Supervisory Board Members, and Audit by Independent Auditors" of "(1) Corporate Governance" in "6. Corporate Governance."

4) Compensation

a) Compensation by Position

The aggregate compensation paid by Kubota Corporation for the year ended December 31, 2017 to the Directors and the Audit & Supervisory Board Members was as follows:

| Position | Number of persons | Total amount of compensation (¥ in millions) | Total amount by type (¥ in millions) Remunerations | Bonuses | Restricted stock compensation |
|---|---|---|---|---|---|
| Directors (excluding Outside Directors) | 7 | ¥ 627 | ¥ 364 | ¥ 218 | ¥ 45 |
| Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) | 2 | 71 | 71 | — | — |
| Outside Directors and Outside Audit & Supervisory Board Members | 4 | 54 | 54 | — | — |

(Notes)

1. The remuneration for the Directors consists of basic remuneration, which is set by corporate rank, variable remuneration (bonuses for Directors) which acts as a short-term incentive linked to performance in a single fiscal year, and restricted stock compensation, which is regarded as a medium- to long-term incentive. However, the remuneration for the Outside Directors consists of basic remuneration only because of the roles they play and the need to preserve their independence.
   At the Meetings of the Board of Directors, the basic remuneration for the Directors is determined within the range of the maximum aggregate amount of remuneration approved at the General Meeting of Shareholders after it has been deliberated on in the Compensation Advisory Committee, in consideration of the Company's operating results, compensation levels of other companies, and other factors. In addition, the total amount of bonuses for the Directors is decided by the General Meeting of Shareholders. The amount of stock compensation is determined at the Meetings of the Board of Directors after being deliberated on in the Compensation Advisory Committee, within the limits established by the total amount of the monetary compensation claims and the total number of common shares to be issued or disposed of as approved at the General Meeting of Shareholders. Furthermore, if the Director covered by the restricted compensation plan is a domestic non-resident because of the reasons such as playing the role of an overseas representative, the monetary compensation claims are temporarily suspended during the above period, in consideration of local laws and regulations. However once his/her role is over and he/she becomes a domestic resident, the suspended monetrary compensation claims are granted to him/her.
   The compensation for the Audit & Supervisory Board Members consists of basic remuneration only because of the roles they play and the need to preserve their independence and is determined upon consultation among the Audit & Supervisory Board Members within the range of the maximum aggregate amounts of compensation approved at the General Meeting of Shareholders in consideration of the roles of the respective Audit & Supervisory Board Members.
2. The amount of restricted stock compensation stated above table is the amount recognized as expense during the current fiscal year.
3. The above includes the compensation of one Director and one Audit & Supervisory Board Member who retired due to expiration of the terms of office at the close of the 128th Ordinary General Meeting of Shareholders held on March 23, 2018.

b) Consolidated Compensation by Directors and Audit & Supervisory Board Members

The aggregate compensation paid by the Company for the year ended December 31, 2017 to the Directors and the Audit & Supervisory Board Members was as follows:

| Name | Total amount of consolidated compensation (¥ in millions) | Position | Company | Total amount by type (¥ in millions) Remunerations | Bonuses | Restricted stock compensation |
|---|---|---|---|---|---|---|
| Masatoshi Kimata | ¥ 181 | Director | Kubota Corporation | ¥ 102 | ¥ 65 | ¥ 14 |

(Note) The above includes only Directors and Audit & Supervisory Board Members who received ¥100 million or more as total consolidated compensation.

5) Information on Shareholdings

a) Equity Securities Held for Purposes Other than Pure Investment

The number of issues and the amount of equity securities held for purposes other than pure investment recorded on the balance sheets are as follows:

| | |
|---|---|
| Number of issues | 114 |
| Amount recorded on balance sheets (¥ in millions) | ¥ 141,805 |

b) Information on Equity Securities Held for Purposes Other than Pure Investment

The Issues, the number of shares, the amount of equity securities held for purposes other than pure investments recorded on the balance sheets by purpose of holding are as follows:

(The year ended December 31, 2017)

Specified Investment Securities

| Issue | Number of shares (thousands of shares) | Balance sheet amount (¥ in millions) | Purpose of holding |
|---|---|---|---|
| Cummins Inc. | 2,100 | ¥ 41,916 | Maintaining and enhancing business relationships |
| Sumitomo Mitsui Financial Group, Inc. | 3,082 | 15,007 | Maintaining and enhancing business relationships |
| Sumitomo Mitsui Trust Holdings, Inc. | 2,945 | 13,173 | Maintaining and enhancing business relationships |
| Mitsubishi UFJ Financial Group, Inc. | 10,667 | 8,815 | Maintaining and enhancing business relationships |
| Osaka Gas Co., Ltd. | 3,125 | 6,782 | Maintaining and enhancing business relationships |
| Mizuho Financial Group, Inc. | 26,563 | 5,434 | Maintaining and enhancing business relationships |
| Shin-Etsu Chemical Co., Ltd. | 464 | 5,319 | Maintaining and enhancing business relationships |
| Daikin Industries, Ltd. | 350 | 4,675 | Maintaining and enhancing business relationships |
| Toho Gas Co., Ltd. | 1,439 | 4,447 | Maintaining and enhancing business relationships |
| MS & AD Insurance Group Holdings, Inc. | 852 | 3,250 | Maintaining and enhancing business relationships |
| Daiwa House Industry Co., Ltd. | 609 | 2,635 | Maintaining and enhancing business relationships |
| Sumitomo Corporation | 1,222 | 2,340 | Maintaining and enhancing business relationships |
| Mitsubishi Estate Co., Ltd. | 1,052 | 2,061 | Maintaining and enhancing business relationships |
| Saibu Gas Co., Ltd. | 586 | 1,651 | Maintaining and enhancing business relationships |
| Yakult Honsha Co., Ltd. | 171 | 1,457 | Maintaining and enhancing business relationships |
| Yamazen Corporation | 1,055 | 1,402 | Maintaining and enhancing business relationships |
| Nankai Electric Railway Co., Ltd. | 366 | 1,022 | Maintaining and enhancing business relationships |
| Denyo Co., Ltd. | 500 | 1,009 | Maintaining and enhancing business relationships |
| NTN Corporation | 1,616 | 903 | Maintaining and enhancing business relationships |
| Takasago Thermal Engineering Co., Ltd. | 411 | 848 | Maintaining and enhancing business relationships |
| Kansai Paint Co., Ltd. | 246 | 720 | Maintaining and enhancing business relationships |
| Tokyo Gas Co., Ltd. | 277 | 715 | Maintaining and enhancing business relationships |
| Keneka Corporation | 693 | 713 | Maintaining and enhancing business relationships |
| Meiji Holdings Co., Ltd. | 73 | 704 | Maintaining and enhancing business relationships |

Deemed Shareholdings

| Issue | Number of shares (thousands of shares) | Balance sheet amount (¥ in millions) | Purpose of holding |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Shin-Etsu Chemical Co., Ltd. | 620 | ¥ 7,099 | Having a right to exercise voting rights |
| Mizuho Financial Group, Inc. | 17,201 | 3,519 | Having a right to exercise voting rights |
| Sumitomo Mitsui Financial Group, Inc. | 641 | 3,124 | Having a right to exercise voting rights |
| Mitsubishi UFJ Financial Group, Inc. | 3,344 | 2,763 | Having a right to exercise voting rights |
| Sumitomo Corporation | 1,000 | 1,915 | Having a right to exercise voting rights |
| Kaneka Corporation | 1,039 | 1,069 | Having a right to exercise voting rights |

(Notes)

1. In specifying the major issues in light of the amount recorded on the balance sheets, specified investment securities and deemed shareholdings have not been combined.
2. Deemed shareholdings are held through a retirement benefit trust. The amounts stated in the "Balance sheet amount" column are calculated by multiplying market price as of the balance sheet date and the number of shares of related securities. The details of rights that Kubota Corporation holds to related securities are stated in the "Purpose of holding"column.

(The year ended December 31, 2016)

Specified Investment Securities

| Issue | Number of shares (thousands of shares) | Balance sheet amount (¥ in millions) | Purpose of holding |
|---|---|---|---|
| Cummins Inc. | 2,300 | ¥ 36,617 | Maintaining and enhancing business relationships |
| Sumitomo Mitsui Financial Group, Inc. | 3,292 | 14,686 | Maintaining and enhancing business relationships |
| Sumitomo Mitsui Trust Holdings, Inc. | 3,005 | 12,572 | Maintaining and enhancing business relationships |
| Mitsubishi UFJ Financial Group, Inc. | 12,067 | 8,690 | Maintaining and enhancing business relationships |
| Osaka Gas Co., Ltd. | 15,629 | 7,026 | Maintaining and enhancing business relationships |
| Toho Gas Co., Ltd. | 7,197 | 6,844 | Maintaining and enhancing business relationships |
| Mizuho Financial Group, Inc. | 30,143 | 6,324 | Maintaining and enhancing business relationships |
| MS & AD Insurance Group Holdings, Inc. | 1,452 | 5,262 | Maintaining and enhancing business relationships |
| Shin-Etsu Chemical Co., Ltd. | 464 | 4,212 | Maintaining and enhancing business relationships |
| Daikin Industries, Ltd. | 350 | 3,763 | Maintaining and enhancing business relationships |
| Mitsubishi Estate Co., Ltd. | 1,052 | 2,448 | Maintaining and enhancing business relationships |
| Mitsubishi Corporation | 801 | 1,995 | Maintaining and enhancing business relationships |
| Daiwa House Industry Co., Ltd. | 609 | 1,946 | Maintaining and enhancing business relationships |
| Sumitomo Corporation | 1,222 | 1,680 | Maintaining and enhancing business relationships |
| Saibu Gas Co., Ltd. | 5,863 | 1,477 | Maintaining and enhancing business relationships |
| Nippon Steel & Sumitomo Metal Corporation | 428 | 1,115 | Maintaining and enhancing business relationships |
| Nankai Electric Railway Co., Ltd. | 1,832 | 1,086 | Maintaining and enhancing business relationships |
| Yamazen Corporation | 1,055 | 1,030 | Maintaining and enhancing business relationships |
| Yakult Honsha Co., Ltd. | 170 | 924 | Maintaining and enhancing business relationships |

| | | | |
|---|---|---|---|
| Denyo Co., Ltd. | 500 | 793 | Maintaining and enhancing business relationships |
| NTN Corporation | 1,616 | 764 | Maintaining and enhancing business relationships |
| Tokyo Gas Co., Ltd. | 1,387 | 733 | Maintaining and enhancing business relationships |
| Meiji Holdings Co., Ltd. | 73 | 673 | Maintaining and enhancing business relationships |
| JTEKT Corporation | 357 | 667 | Maintaining and enhancing business relationships |

Deemed Shareholdings

| Issue | Number of shares (thousands of shares) | Balance sheet amount (¥ in millions) | Purpose of holding |
|---|---|---|---|
| Shin-Etsu Chemical Co., Ltd. | 620 | ¥ 5,621 | Having a right to exercise voting rights |
| Mizuho Financial Group, Inc. | 17,201 | 3,608 | Having a right to exercise voting rights |
| Sumitomo Mitsui Financial Group, Inc. | 641 | 2,862 | Having a right to exercise voting rights |
| Mitsubishi UFJ Financial Group, Inc. | 3,344 | 2,408 | Having a right to exercise voting rights |
| Sumitomo Corporation | 1,000 | 1,375 | Having a right to exercise voting rights |
| Kaneka Corporation | 1,039 | 989 | Having a right to exercise voting rights |

(Notes)

1. In specifying the major issues in light of the amount recorded on the balance sheets, specified investment securities and deemed shareholdings have not been combined.
2. Deemed shareholdings are held through a retirement benefit trust. The amounts stated in the “Balance sheet amount” column are calculated by multiplying market price as of the balance sheet date and the number of shares of related securities. The details of rights that Kubota Corporation holds to related securities are stated in the “Purpose of holding”column.

c) Equity Securities Held for Pure Investment

Not applicable

6) Others

a) Quorum of Directors

The Articles of Incorporation of Kubota Corporation state that the number of Directors is to be ten or less.

b) Requirement for the Adoption of Resolutions for Electing Directors

Kubota Corporation stipulates in its Articles of Corporation that the presence of shareholders representing one-third or more of the voting rights held by the total shareholders entitled to exercise their voting rights and a majority of the votes held by those shareholders are required for the adoption of resolutions for the approval of elected Directors.

c) Acquisition of Treasury Stock

Kubota Corporation stipulates in its Articles of Corporation that the resolutions at the Meetings of the Board of Directors enable Kubota Corporation to acquire its treasury stock under Article 165, Paragraph 2 of the Companies Act, which facilitates Kubota Corporation exercising acquisition of treasury stock flexibly.

d) Dividend Appropriated from Surplus

Kubota Corporation stipulates in its Articles of Corporation that dividend appropriated from surplus, which is defined by Articles 459, Paragraph 1 of the Companies Act, is declared by the resolutions at the Meetings of the Board of Directors unless otherwise stipulated by law so that Kubota Corporation can return profit to its shareholders flexibly.

e) Interim Dividends

Kubota Corporation stipulates in its Article of Incorporation that interim dividends shall be paid to shareholders of record on June 30 upon resolution of the Meetings of the Board of Directors.

f) Requirement for the Adoption of Special Resolution of General Meeting of Shareholders
Kubota Corporation stipulates in its Articles of Incorporation that the presence of shareholders representing one-third or more of the voting rights held by the total shareholders entitled to exercise their voting rights and two-thirds of the votes held by those shareholders are required for the adoption of special resolutions of General Meeting of Shareholders under Article 309, Paragraph 2 of the Companies Act. By relaxing the requirements for a quorum for special resolutions of General Meeting of Shareholders, deliberations for those resolutions can be made in a quick and efficient manner.

## (2) Details of Auditing Fees and Other Matters

1) Details of Fees paid to Independent Auditors

| | Year ended December 31, 2017 | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| Company | Fees for auditing services (¥ in millions) | Fees for non-auditing services (¥ in millions) | Fees for auditing services (¥ in millions) | Fees for non-auditing services (¥ in millions) |
| Kubota Corporation | ¥ 332 | ¥ 46 | ¥ 244 | ¥ 130 |
| Consolidated subsidiaries | 24 | — | 24 | — |
| Total | ¥ 356 | ¥ 46 | ¥ 268 | ¥ 130 |

2) Details of Other Significant Fees
Year Ended December 31, 2017
Kubota Corporation and 42 consolidated subsidiaries, such as Kubota Tractor Corporation, paid fees for audit certification work of ¥625 million and other non-auditing work, such as tax related work, of ¥659 million to the member firms of Deloitte Touche Tohmatsu LLC (including group firms, such as tax accountant corporations), the Company's Independent Auditors, for the year ended December 31, 2017.

Year Ended December 31, 2016
Kubota Corporation and 41 consolidated subsidiaries, such as Kubota Tractor Corporation, paid fees for audit certification work of ¥596 million and other non-auditing work, such as tax related work, of ¥447 million to the member firms of Deloitte Touche Tohmatsu LLC (including group firms, such as tax accountant corporations), the Company's Independent Auditors, for the year ended December 31, 2016.

3) Details of Non-Auditing Work Performed by Independent Auditor of Kubota Corporation
Year Ended December 31, 2017
Fees related to non-auditing work, such as consulting services on finance, were paid to Deloitte Touche Tohmatsu LLC by Kubota Corporation.

Year Ended December 31, 2016
Fees related to non-auditing work, such as consulting services on finance, were paid to Deloitte Touche Tohmatsu LLC by Kubota Corporation.

4) Policy for Determining Audit Fees
In determining audit fees, factors such as the number of days required for auditing are taken into account. The approval of the Audit & Supervisory Board is obtained and consideration is taken not to impair the independence of certified public accounting firms when decisions on fees are made.

## 5. Stock-Related Administration of Kubota Corporation

| | |
|---|---|
| Fiscal year: | From January 1 to December 31 |
| Ordinary General Meeting of Shareholders: | During March |
| Record date: | December 31 |
| Record date for dividend distribution of surplus: | June 30 and December 31 |
| Number of shares per unit of shares: | 100 shares |
| Purchase and sale of shares less than one unit: | |
| Handling office: | (Special account)<br>5-33, Kitahama 4-chome, Chuo-ku, Osaka, Japan<br>Sumitomo Mitsui Trust Bank, Limited,<br>Stock Transfer Agency Business Planning Dept. |
| Transfer agent: | (Special account)<br>4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan<br>Sumitomo Mitsui Trust Bank, Limited |
| Forward office: | — |
| Purchasing and selling fee: | Amount equivalent to fees for entrusting sale or purchase of stock |
| Method of public notice: | Kubota Corporation carries out its public notifications through electronic public notice. However, if the Company cannot use the above-mentioned method of public notice due to an accident or other inevitable reasons, public notification shall be posted in the Nihon Keizai Shimbun (the Nikkei Newspaper).<br>URL of Kubota Corporation where electronic public notice is carried out is as follows:<br>http://www.kubota.co.jp |
| Special benefit for shareholders: | Not applicable |

(Note)

A holder of shares of Kubota Corporation representing less than one unit cannot execute the rights except the following:

1) Rights under each item of Article 189, Paragraph 2 of the Companies Act,
2) Rights to claim under Article 166, Paragraph 1 of the Companies Act,
3) Rights to receive an allocation of share offerings and stock acquisition rights in proportion to the number of shares held, and
4) Rights to claim for the sale of shares by combining a share representing less than one unit.

## 6. Reference Information on Kubota Corporation

### 1. Information on Parent Company of Kubota Corporation

Kubota Corporation has no parent company.

### 2. Other Reference Information

Kubota Corporation filed the following documents during the period from the commencing date of the year ended December 31, 2017 to the filing date of the Annual Securities Report.

| | | | | |
|---|---|---|---|---|
| (1) | Annual Securities Report and the attachments thereto, and Confirmation Letter | Fiscal Year (the 127th business term) | From January 1, 2016 To December 31, 2016 | Filed with the Director of the Kanto Local Finance Bureau on March 24, 2017 |
| (2) | Internal Control Report and the attachments thereto | Fiscal Year (the 127th business term) | From January 1, 2016 To December 31, 2016 | Filed with the Director of the Kanto Local Finance Bureau on March 24, 2017 |
| (3) | Quarterly Reports and Confirmation Letters | (First Quarter of the 128th business term) | From January 1, 2017 To March 31, 2017 | Filed with the Director of the Kanto Local Finance Bureau on May 12, 2017 |
| | | (Second Quarter of the 128th business term) | From April 1, 2017 To June 30, 2017 | Filed with the Director of the Kanto Local Finance Bureau on August 9, 2017 |
| | | (Third Quarter of the 128th business term) | From July 1, 2017 To September 30, 2017 | Filed with the Director of the Kanto Local Finance Bureau on November 10, 2017 |
| (4) | Extra Ordinary Report | Pursuant to Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs (Results of Execution of Voting Rights at the General Meeting of Shareholders) | | Filed with the Director of the Kanto Local Finance Bureau on March 28, 2017 |
| (5) | Revised Registration Form of Issuance (Bond) | | | Filed with the Director of the Kanto Local Finance Bureau on March 28, 2017 |
| (6) | Status Report of Acquisition of Treasury Stock | | | Filed with the Director of the Kanto Local Finance Bureau:<br>on April 6, 2017<br>on May 10, 2017<br>on June 5, 2017<br>on July 5, 2017<br>on August 3, 2017<br>on September 5, 2017<br>on October 4, 2017<br>on November 6, 2017<br>on December 5, 2017<br>on January 10, 2018 |

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF KUBOTA CORPORATION AND ITS SUBSIDIARIES

# Consolidated Financial Statements

Kubota Corporation and its Subsidiaries

## (1) Consolidated Balance Sheets

(¥ in millions)

| At December 31: | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | ¥ 230,720 | ¥ 169,416 |
| Notes and accounts receivable: | | |
| Trade notes | 77,618 | 75,798 |
| Trade accounts | 573,337 | 559,488 |
| Less: Allowance for doubtful notes and accounts receivable | (2,792) | (2,472) |
| Short-term finance receivables—net | 264,748 | 244,184 |
| Inventories | 362,518 | 356,180 |
| Other current assets | 109,375 | 160,480 |
| Total current assets | 1,615,524 | 1,563,074 |
| **Investments and long-term finance receivables:** | | |
| Investments in and loans receivable from affiliated companies | 29,362 | 28,517 |
| Other investments | 145,683 | 140,667 |
| Long-term finance receivables—net | 578,185 | 508,289 |
| Total investments and long-term finance receivables | 753,230 | 677,473 |
| **Property, plant, and equipment:** | | |
| Land | 89,884 | 82,104 |
| Buildings | 313,303 | 292,898 |
| Machinery and equipment | 506,828 | 491,040 |
| Construction in progress | 9,229 | 17,378 |
| Total property, plant, and equipment | 919,244 | 883,420 |
| Less: Accumulated depreciation | (585,007) | (569,189) |
| Net property, plant, and equipment | 334,237 | 314,231 |
| **Other assets:** | | |
| Goodwill and intangible assets—net | 47,804 | 46,057 |
| Long-term trade accounts receivable | 40,423 | 39,852 |
| Other | 63,609 | 30,658 |
| Less: Allowance for doubtful non-current receivables | (897) | (763) |
| Total other assets | 150,939 | 115,804 |
| **Total assets** | ¥ 2,853,930 | ¥ 2,670,582 |

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Short-term borrowings | ¥ | 182,461 | ¥ | 193,883 |
| Trade notes payable | | 176,987 | | 157,471 |
| Trade accounts payable | | 109,134 | | 98,388 |
| Advances received from customers | | 9,075 | | 6,927 |
| Notes and accounts payable for capital expenditures | | 17,852 | | 24,321 |
| Accrued payroll costs | | 37,657 | | 35,902 |
| Accrued expenses | | 67,003 | | 64,662 |
| Income taxes payable | | 37,221 | | 19,650 |
| Other current liabilities | | 99,984 | | 90,197 |
| Current portion of long-term debt | | 181,698 | | 145,212 |
| Total current liabilities | | 919,072 | | 836,613 |
| **Long-term liabilities:** | | | | |
| Long-term debt | | 472,422 | | 478,894 |
| Accrued retirement and pension costs | | 12,804 | | 12,091 |
| Other long-term liabilities | | 64,197 | | 71,059 |
| Total long-term liabilities | | 549,423 | | 562,044 |
| **Commitments and contingencies** | | | | |
| **Equity:** | | | | |
| Kubota Corporation shareholders’ equity: | | | | |
| Common stock, | | | | |
| authorized 1,874,700,000 shares at December 31, 2017 and 2016 and issued 1,234,024,216 shares and 1,241,119,180 shares at December 31, 2017 and 2016, respectively | | 84,100 | | 84,070 |
| Capital surplus | | 85,037 | | 84,605 |
| Legal reserve | | 19,539 | | 19,539 |
| Retained earnings | | 1,046,237 | | 961,403 |
| Accumulated other comprehensive income | | 66,606 | | 49,336 |
| Treasury stock (362,159 shares and 415,691 shares at December 31, 2017 and 2016, respectively), at cost | | (174) | | (192) |
| Total Kubota Corporation shareholders’ equity | | 1,301,345 | | 1,198,761 |
| Non-controlling interests | | 84,090 | | 73,164 |
| Total equity | | 1,385,435 | | 1,271,925 |
| **Total liabilities and equity** | ¥ | 2,853,930 | ¥ | 2,670,582 |

See notes to consolidated financial statements.

## (2) Consolidated Statements of Income and Comprehensive Income (Loss)

### Consolidated Statements of Income

(¥ in millions, except per common share amounts)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Revenues** | ¥ 1,751,535 | ¥ 1,596,091 | ¥ 1,244,775 |
| **Cost of revenues** | 1,240,707 | 1,122,546 | 848,397 |
| **Selling, general, and administrative expenses** | 311,737 | 283,849 | 224,564 |
| **Other operating expenses—net** | 265 | 919 | 4,940 |
| **Operating income** | 198,826 | 188,777 | 166,874 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 7,383 | 7,049 | 5,782 |
| Interest expense | (916) | (503) | (698) |
| Gain on sales of securities—net | 8,403 | 6,826 | 1,559 |
| Foreign exchange gain (loss)—net | 8,112 | (3,556) | (11,935) |
| Other—net | (8,907) | (1,622) | 7,922 |
| Other income (expenses)—net | 14,075 | 8,194 | 2,630 |
| **Income before income taxes and equity in net income of affiliated companies** | 212,901 | 196,971 | 169,504 |
| **Income taxes:** | | | |
| Current | 69,856 | 56,114 | 47,614 |
| Deferred | 66 | 432 | 6,647 |
| Total income taxes | 69,922 | 56,546 | 54,261 |
| **Equity in net income of affiliated companies** | 2,366 | 2,440 | 2,009 |
| **Net income** | 145,345 | 142,865 | 117,252 |
| **Less: Net income attributable to non-controlling interests** | 8,900 | 10,380 | 7,145 |
| **Net income attributable to Kubota Corporation** | ¥ 136,445 | ¥ 132,485 | ¥ 110,107 |
| **Net income attributable to Kubota Corporation per common share:** | | | |
| Basic | ¥ 110.30 | ¥ 106.58 | ¥ 88.47 |

### Consolidated Statements of Comprehensive Income (Loss)

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Net income** | ¥ 145,345 | ¥ 142,865 | ¥ 117,252 |
| **Other comprehensive income (loss), net of tax:** | | | |
| Foreign currency translation adjustments | 9,099 | (24,324) | (17,612) |
| Unrealized gains (losses) on securities | 5,895 | 2,587 | (10,675) |
| Unrealized gains on derivatives | – | – | 10 |
| Pension liability adjustments | 6,102 | (8,529) | (6,915) |
| Total other comprehensive income (loss) | 21,096 | (30,266) | (35,192) |
| **Comprehensive income** | 166,441 | 112,599 | 82,060 |
| **Less: Comprehensive income attributable to non-controlling interests** | 12,726 | 9,879 | 1,991 |
| **Comprehensive income attributable to Kubota Corporation** | ¥ 153,715 | ¥ 102,720 | ¥ 80,069 |

See notes to consolidated financial statements.

## (3) Consolidated Statements of Changes in Equity

(¥ in millions, except per common share amounts)

| | Shares of common stock outstanding (thousands of shares) | Kubota Corporation shareholders' equity: Common stock | Capital surplus | Legal reserve | Retained earnings | Accumulated other comprehensive income | Treasury stock, at cost | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2015** | 1,245,700 | ¥ 84,070 | ¥ 87,880 | ¥ 19,539 | ¥ 799,545 | ¥ 109,446 | ¥ (401) | ¥ 78,387 | ¥ 1,178,466 |
| Net income | | | | | 110,107 | | | 7,145 | 117,252 |
| Other comprehensive loss | | | | | | (30,038) | | (5,154) | (35,192) |
| Cash dividends paid to Kubota Corporation shareholders (¥30.00 per common share) | | | | | (37,366) | | | | (37,366) |
| Cash dividends paid to non-controlling interests | | | | | | | | (1,797) | (1,797) |
| Purchases and sales of treasury stock | (1,196) | | | | | | (2,314) | | (2,314) |
| Retirement of treasury stock | | | | | (2,517) | | 2,517 | | – |
| Increase in non-controlling Interests related to contribution | | | | | | | | 141 | 141 |
| Changes in ownership interests in subsidiaries | | | (42) | | | (116) | | (474) | (632) |
| **Balance at December 31, 2015** | 1,244,504 | ¥ 84,070 | ¥ 87,838 | ¥ 19,539 | ¥ 869,769 | ¥ 79,292 | ¥ (198) | ¥ 78,248 | ¥ 1,218,558 |
| Net income | | | | | 132,485 | | | 10,380 | 142,865 |
| Other comprehensive loss | | | | | | (29,765) | | (501) | (30,266) |
| Cash dividends paid to Kubota Corporation shareholders (¥28.00 per common share) | | | | | (34,839) | | | | (34,839) |
| Cash dividends paid to non-controlling interests | | | | | | | | (2,270) | (2,270) |
| Purchases and sales of treasury stock | (3,801) | | | | (1) | | (6,005) | | (6,006) |
| Retirement of treasury stock | | | | | (6,011) | | 6,011 | | – |
| Changes in ownership interests in subsidiaries | | | (3,233) | | | (191) | | (12,693) | (16,117) |
| **Balance at December 31, 2016** | 1,240,703 | ¥ 84,070 | ¥ 84,605 | ¥ 19,539 | ¥ 961,403 | ¥ 49,336 | ¥ (192) | ¥ 73,164 | ¥ 1,271,925 |
| Net income | | | | | 136,445 | | | 8,900 | 145,345 |
| Other comprehensive income | | | | | | 17,270 | | 3,826 | 21,096 |
| Cash dividends paid to Kubota Corporation shareholders (¥31.00 per common share) | | | | | (38,421) | | | | (38,421) |
| Cash dividends paid to non-controlling interests | | | | | | | | (3,744) | (3,744) |
| Purchases and sales of treasury stock | (7,076) | | 144 | | | | (13,172) | | (13,028) |
| Retirement of treasury stock | | | | | (13,190) | | 13,190 | | – |
| Restricted stock compensation | 35 | 30 | 15 | | | | | | 45 |
| Changes in ownership interests in subsidiaries | | | 273 | | | | | 1,944 | 2,217 |
| **Balance at December 31, 2017** | 1,233,662 | ¥ 84,100 | ¥ 85,037 | ¥ 19,539 | ¥1,046,237 | ¥ 66,606 | ¥ (174) | ¥ 84,090 | ¥ 1,385,435 |

See notes to consolidated financial statements.

## (4) Consolidated Statements of Cash Flows

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income | ¥ 145,345 | ¥ 142,865 | ¥ 117,252 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 45,296 | 43,371 | 31,193 |
| Gain on sales of securities—net | (8,403) | (6,826) | (1,559) |
| Loss from disposal of fixed assets—net | 893 | 203 | 760 |
| Impairment loss on long-lived assets | 54 | 176 | 3,738 |
| Equity in net income of affiliated companies | (2,366) | (2,440) | (2,009) |
| Deferred income taxes | 66 | 432 | 6,647 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in notes and accounts receivable | (19,067) | (6,641) | 49,479 |
| Decrease (increase) in inventories | 3,431 | (5,339) | (27,881) |
| Increase in other current assets | (9,850) | (9,909) | (13,949) |
| Increase (decrease) in trade notes and accounts payable | 26,795 | (1,689) | 34,249 |
| Increase (decrease) in income taxes payable | 17,363 | 14,368 | (11,860) |
| Increase in other current liabilities | 14,648 | 12,381 | 9,202 |
| Decrease in accrued retirement and pension costs | (1,606) | (2,521) | (5,634) |
| Other | 9,689 | 6,547 | 7,412 |
| Net cash provided by operating activities | 222,288 | 184,978 | 197,040 |
| **Investing activities:** | | | |
| Purchases of fixed assets | (64,409) | (56,139) | (39,267) |
| Purchases of investments | (18) | (24) | (47) |
| Proceeds from sales of property, plant, and equipment | 2,574 | 1,616 | 3,027 |
| Proceeds from sales and redemption of investments | 11,990 | 9,673 | 2,532 |
| Acquisition of businesses, net of cash acquired | (1,097) | (42,396) | 136 |
| Increase in finance receivables | (429,076) | (362,325) | (304,678) |
| Collection of finance receivables | 340,195 | 294,190 | 222,611 |
| Net decrease in short-term loans receivable from affiliated companies | 2,838 | 1,502 | 3,443 |
| Net decrease (increase) in time deposits | 14,930 | (8,649) | (17,368) |
| Net increase in marketable securities | (7,397) | – | – |
| Other | (869) | (4,973) | (696) |
| Net cash used in investing activities | (130,339) | (167,525) | (130,307) |
| **Financing activities:** | | | |
| Proceeds from issuance of long-term debt | 205,677 | 225,809 | 87,585 |
| Repayments of long-term debt | (165,954) | (170,685) | (109,741) |
| Net (decrease) increase in short-term borrowings | (17,291) | 15,851 | 35,956 |
| Payments of cash dividends | (38,421) | (34,839) | (37,366) |
| Purchases of treasury stock | (13,197) | (6,006) | (2,314) |
| Purchases of non-controlling interests | – | (16,496) | (37) |
| Other | (3,389) | (2,270) | (1,754) |
| Net cash (used in) provided by financing activities | (32,575) | 11,364 | (27,671) |
| **Effect of exchange rate changes on cash and cash equivalents** | 1,930 | (5,687) | (5,204) |
| **Net increase in cash and cash equivalents** | 61,304 | 23,130 | 33,858 |
| **Cash and cash equivalents, beginning of period** | 169,416 | 146,286 | 112,428 |
| **Cash and cash equivalents, end of period** | ¥ 230,720 | ¥ 169,416 | ¥ 146,286 |

See notes to consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Description of Business**

Kubota Corporation (the "Parent Company") and its subsidiaries (collectively, the "Company") is one of Japan's leading manufacturers of a comprehensive range of machinery and other industrial and consumer products, including farm equipment and agricultural-related products, engines, construction machinery, electronic equipped machinery, pipe-related products, environment-related products, and social infrastructure-related products.

The Company manufactures its products not only in Japan, but also in overseas countries, including the United States, France, Germany, China, Thailand, and other countries, and sells its products in Japan, North America, Europe, Asia, and other countries.

**Basis of Financial Statements**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and all majority-owned subsidiaries. The accounts of variable interest entities ("VIE(s)") are included in the consolidated financial statements, as applicable. Intercompany items have been eliminated in consolidation. Investments in affiliated companies in which the Company has the ability to exercise significant influence over their operating and financial policies, but where the Company does not have a controlling financial interest, are accounted for using the equity method.

As of December 31, 2017, the Company had 173 consolidated subsidiaries (including VIEs: see Note 3. AFFILIATED COMPANIES AND VARIABLE INTEREST ENTITIES) and 14 affiliated companies, which is an increase of one and a decrease of three, respectively, from the prior fiscal year end.

**Use of Estimates**

Preparing financial statements in accordance with U.S. GAAP requires the Company to make estimates and assumptions that affect reported amounts and related disclosures. Significant estimates and assumptions are used primarily in the areas of inventory valuation, impairment of investments, allowance for doubtful accounts and credit losses, impairment of long-lived assets, product warranties, accruals for employee retirement and pension plans, valuation allowance for deferred tax assets, uncertain tax positions, revenue recognition for long-term contracts, and loss contingencies. Actual results could differ from those estimates.

**Foreign Currency Translation**

The assets and liabilities of subsidiaries located in countries other than Japan are translated into Japanese yen using the current exchange rate at each balance sheet date and any resulting translation adjustments are included in accumulated other comprehensive income. Revenues and expenses are translated into Japanese yen using the average exchange rate for each period presented.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Negotiable certificate of deposits, market money funds, and time deposits and debt securities with original maturities of three months or less amounting to ¥58,351 million and ¥19,232 million were included in cash and cash equivalents at December 31, 2017 and 2016, respectively. Restricted cash, which is pledged as collateral and received as advance payment for public works projects, is not included in cash and cash equivalents, but the majority of restricted cash is rather included in other current assets, and amounted to ¥12,221 million and ¥10,007 million at December 31, 2017 and 2016, respectively.

**Securitization of Receivables**

Certain finance receivables are periodically transferred to special purpose entities ("SPE") in securitization transactions (See Note 3. AFFILIATED COMPANIES AND VARIABLE INTEREST ENTITIES). These securitizations qualify as collateral for secured debt and no gains or losses are recognized at the time of securitization. The receivables remain on the consolidated balance sheets and are included in short-term and long-term finance receivables—net.

**Inventories**
Inventories are stated at the lower of cost or market. Cost is principally determined by the moving-average method.

**Investments**
The Company classifies all its marketable equity securities and marketable debt securities as available-for-sale securities and carries them at fair value with a corresponding recognition of the net unrealized holding gains or losses (net of tax) as an item of accumulated other comprehensive income in equity. The fair values of those securities are determined based on quoted market prices.

When a decline in value of a marketable security is deemed to be other-than-temporary, the Company recognizes an impairment loss to the extent of the decline. In determining if and when such a decline in value is other-than-temporary, the Company evaluates the extent to which cost exceeds market value, the duration of the market decline, and other key measures. Other nonmarketable securities are stated at cost and reviewed periodically for impairment.

Gains and losses on sales of available-for-sale securities as well as other nonmarketable equity securities which are carried at cost are computed on the average-cost method.

**Allowance for Doubtful Accounts and Credit Losses**
The Company provides an allowance for doubtful accounts and credit losses. The allowance for doubtful accounts and credit losses is determined based on the collection status of receivables, historical credit loss experience, economic trends, the customer's ability to repay, and collateral values. Historical collection trends, as well as prevailing and anticipated economic conditions, are routinely reviewed by management.

**Property, Plant, and Equipment**
Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation expenses related to manufacturing activities are included in cost of revenues, and the other depreciation expenses are classified in selling, general, and administrative expenses. Depreciation expenses of Property, plant, and equipment except Land and Construction in progress are principally computed by using the straight-line method based on the estimated useful lives of the assets from the beginning of the current fiscal year (See Change in Accounting Estimate). The estimated useful lives range from ten to 50 years for buildings and from two to 14 years for machinery and equipment.

**Goodwill and Intangible Assets**
Goodwill is not amortized, but is instead tested for impairment annually or whenever events occur or circumstances change, which indicates the possibility of the impairment. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss is measured. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. The Company's evaluation of goodwill completed during the current year resulted in no impairment losses.

Intangible assets with definite useful lives are amortized over their respective estimated useful lives by a method reflecting the pattern in which the economic benefits of the intangible assets are consumed if that pattern can be reliably determined. If that pattern cannot be reliably determined, the straight−line method of amortization is used.

**Long-Lived Assets**
The Company evaluates long-lived assets (including property, plant, equipment and intangible assets with definite useful lives) to be held and used for impairment using an estimate of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the estimate of undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets. The Company evaluates long-lived assets to be disposed of by sale at the lower of carrying amount or fair value less cost to sell.

**Retirement and Pension Plans**
The funded status of the Company's defined benefit pension plans and severance indemnity plans are recorded as an asset or a liability on the consolidated balance sheets with a corresponding adjustment to pension liability adjustment in accumulated other comprehensive income, net of tax. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at each balance sheet date, which is the measurement date.

The Company amortizes the prior service costs (or benefits) due to amendments of the benefit plans over the average remaining service period of the participants at the time of the amendments. The Company recognizes any net actuarial gains and losses in excess of 20% of the larger of the projected benefit obligation or plan assets in the year following the year in which such gains and losses were incurred, and the portion between 10% and 20% is amortized over the average participants' remaining service period while the portion of less than 10% is not amortized.

**Income Taxes**

Deferred tax assets and liabilities are computed based on the differences between the financial statements and the income tax bases of assets and liabilities and tax loss and other carryforwards using the enacted tax rate. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from uncertain tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

**Consumption Taxes**

Revenues are presented exclusive of consumption taxes.

**Revenue Recognition**

The Company recognizes revenue related to product sales when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. The Company records estimated reductions to sales at the time of sale for sales incentive programs including product discounts, customer promotions, and volume-based rebates.

The sales of environmental and other plant and equipment are recorded when the installation of plant and equipment is completed and accepted by the customer for short-term contracts, and recorded under the percentage-of-completion method of accounting for long-term contracts (See Note 11. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS). Estimated losses on sales contracts are charged to income in the period in which they are identified. The percentages of revenues to consolidated revenues for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 that pertain to long-term contracts were 2.3%, 2.6%, and 1.9%, respectively.

Finance income is recognized over the lives of the receivables using the interest method.

**Research and Development and Advertising**

Research and development and advertising costs are expensed as incurred.

**Shipping and Handling Costs**

Shipping and handling costs are included in selling, general, and administrative expenses.

**Expense from the Payments for Health Hazard of Asbestos**

The Company expenses payments to certain residents who lived near the Company's plant and current and former employees when the Company determines that a payment is warranted.

The Company also accrues an estimated loss from asbestos-related matters by a charge to income if both of the following conditions are met:

(a) It is probable that a liability has been incurred at the date of balance sheets.

(b) The amount of loss can be reasonably estimated.

(See Note 20. COMMITMENTS AND CONTINGENCIES)

**Derivative Financial Instruments**

All derivatives are recorded on the consolidated balance sheets at fair value and are reported in other current assets, other assets, other current liabilities, or other long-term liabilities. The Company does not offset the fair value of contracts in gain and loss positions.

On the date a derivative contract is entered into, if appropriate, the Company designates the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments or forecasted transactions. The Company considers its hedges to be highly effective in offsetting changes in cash flows of hedged items because the currency, index of interest rates, amount, and terms of the derivatives correspond to those of the hedged items in accordance with the Company's policy.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income, net of tax, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of changes in the fair value of derivatives is immediately recorded in earnings.

The Company also uses derivatives not designated as cash flow hedges in certain relationships for economic purposes. Changes in the fair value of derivatives not designated are reported in earnings immediately.

**Fair Value Measurement**

Certain assets and liabilities that fall within the scope of the fair value measurements, except for being measured at net asset value per share (or its equivalent), are categorized into three levels by inputs used for measurements. The Company determines transfers between their levels at the date of the event or change in circumstances that caused the transfer.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 – Unobservable inputs for the assets or liabilities. These are measured using the entity's own assumptions and inputs that are reasonably available or inputs many market participants use with reasonable confidence because observable inputs are not available.

**Change in Fiscal Year-ends**

In order for the Company to strengthen and refine its financial reporting and management system throughout the world by aligning the fiscal year of the Parent Company with those of its foreign subsidiaries, the Parent Company changed its fiscal year-end from March 31 to December 31, starting from the period which started from April 1, 2015 and ended December 31, 2015 by the resolution of a partial amendment to the Articles of Incorporation at the Ordinary General Meeting of Shareholders held on June 19, 2015. The same change in the fiscal year-end was made to subsidiaries in Japan that had fiscal year-ends other than December 31.

**Changes in Accounting Policies**

On January 1, 2017, the Company adopted a new accounting standard related to simplifying the measurement of inventory. This standard simplifies the subsequent measurement of inventory by requiring the entities to measure inventory at the lower of cost or net realizable value. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2017, the Company adopted a new accounting standard related to the classification of deferred taxes on the consolidated balance sheets. This standard requires that deferred tax assets and deferred tax liabilities be classified as non-current in a classified statement of financial position. The Company did not retrospectively adjust the consolidated financial statements. The carrying amounts of the current portion of deferred tax assets and deferred tax liabilities included in the Company's consolidated balance sheet at December 31, 2016 were ¥46,798 million and ¥160 million, respectively.

**Change in Accounting Estimate**

Previously, the Company used the declining-balance method for calculating the depreciation of property, plant, and equipment; however, effective from the beginning of the current fiscal year, the Company changed its depreciation method to the straight-line method. Based on the mid-to long-term management plan, the Company has been accelerating its expansion of overseas production and R&D. In light of this expansion, the Company examined how its property, plant, and equipment would be used and concluded that it was reasonable to change its depreciation method to the straight-line method since its property, plant, and equipment would be used consistently for the foreseeable future. In accordance with Accounting Standards Codification 250, "Accounting Changes and Error Corrections," the change in depreciation method represents a change in accounting estimate affected by a change in accounting principle and, therefore, it is applied prospectively. This change resulted in an increase in net income attributable to Kubota Corporation and net income attributable to Kubota Corporation per common share—basic for the year ended December 31, 2017 by ¥1,050 million and ¥0.85, respectively, as compared as would have been computed under the previous method.

**New Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standard related to revenue recognition. This standard is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The purpose of this standard is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. This standard was originally expected to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in August 2015, the FASB issued an accounting standard update that deferred the effective date of this standard by one year. By December 2016, the FASB has issued several accounting standards that clarified and updated this standard. The Company assumes that the adoption of this standard may change the timing of revenue recognition and the method of estimating variable consideration for certain contracts with customers. However, the Company tentatively concludes that the adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In January 2016, the FASB issued a new accounting standard related to the recognition and measurement of financial assets and financial liabilities. This standard requires equity investments with readily determinable fair value to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value; and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet and the accompanying notes to the financial statements. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company is currently evaluating the impact of adoption of this standard on the consolidated financial statements.

In February 2016, the FASB issued a new accounting standard related to leases. This standard requires an entity to recognize lease assets and lease liabilities on the balance sheet for, with a few exceptions, those leases classified as operating leases under current U.S. GAAP. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company is currently evaluating the impact of adoption of this standard on the consolidated financial statements.

In June 2016, the FASB issued a new accounting standard related to measurement of credit losses on financial instruments. This standard replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. This standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those years. The Company is currently evaluating the impact of adoption of this standard on the consolidated financial statements.

In August 2016, the FASB issued a new accounting standard related to the presentation and classification of the statements of cash flows. This standard reduces diversity in practice in how certain cash receipts and payments are presented and classified in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In October 2016, the FASB issued a new accounting standard related to the accounting for the income tax consequences of intra-entity asset transfers. This standard eliminates an exception that prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset transferred has been sold to an outside party and requires an entity to recognize the income tax consequences of an intra-transfer of an asset other than inventory. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In November 2016, the FASB issued a new accounting standard related to the presentation and classification of changes in restricted cash on the statement of cash flows. This standard provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing the diversity in practice. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company is currently evaluating the impact of adoption of this standard on the consolidated financial statements.

In January 2017, the FASB issued a new accounting standard related to the accounting treatment for subsequently measuring goodwill. This standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This standard is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued a new accounting standard related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. This standard requires an entity to report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statements separately from the service component. It also allows only the service cost component to be eligible for capitalization when applicable. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In August 2017, the FASB issued a new accounting standard related to the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. This standard changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. It also requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

## 2. INVENTORIES

Inventories are comprised of the following:

(¥ in millions)

| **At December 31:** | | **2017** | | **2016** |
|---|---|---|---|---|
| Finished products | ¥ | 212,556 | ¥ | 220,510 |
| Spare parts | | 57,132 | | 44,885 |
| Work in process | | 47,393 | | 46,660 |
| Raw materials and supplies | | 45,437 | | 44,125 |
| | ¥ | 362,518 | ¥ | 356,180 |

## 3. AFFILIATED COMPANIES AND VARIABLE INTEREST ENTITIES

**Investments in and Loans Receivable from Affiliated Companies and Transactions with Affiliated Companies**

Investments in and loans receivable from affiliated companies in which the Company has the ability to exercise significant influence over their operating and financial policies are comprised of the following:

(¥ in millions)

| **At December 31:** | | **2017** | | **2016** |
|---|---|---|---|---|
| Loans receivable—current | ¥ | 1,765 | ¥ | 6,093 |
| Loans receivable—non-current | | 30 | | 12 |
| Investments | | 29,332 | | 28,505 |
| | ¥ | 31,127 | ¥ | 34,610 |

The amounts of loans receivable—current are recorded in other current assets on the consolidated balance sheets. The amounts of loans receivable—non-current and investments are recorded in investments in and loans receivable from affiliated companies on the consolidated balance sheets.

The following table presents a summary of financial information of affiliated companies:

(¥ in millions)

| At December 31: | 2017 | 2016 |
|---|---|---|
| Current assets | ¥ 68,337 | ¥ 72,248 |
| Non-current assets | 50,854 | 56,781 |
| Total assets | 119,191 | 129,029 |
| Current liabilities | 47,772 | 57,215 |
| Long-term liabilities | 7,154 | 8,657 |
| Net assets | ¥ 64,265 | ¥ 63,157 |

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Revenues | ¥ 224,315 | ¥ 235,421 | ¥ 180,026 |
| Cost of revenues | 160,511 | 167,711 | 129,313 |
| Net income | 4,992 | 5,513 | 4,279 |

Trade notes and accounts receivable from affiliated companies at December 31, 2017 and 2016 were ¥21,081 million and ¥22,638 million, respectively.

Revenues from affiliated companies aggregated ¥60,444 million, ¥67,582 million, and ¥48,470 million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively.

Cash dividends received from affiliated companies were ¥241 million and ¥38 million for the years ended December 31, 2017 and 2016, respectively. There were no cash dividends received from affiliated companies for the nine months ended December 31, 2015. Retained earnings included net undistributed earnings of affiliated companies in the amount of ¥24,497 million and ¥23,484 million at December 31, 2017 and 2016, respectively.

**Variable Interest Entities**

The Company entered into securitization transactions by transferring a pool of certain finance receivables into newly-formed SPEs.

The Company has both the power to direct the activities that most significantly impact the SPE's economic performance through its role in managing and controlling its past due or default receivables, and the obligation to absorb losses or receive benefits that could potentially be significant to the SPE through the Company's retention of the residual interest in the SPE. As a result, the Company is considered to be the primary beneficiary of the SPE and therefore consolidated the SPE as a VIE.

The carrying amounts of assets and liabilities included in the consolidated balance sheet as of December 31, 2017 were ¥134,992 million of finance receivables, ¥6,679 million of other current assets, ¥121,071 million of secured debt, and ¥96 million of other current liabilities. The carrying amounts of assets and liabilities included in the consolidated balance sheet as of December 31, 2016 were ¥105,808 million of finance receivables, ¥4,750 million of other current assets, ¥96,317 million of secured debt, and ¥57 million of other current liabilities.

The creditors or beneficial interest holders of the above consolidated VIE have no recourse to the general credit of the Company.

As for VIEs other than that specified above, neither their aggregate size nor the Company's involvement are material to the Company's consolidated financial statements. The Company is not a primary beneficiary of the unconsolidated VIEs and does not hold any significant variable interests in these VIEs.

## 4. INVESTMENTS

The following table presents the cost and fair value of, and gross unrealized holding gains and losses on, the Company's available-for-sale securities by type:

(¥ in millions)

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **At December 31:** | Cost | Fair value | Gross unrealized holding gains | Gross unrealized holding losses | Cost | Fair value | Gross unrealized holding gains | Gross unrealized holding losses |
| Available-for-sale securities: | | | | | | | | |
| Equity securities of financial institutions | ¥ 17,557 | ¥ 46,328 | ¥ 28,771 | ¥ — | ¥ 20,017 | ¥ 48,435 | ¥ 28,418 | ¥ — |
| Other equity securities | 13,913 | 95,937 | 82,024 | — | 14,833 | 88,582 | 73,749 | — |
| | ¥ 31,470 | ¥ 142,265 | ¥110,795 | ¥ — | ¥ 34,850 | ¥ 137,017 | ¥102,167 | ¥ — |

For the year ended December 31, 2017, there were no valuation losses on investments recognized to reflect the decline in fair value considered to be other-than-temporary. For the year ended December 31, 2016, valuation losses on investments were recognized to reflect the decline in fair value considered to be other-than-temporary totaling ¥20 million. For the nine months ended December 31, 2015, there were no valuation losses on other investments recognized to reflect the decline in fair value considered to be other-than-temporary.

The following table presents proceeds from sales of available-for-sale securities and the gross realized gains and losses on these sales:

(¥ in millions)

| | **Year ended December 31, 2017** | **Year ended December 31, 2016** | **Nine months ended December 31, 2015** |
|---|---|---|---|
| Proceeds from sales of available-for-sale securities | ¥ 11,788 | ¥ 9,560 | ¥ 2,242 |
| Gross realized gains | 8,403 | 6,826 | 1,558 |
| Gross realized losses | — | — | — |

Investments in nonmarketable equity securities of ¥3,418 million and ¥3,650 million were recorded in other investments on the consolidated balance sheets at December 31, 2017 and 2016, respectively. Investments in nonmarketable equity securities for which there is no readily determinable fair value are accounted for using the average cost method. Impairment was not recognized on such investments in nonmarketable equity securities because the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015.

Debt securities of ¥7,718 million, of which an original maturity are within one year, were recorded in other current assets on the consolidated balance sheets as of December 31, 2017 (acquisition cost: ¥7,710 million).

## 5. SALES FINANCING RECEIVABLES AND OTHER LOANS RECEIVABLE

**Sales Financing Receivables**

The Company classifies sales financing receivables into the following three types:

(1) Retail finance receivables

The Company provides retail finance to customers who purchase the Company's farm equipment and construction machinery products from dealers in North America and other areas. Retail finance receivables are purchased under agreements between the Company and dealers in relation to the products offered to individual and corporate end-users. These receivables are recorded at amortized cost, less any allowance for credit losses.

(2) Finance lease receivables

The Company also provides finance leases in Japan and Asia outside Japan. Finance lease receivables in Japan relate to the Company's products leased to individual and corporate end-users. Finance lease receivables in Asia outside Japan relate to the Company's farm equipment and construction machinery products leased to individual and corporate end-users. These receivables are recorded at the aggregate of lease payments receivable plus the estimated residual value of the leased property, less unearned income and allowance for credit losses. There was no unguaranteed residual value related to finance leases at December 31, 2017.

(3) Long-term trade accounts receivable

Long-term trade accounts receivable are generated mainly from direct sales to individual end-users in the farm equipment market in Japan.

Retail finance receivables and finance lease receivables are collectively reported as short-term finance receivables—net and long-term finance receivables—net on the consolidated balance sheets. Long-term trade accounts receivable in this note include the current portion, which is included in trade accounts receivable on the consolidated balance sheets. These receivables are secured by the products being sold or financed.

Finance receivables—net are comprised of the following:

(¥ in millions)

| **At December 31:** | **2017** | **2016** |
|---|---|---|
| **Retail finance receivables** | ¥ 662,237 | ¥ 590,193 |
| Less: Allowance for credit losses | (1,352) | (1,023) |
| Retail—net | 660,885 | 589,170 |
| **Finance lease receivables** | 242,511 | 219,418 |
| Less: Unearned income | (36,837) | (34,592) |
| Less: Allowance for credit losses | (23,626) | (21,523) |
| Finance leases—net | 182,048 | 163,303 |
| Total finance receivables—net | 842,933 | 752,473 |
| Less: Current portion | (264,748) | (244,184) |
| Long-term finance receivables—net | ¥ 578,185 | ¥ 508,289 |

Long-term trade accounts receivable—net is comprised of the following:

(¥ in millions)

| **At December 31:** | **2017** | **2016** |
|---|---|---|
| **Long-term trade accounts receivable** | | |
| Current | ¥ 29,091 | ¥ 29,678 |
| Non-current | 40,423 | 39,852 |
| Total long-term trade accounts receivable | 69,514 | 69,530 |
| Less: Allowance for doubtful accounts | (387) | (356) |
| Long-term trade accounts receivable—net | ¥ 69,127 | ¥ 69,174 |

The following table presents the annual maturities of retail finance receivables, long-term trade accounts receivable, and future minimum lease payments on finance leases:

(¥ in millions)

| **Years ending December 31:** | Retail finance receivables | Finance lease receivables | Long-term trade accounts receivable |
|---|---|---|---|
| 2018 | ¥ 209,874 | ¥ 82,955 | ¥ 29,091 |
| 2019 | 186,622 | 58,149 | 17,242 |
| 2020 | 143,752 | 46,226 | 10,061 |
| 2021 | 83,492 | 30,048 | 6,526 |
| 2022 | 25,519 | 16,881 | 3,741 |
| 2023 and thereafter | 12,978 | 8,252 | 2,853 |
| Total | ¥ 662,237 | ¥ 242,511 | ¥ 69,514 |

The Company includes finance income and expenses in revenue and cost of revenues in the consolidated statements of income.

The following table presents the amounts of finance income and expenses included in revenues and cost of revenues:

(¥ in millions)

| | **Year ended December 31, 2017** | **Year ended December 31, 2016** | **Nine months ended December 31, 2015** |
|---|---|---|---|
| Finance income | ¥ 44,330 | ¥ 38,564 | ¥ 30,682 |
| Finance expenses | 12,289 | 9,924 | 7,537 |

The Company analyzes sales financing receivables by four regions: North America, Japan, Asia outside Japan, and other areas. Credit risks of these receivables are affected by economic conditions, such as consumer demand, unemployment level, and the level of government subsidies, which differ from location to location.

**(Credit Quality Indicator)**

The Company classifies sales financing receivables into risk categories based on relevant information about the ability of borrowers to service their debt, such as the collection status of receivables, customers' financial health, historical credit loss experiences, and economic trends. Subsequent to origination, the credit quality indicator of these receivables is updated based on the information available at balance sheet date and the Company reviews it on a quarterly basis. The Company's credit quality ratings for these receivables are defined as follows:

Rank A – These receivables are collected on schedule under their terms. They are not likely to incur losses arising from customers' inability to repay and the Company expects to collect all amounts due.

Rank B – These receivables require management's attention to potential losses, but are not categorized as rank C. Such receivables do not individually indicate that it is probable that losses will be incurred arising from customers' inability to repay.

Rank C – The Company becomes aware of a customer's inability to repay, such as a customer's long-term nonperformance, a bankruptcy filing, or deterioration in a customer's results of operations or financial position. In such cases, it is probable that losses will be incurred arising from a customer's inability to repay.

The following table presents the recorded investments in sales financing receivables by type of receivables, region, and credit quality indicator:

(¥ in millions)

| **At December 31:** | Retail finance receivables | | Finance lease receivables | | Long-term trade accounts receivable |
|---|---|---|---|---|---|
| **Credit risk profile by internally assigned rank:** | North America | Other areas | Japan | Asia outside Japan | Japan |
| **2017:** | | | | | |
| Rank A | ¥ 597,367 | ¥ 24,956 | ¥ 7,666 | ¥ 172,059 | ¥ 67,091 |
| Rank B | 39,677 | — | 211 | 25,738 | 2,399 |
| Rank C | 153 | 84 | — | — | 24 |
| Total | ¥ 637,197 | ¥ 25,040 | ¥ 7,877 | ¥ 197,797 | ¥ 69,514 |
| **2016:** | | | | | |
| Rank A | ¥ 536,358 | ¥ 19,867 | ¥ 7,919 | ¥ 151,772 | ¥ 67,199 |
| Rank B | 33,840 | — | 287 | 24,848 | 2,297 |
| Rank C | 100 | 28 | — | — | 34 |
| Total | ¥ 570,298 | ¥ 19,895 | ¥ 8,206 | ¥ 176,620 | ¥ 69,530 |

**(Aging)**

All sales financing receivables are considered past due when a scheduled payment, including principal and interest, has not been received by the contractual due date. If any installment payments have not been received by the contractual due date, the entire remaining balance is classified as being past due.

The following table presents an aging analysis of past due sales financing receivables by types of receivables and region:

(¥ in millions)

| At December 31: Type of receivables | Region | Up to 30 days past due | 31-60 days past due | 61-90 days past due | Greater than 90 days past due | Total past due | Current | Total |
|---|---|---|---|---|---|---|---|---|
| **2017:** | | | | | | | | |
| Retail finance receivables | North America | ¥ 35,800 | ¥ 2,236 | ¥ 731 | ¥ 1,064 | ¥ 39,831 | ¥ 597,366 | ¥ 637,197 |
| Retail finance receivables | Other areas | — | — | 84 | — | 84 | 24,956 | 25,040 |
| Finance lease receivables | Japan | 80 | 20 | 9 | 84 | 193 | 7,684 | 7,877 |
| Finance lease receivables | Asia outside Japan | 8,056 | 3,650 | 2,196 | 11,691 | 25,593 | 172,204 | 197,797 |
| Long-term trade accounts receivable | Japan | 819 | 230 | 69 | 913 | 2,031 | 67,483 | 69,514 |
| Total | | ¥ 44,755 | ¥ 6,136 | ¥ 3,089 | ¥ 13,752 | ¥ 67,732 | ¥ 869,693 | ¥ 937,425 |
| **2016:** | | | | | | | | |
| Retail finance receivables | North America | ¥ 29,929 | ¥ 2,439 | ¥ 628 | ¥ 943 | ¥ 33,939 | ¥ 536,359 | ¥ 570,298 |
| Retail finance receivables | Other areas | — | — | 6 | 21 | 27 | 19,868 | 19,895 |
| Finance lease receivables | Japan | 124 | 24 | 25 | 97 | 270 | 7,936 | 8,206 |
| Finance lease receivables | Asia outside Japan | 7,000 | 3,206 | 2,167 | 12,303 | 24,676 | 151,944 | 176,620 |
| Long-term trade accounts receivable | Japan | 949 | 189 | 90 | 803 | 2,031 | 67,499 | 69,530 |
| Total | | ¥ 38,002 | ¥ 5,858 | ¥ 2,916 | ¥ 14,167 | ¥ 60,943 | ¥ 783,606 | ¥ 844,549 |

**(Nonaccrual)**

Retail finance receivables in North America are placed on nonaccrual status at the earlier of when the contractual principal and interest are determined to be uncollectible or when these receivables become greater than 90 days past the contractual due date. For these receivables on a nonaccrual status, interest income is subsequently recognized only to the extent a cash payment is received. These receivables are restored to accrual status as of the date the principal and interest become 90 days or less past the contractual due date. Nonaccrual retail finance receivables at December 31, 2017 and 2016 amounted to ¥1,064 million and ¥943 million, respectively.

Retail finance receivables in other areas, finance lease receivables in Japan and Asia outside Japan, and long-term trade accounts receivable in Japan are not placed on nonaccrual status; however, these receivables are charged off against the allowance for doubtful accounts and credit losses when payments are no longer expected to be received.

**(Troubled Debt Restructuring and Impaired Loans)**

The amounts of debts restructured or impaired loans were not material for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015.

**Loans Receivable from Affiliated Companies**

The Company finances loans to affiliated companies mainly through group financing and records such loans receivable from affiliated companies at the principal on the consolidated balance sheets. The amounts of these loans receivable from affiliated companies were ¥1,795 million and ¥6,105 million at December 31, 2017 and 2016, respectively, and such amounts are recorded in other current assets and investments in and loans receivable from affiliated companies on the consolidated balance sheets. These loans are financings provided to the affiliated companies which sell farm equipment products in Japan, and historically both the principal and interest have been fully collected by the contractual due date. The Company reviews the credit quality of these loans receivable based on relevant information about the ability of borrowers to repay their debt. Since no negative factors in the borrowers' financial condition or collection status of receivables have been identified for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, these loans receivable are expected to be fully collectible by the Company. The credit risk of these loans receivable is primarily developed from the borrowers' business environment, such as the market demand for farm equipment products (See Note 3. AFFILIATED COMPANIES AND VARIABLE INTEREST ENTITIES).

**Other Receivables**

The amounts of other receivables and related allowance were not material for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively.

## 6. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND CREDIT LOSSES

An allowance for doubtful accounts and credit losses is established to cover probable losses arising from customers' inability to repay by type of receivables and region.

The allowance for doubtful accounts and credit losses on receivables which will probably not be collected is maintained at a level that is adequate to cover probable losses based on a combination of various factors, such as customers' ability to repay and collateral values. The allowance for smaller-balance homogeneous receivables is collectively evaluated using reserve rates, which are calculated depending on the period past due, reflecting the collection status of these receivables, historical credit loss experience, economic trends and other factors. Historical collection trends, as well as prevailing and anticipated economic conditions, are routinely monitored by management, and any required adjustment to the allowance is reflected in current operations. Loans receivable from affiliated companies are individually evaluated based on the relevant information, such as historical credit loss experiences and economic trends and conditions.

When amounts due are determined to be uncollectible or the related collateral is repossessed, receivables and the related allowance are charged off. Repossessed assets are recorded at their estimated fair value less costs to sell and reported in other current assets on the consolidated balance sheets, which were ¥510 million and ¥528 million at December 31, 2017 and 2016, respectively. Recovery on receivables previously charged off as uncollectable are credited to the allowance for doubtful accounts and credit losses.

The following table presents the changes in allowance for doubtful accounts and credit losses:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Allowance for doubtful notes and accounts receivable:** | | | |
| Balance at beginning of period | ¥ 2,472 | ¥ 3,216 | ¥ 4,042 |
| Provision (Reversal) | 284 | (638) | (766) |
| Charge-offs | (23) | (83) | (110) |
| Other | 59 | (23) | 50 |
| Balance at end of period | ¥ 2,792 | ¥ 2,472 | ¥ 3,216 |
| **Allowance for doubtful non-current receivables:** | | | |
| Balance at beginning of period | ¥ 763 | ¥ 799 | ¥ 550 |
| Provision (Reversal) | 115 | (15) | 266 |
| Charge-offs | (19) | (15) | (2) |
| Other | 38 | (6) | (15) |
| Balance at end of period | ¥ 897 | ¥ 763 | ¥ 799 |
| **Allowance for credit losses on finance receivables:** | | | |
| Balance at beginning of period | ¥ 22,546 | ¥ 19,637 | ¥ 17,555 |
| Provision | 5,210 | 5,650 | 5,477 |
| Charge-offs | (4,235) | (2,363) | (1,565) |
| Other | 1,457 | (378) | (1,830) |
| Balance at end of period | ¥ 24,978 | ¥ 22,546 | ¥ 19,637 |

The following table presents the changes in allowance for doubtful accounts and credit losses and the recorded investments in finance receivables and long-term trade accounts receivable:

(¥ in millions)

| **Allowance for doubtful accounts and credit losses for year ended December 31, 2017:** | Retail finance receivables | Finance lease receivables | Long-term trade accounts receivable | Total |
|---|---|---|---|---|
| Balance at beginning of year | ¥ 1,023 | ¥ 21,523 | ¥ 356 | ¥ 22,902 |
| Provision | 1,265 | 3,945 | 31 | 5,241 |
| Charge-offs | (972) | (3,263) | — | (4,235) |
| Recoveries | 49 | — | — | 49 |
| Other | (13) | 1,421 | — | 1,408 |
| Balance at end of year | ¥ 1,352 | ¥ 23,626 | ¥ 387 | ¥ 25,365 |
| Individually evaluated for impairment | 237 | — | 24 | 261 |
| Collectively evaluated for impairment | 1,115 | 23,626 | 363 | 25,104 |
| **Recorded Investments at December 31, 2017:** | | | | |
| Balance at end of year | ¥ 662,237 | ¥ 205,674 | ¥ 69,514 | ¥ 937,425 |
| Individually evaluated for impairment | 237 | — | 24 | 261 |
| Collectively evaluated for impairment | 662,000 | 205,674 | 69,490 | 937,164 |
| **Allowance for doubtful accounts and credit losses for year ended December 31, 2016:** | | | | |
| Balance at beginning of period | ¥ 692 | ¥ 18,945 | ¥ 340 | ¥ 19,977 |
| Provision | 991 | 4,659 | 16 | 5,666 |
| Charge-offs | (711) | (1,652) | — | (2,363) |
| Recoveries | 29 | — | — | 29 |
| Other | 22 | (429) | — | (407) |
| Balance at end of period | ¥ 1,023 | ¥ 21,523 | ¥ 356 | ¥ 22,902 |
| Individually evaluated for impairment | 128 | — | 34 | 162 |
| Collectively evaluated for impairment | 895 | 21,523 | 322 | 22,740 |
| **Recorded Investments at December 31, 2016:** | | | | |
| Balance at end of period | ¥ 590,193 | ¥ 184,826 | ¥ 69,530 | ¥ 844,549 |
| Individually evaluated for impairment | 128 | — | 34 | 162 |
| Collectively evaluated for impairment | 590,065 | 184,826 | 69,496 | 844,387 |

Long-term trade accounts receivable in the table include the current portion, which is included in trade accounts receivable on the consolidated balance sheets.

There was no related allowance for loans receivable from affiliated companies for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015.

## 7. BUSINESS COMBINATION

In July, 2016, the Company acquired 100% of the outstanding shares of Great Plains Manufacturing, Inc. (“GP”), a farm implement manufacturer in the U.S., through Kubota U.S.A., Inc. (currently, Kubota North America Corp.), the Company’s U.S. subsidiary. The consideration, all in cash, paid for the acquired shares of GP was ¥44,290 million.

GP has well-established brands in North America along with a wide range of implement products. The Company expects to realize synergies including development of implements for its existing line of tractors and utilization of each other’s sales channels. The Company expects the acquisition to be an important milestone in establishing a significant presence in the agricultural machinery market for upland farming in North America.

Acquisition-related costs of ¥429 million were included in selling, general, and administrative expenses on the consolidated statements of income for the year ended December 31, 2016.

The following table presents the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

| (¥ in millions) | | |
|---|---|---|
| Current assets | ¥ | 25,077 |
| Property, plant, and equipment | | 11,407 |
| Goodwill | | 1,736 |
| Intangible assets | | 15,450 |
| Other assets | | 8,185 |
| Total assets acquired | ¥ | 61,855 |
| Current liabilities | | 7,915 |
| Long-term liabilities | | 9,650 |
| Total liabilities assumed | ¥ | 17,565 |
| Total net assets acquired | ¥ | 44,290 |

Trade accounts receivable of ¥10,708 million and finance receivables of ¥2,900 million recorded at fair value were included in current assets and other assets in the table above, and the gross contractual amount is ¥10,818 million and ¥2,925 million, respectively.

All intangible assets acquired were subject to amortization and consisted of trademarks of ¥6,798 million, customer relationships of ¥4,326 million, and technological know-how of ¥4,326 million with weighted-average amortization periods of 20 years, 17 years, and ten years, respectively. The aggregated amount of goodwill has all been assigned to the Farm & Industrial Machinery segment and is deductible for tax purposes.

Revenues or net income from GP and its subsidiaries, which were included in the consolidated statements of income for the year ended December 31, 2016, were not material.

The pro forma results are not disclosed as the amounts are immaterial.

There were no material business combinations for the year ended December 31, 2017.

## 8. GOODWILL AND INTANGIBLE ASSETS

The following table presents the components of intangible assets subject to amortization:

(¥ in millions)

| At December 31: | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Software | ¥ 36,919 | ¥ (22,190) | ¥ 14,729 | ¥ 31,285 | ¥ (18,541) | ¥ 12,744 |
| Customer relationships | 12,723 | (4,524) | 8,199 | 12,140 | (3,305) | 8,835 |
| Technological know-how | 7,311 | (2,354) | 4,957 | 8,495 | (3,196) | 5,299 |
| Trademark rights | 9,793 | (2,121) | 7,672 | 9,793 | (1,463) | 8,330 |
| Others | 6,653 | (2,334) | 4,319 | 7,366 | (4,008) | 3,358 |
| Total | ¥ 73,399 | ¥ (33,523) | ¥ 39,876 | ¥ 69,079 | ¥ (30,513) | ¥ 38,566 |

Intangible assets subject to amortization acquired for the year ended December 31, 2017 were ¥8,937 million and mainly consisted of software of ¥6,824 million. Intangible assets subject to amortization acquired for the year ended December 31, 2016 were ¥20,749 million and mainly consisted of intangible assets acquired from the acquisition of GP (See Note 7. BUSINESS COMBINATION) and software of ¥4,902 million.

The amortization periods for the acquired software for the years ended December 31, 2017 and 2016 are both mainly five years.

The amounts of intangible assets not subject to amortization were not material at December 31, 2017 and 2016.

The aggregate amortization expenses of intangible assets subject to amortization for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 were ¥6,991 million, ¥6,403 million, and ¥4,693 million, respectively.

The following table presents the estimated aggregate amortization expenses for intangible assets for each of the next five years:

(¥ in millions)

| Years ending December 31: | |
|---|---|
| 2018 | ¥ 7,182 |
| 2019 | 6,297 |
| 2020 | 5,154 |
| 2021 | 4,340 |
| 2022 | 3,491 |

Goodwill is allocated to the reporting unit in which the business that created such goodwill resides. All of the Company's goodwill resides in the Farm & Industrial Machinery segment. The carrying amounts of goodwill in the Farm & Industrial Machinery segment were ¥7,731 million, ¥7,290 million at December 31, 2017 and 2016, respectively.

The changes in the carrying amount of goodwill in the Farm & Industrial Machinery segment for the year ended December 31, 2017 were a result of fluctuation in exchange rates. The changes in the carrying amount of goodwill in the Farm & Industrial Machinery segment for the year ended December 31, 2016 were a result of the GP acquisition (See Note 7. BUSINESS COMBINATION) and fluctuation in exchange rates. The changes in the carrying amount of goodwill in the Farm & Industrial Machinery segment for the nine months ended December 31, 2015 were a result of fluctuation in exchange rates.

Accumulated impairment losses on goodwill were not recorded as of December 31, 2017 and 2016.

## 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings were comprised of notes payable to banks of ¥182,461 million at December 31, 2017, and notes payable to banks of ¥193,883 million at December 31, 2016.

Stated annual interest rates on short-term borrowings ranged primarily from 0.03% to 13.60% and from 0.03% to 10.75% at December 31, 2017 and 2016, respectively. The weighted-average interest rates on such short-term borrowings at December 31, 2017 and 2016 were 1.62% and 1.10%, respectively.

Available committed line of credit with five banks totaled ¥20,000 million both at December 31, 2017 and 2016.

The terms of committed line of credit are one year. The Company had no outstanding borrowings as of December 31, 2017 and 2016 related to committed line of credit.

Long-term debt is comprised of the following:

(¥ in millions)

| At December 31: | Due in years ending December 31 | 2017 | 2016 |
|---|---|---|---|
| **Unsecured bonds (interest rate):** | | | |
| U.S. dollar notes (floating rate 1.10%) | 2017 | ¥ — | ¥ 5,832 |
| Yen notes (fixed rate 0.30%) | 2018 | 20,000 | 19,986 |
| Yen notes (fixed rate 0.51%) | 2020 | 19,974 | 19,963 |
| **Loans, principally from banks and insurance companies, maturing on various dates through 2023:** | | | |
| Secured | | 170,718 | 143,598 |
| Unsecured | | 440,948 | 432,097 |
| **Capital lease obligations** | | 2,480 | 2,630 |
| Total | | 654,120 | 624,106 |
| Less: Current portion | | (181,698) | (145,212) |
| | | ¥ 472,422 | ¥ 478,894 |

Both fixed and floating rates were included in the interest rates of the long-term loans from banks and insurance companies. The weighted-average rates at December 31, 2017 and 2016 were 1.69% and 1.40%, respectively.

The following table presents the annual maturities of long-term debt at December 31, 2017:

(¥ in millions)

| Years ending December 31: | |
|---|---|
| 2018 | ¥ 181,698 |
| 2019 | 155,826 |
| 2020 | 140,874 |
| 2021 | 107,705 |
| 2022 | 37,270 |
| 2023 and thereafter | 30,747 |
| Total | ¥ 654,120 |

Assets pledged as collateral are comprised of the following:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| Trade accounts | ¥ | 333 | ¥ | 327 |
| Short-term finance receivables*1 | | 70,791 | | 60,361 |
| Other current assets *2 | | 11,433 | | 9,277 |
| Long-term finance receivables*1 | | 120,870 | | 104,928 |
| Property, plant, and equipment | | 3,249 | | 1,819 |
| Total | ¥ | 206,676 | ¥ | 176,712 |

*1 Short-term and long-term finance receivables are pledged in accordance with the terms of securitization transactions.

*2 Other current assets represent the restricted cash which is pledged in accordance with the terms of borrowings.

Liabilities secured by the above assets are comprised of the following:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| Short-term borrowings | ¥ | 580 | ¥ | 578 |
| Current portion of long-term debt | | 62,207 | | 51,112 |
| Long-term debt | | 108,511 | | 92,486 |
| Total | ¥ | 171,298 | ¥ | 144,176 |

Both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future indebtedness will be given upon request from the bank, and that the bank has the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Long-term agreements with lenders other than banks also generally provide that the Company must give additional security upon request from the lender.

There are restrictive covenants related to the borrowings including negative pledges, a rating trigger and minimum net worth. The rating trigger requires that the Company shall keep or be higher than the “BBB—”rating by Rating and Investment Information, Inc. The minimum net worth covenant requires that total equity shall be maintained at more than ¥853.0 billion on a consolidated financial statement basis and more than ¥389.1 billion on a separate financial statement basis of the Parent Company. The Company was in compliance with these restrictive covenants at December 31, 2017.

## 10. RETIREMENT AND PENSION PLANS

The Parent Company and most subsidiaries mainly in Japan have defined benefit pension plans and/or severance indemnity plans covering substantially all of their employees. In the Parent Company and certain subsidiaries, employees who terminate their employment have the option to receive benefits in the form of a lump-sum payment or annuity payments from defined benefit pension plans. The benefits are mainly calculated based on accumulated "points" under the point-based benefits system. The "points" consist of "service period points," which are attributed to the length of service, "job title points," which are attributed to the job title of each employee, and "performance points," which are attributed to the annual performance evaluation of each employee.

Certain subsidiaries have defined contribution pension plans covering most of their employees. In addition, the Parent Company and certain domestic subsidiaries have introduced defined contribution pension plans since December 1, 2017.

### Funded Status

The following table presents the funded status and the amounts recognized in the consolidated balance sheets:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| **Funded status:** | | | | |
| Benefit obligations | ¥ | 217,029 | ¥ | 214,323 |
| Fair value of plan assets | | 219,248 | | 207,141 |
| Funded status-net | ¥ | 2,219 | ¥ | (7,182) |
| **Amounts recognized in the consolidated balance sheets:** | | | | |
| Accrued retirement and pension costs | ¥ | (12,804) | ¥ | (12,091) |
| Prepaid expenses for benefit plans, included in other assets—other | | 15,023 | | 4,909 |
| Amounts recognized in the consolidated balance sheets-net | ¥ | 2,219 | ¥ | (7,182) |

The following table presents the amounts recognized in accumulated other comprehensive income, before tax:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| Prior service costs | ¥ | (430) | ¥ | (391) |
| Actuarial losses | | (27,889) | | (36,725) |
| Total recognized in accumulated other comprehensive loss, before tax | ¥ | (28,319) | ¥ | (37,116) |

The following table presents the projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| **Plans with projected benefit obligations in excess of plan assets:** | | | | |
| Projected benefit obligations | ¥ | 30,360 | ¥ | 30,611 |
| Fair value of plan assets | | 18,343 | | 18,987 |
| **Plans with accumulated benefit obligations in excess of plan assets:** | | | | |
| Accumulated benefit obligations | ¥ | 22,633 | ¥ | 22,033 |
| Fair value of plan assets | | 12,281 | | 12,340 |

**Benefit Obligations**

The following table presents the changes in benefit obligations, the balances of accumulated benefit obligations, and the weighted-average assumptions used in calculating benefit obligations:

(¥ in millions)

| For the years ended December 31: | 2017 | 2016 |
|---|---|---|
| **Change in benefit obligations:** | | |
| Benefit obligations at beginning of period | ¥ 214,323 | ¥ 205,570 |
| Service costs | 9,387 | 8,980 |
| Interest costs | 1,903 | 2,389 |
| Actuarial losses | 554 | 10,221 |
| Benefits paid (lump-sum payments) | (4,966) | (7,461) |
| Benefits paid (annuity payments) | (5,788) | (4,603) |
| Deductions from sales of businesses | — | (15) |
| Changes in scope of consolidation | 609 | — |
| Foreign currency exchange rate changes | 1,007 | (758) |
| Benefit obligations at end of period | ¥ 217,029 | ¥ 214,323 |
| **Accumulated benefit obligations at end of period** | ¥ 213,729 | ¥ 210,791 |
| **Weighted-average assumptions used in calculating benefit obligation*1:** | | |
| Discount rate | 0.9% | 0.9% |

*1 The rate of compensation increase is not used in the calculations of benefit obligations under the point-based benefits system.

**Plan Assets**

The following table presents the changes in plan assets:

(¥ in millions)

| For the years ended December 31: | 2017 | 2016 |
|---|---|---|
| Fair value of plan assets at beginning of period | ¥ 207,141 | ¥ 207,009 |
| Actual return on plan assets | 13,224 | 3,651 |
| Employer contributions | 6,098 | 5,879 |
| Benefits paid (lump-sum payments) | (2,365) | (4,407) |
| Benefits paid (annuity payments) | (5,788) | (4,603) |
| Changes in scope of consolidation | 237 | — |
| Foreign currency exchange rate changes | 701 | (388) |
| Fair value of plan assets at end of period | ¥ 219,248 | ¥ 207,141 |

The Company’s policy and objective for plan asset management are to maximize returns on plan assets to meet future benefit payment requirements under risks which the Company considers permissible. To mitigate any potential concentration risk, careful consideration is given to balancing the portfolio among industry sectors, companies and geographies, taking into account interest rate sensitivity, dependence on economic growth, currency and other factors that affect investment returns. The Company’s target allocation is 36% of equity securities and foreign debt securities subject to foreign currency exchange rate risks and 64% of other investment vehicles, mainly consisting of Japanese debt securities, foreign debt securities not subject to foreign currency exchange rate risks, cash, short-term investments, and the general accounts of insurance companies.

A large portion of the plan assets is managed by trust banks and investment advisors. Those fund managers are bound by the Company’s plan asset management guidelines, which are established to achieve the optimized asset compositions in terms of the long-term overall plan asset management, and the fund managers’ performance are measured against specific benchmarks.

To measure the performance of the plan asset management, the Company establishes benchmark return rates for each individual investment, combines these individual benchmark rates based on the asset composition ratios within each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

The following table presents the fair value of plan assets by category:

(¥ in millions)

| At December 31: | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2017**: | | | | |
| Assets evaluated by other than net asset value per share: | | | | |
| Financial institutions (Japanese equity securities) | ¥ 9,408 | ¥ — | ¥ — | ¥ 9,408 |
| Other industries (Japanese equity securities) | 10,261 | — | — | 10,261 |
| Cash and short-term investments | 559 | 1,253 | — | 1,812 |
| General accounts of insurance companies | — | 26,931 | — | 26,931 |
| Assets evaluated by net asset value per share*1: | | | | |
| Pooled funds (Japanese equity securities) *2 | — | — | — | 25,256 |
| Pooled funds (foreign equity securities) *2 | — | — | — | 32,369 |
| Pooled funds (Japanese debt securities) *3 | — | — | — | 82,126 |
| Pooled funds (foreign debt securities not subject to foreign currency exchange rate risks ) *3 | — | — | — | 25,716 |
| Pooled funds (foreign debt securities subject to foreign currency exchange rate risks) *3 | — | — | — | 5,261 |
| Other assets *4 | — | — | — | 108 |
| Fair value of plan assets | ¥ 20,228 | ¥ 28,184 | ¥ — | ¥ 219,248 |
| **2016**: | | | | |
| Assets evaluated by other than net asset value per share: | | | | |
| Financial institutions (Japanese equity securities) | ¥ 8,880 | ¥ — | ¥ — | ¥ 8,880 |
| Other industries (Japanese equity securities) | 8,127 | — | — | 8,127 |
| Cash and short-term investments | 505 | 1,581 | — | 2,086 |
| General accounts of insurance companies | — | 25,995 | — | 25,995 |
| Assets evaluated by net asset value per share*1: | | | | |
| Pooled funds (Japanese equity securities) *2 | — | — | — | 25,313 |
| Pooled funds (foreign equity securities) *2 | — | — | — | 32,061 |
| Pooled funds (Japanese debt securities) *3 | — | — | — | 84,834 |
| Pooled funds (foreign debt securities not subject to foreign currency exchange rate risks) *3 | — | — | — | 14,259 |
| Pooled funds (foreign debt securities subject to foreign currency exchange rate risks) *3 | — | — | — | 5,514 |
| Other assets *4 | — | — | — | 72 |
| Fair value of plan assets | ¥ 17,512 | ¥ 27,576 | ¥ — | ¥ 207,141 |

*1 Cerain assets evaluated by net asset value per share (or its equivalent) are not categorized in the fair value hierarchy. Total amounts in the above table are presented to reconcile the amounts in the fair value hierarchy to the amounts stated on the consolidated balance sheets.

*2 These funds are invested in listed equity securities.

*3 These funds are mainly invested in government bonds.

*4 This class includes the pooled funds invested in private equity.

Plan assets, except those being measured at net asset value per share (“NAV”), are categorized by level based on the inputs used to measure the fair value of each asset.

The equity securities of financial institutions and other industries are valued at the closing price reported on the stock exchange on which the individual securities are traded. Cash and short-term investments are valued at their cost plus imputed interest. The general accounts of insurance companies are valued at funded amounts, which consist of the principal and unearned interests based on contracts. These assets were classified as Level 1 or Level 2, depending on the availability of quoted market prices.

Pooled funds are valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, less liabilities, and then divided by the number of shares outstanding.

### Net Periodic Benefit Costs

The following table presents the components of the total net periodic benefit cost for the defined benefit pension plans and the severance indemnity plans:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Net periodic benefit costs:** | | | |
| Service costs | ¥ 9,387 | ¥ 8,980 | ¥ 6,292 |
| Interest costs | 1,903 | 2,389 | 1,935 |
| Expected return on plan assets | (5,056) | (4,788) | (3,658) |
| Amortization of prior service benefits | (39) | (343) | (257) |
| Amortization of actuarial losses | 843 | 191 | 363 |
| Total | ¥ 7,038 | ¥ 6,429 | ¥ 4,675 |
| **Weighted-average assumptions used in calculating net periodic benefit costs** [*1]**:** | | | |
| Expected long-term rate of return on plan assets | 2.4% | 2.4% | 2.4% |
| Discount rate | 0.9% | 1.2% | 1.3% |

[*1] The rate of compensation increase is not used in the calculations of net periodic benefit cost under the point-based benefits system.

The expected long-term rate of return on plan assets is determined after considering several applicable factors including the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, the Company's principal policy for plan asset management, and forecasted market conditions.

The following table presents the amounts recognized in other comprehensive income (loss), before tax, and the reclassification adjustments realized in net income, before tax:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Amounts recognized in other comprehensive income (loss):** | | | |
| Actuarial gains (losses) recognized in other comprehensive income (loss) | ¥ 8,015 | ¥ (11,428) | ¥ (10,343) |
| **Reclassification adjustments realized in net income:** | | | |
| Prior service benefits realized in net income | (39) | (343) | (257) |
| Actuarial losses realized in net income | 843 | 191 | 363 |
| Net recognized in other comprehensive income (loss), before tax | ¥ 8,819 | ¥ (11,580) | ¥ (10,237) |

The following table presents the estimated prior service costs and actuarial losses that will be amortized from accumulated other comprehensive income into net periodic benefit costs for the year ending December 31, 2018:

(¥ in millions)

| | |
|---|---|
| Prior service costs | ¥ 10 |
| Actuarial losses | 352 |

### Expected Cash Flows

The Company estimates contributions to its defined benefit pension plans for the year ending December 31, 2018 to be approximately ¥6,600 million.

The following table presents the total expected benefit payments to the participants of the defined benefit pension plans and the severance indemnity plans:

| (¥ in millions) | |
|---|---|
| **Years ending December 31:** | |
| 2018 | ¥ 10,451 |
| 2019 | 9,627 |
| 2020 | 9,393 |
| 2021 | 10,280 |
| 2022 | 10,587 |
| 2023-2027 | 50,633 |

**Defined Contribution Pension Plans**

Costs recognized for defined contribution pension plans for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 were ¥2,707 million, ¥1,476 million, and ¥1,304 million, respectively.

## 11. REVENUE RECOGNITION FOR LONG-TERM CONTRACTS

Long-term contracts accepted by the Company consist mainly of construction works with the Japanese national government and local governments, such as construction of environmental control plants and facilities for water supply. These contracts are generally completed within two to three years.

The contracts, which are fully executed before the commencement of construction projects, include the terms of the contract price, expected completion date and critical milestone dates, and acceptance inspections (e.g., performance tests and external appearance inspections). The contracts are legally enforceable, and the parties are expected to perform their obligations under the contracts. The Company is able to develop reasonably dependable estimates of the total contract cost based on the construction order that includes details on every component unit, labor hour costs, and all overhead. Further, the Company believes that it is able to develop reasonably dependable estimates of the extent of progress towards completion of individual contracts and, therefore, the long-term contracts are accounted for using the percentage-of-completion method. Concerning the method of measuring the extent of progress toward completion, the Company uses the cost-to-cost method. In most cases, the Company’s contracts with customers include the delivery and installation of component units.

In the situation where an option or an addition which has separate content from an existing contract has occurred, it is treated as a separate contract. Otherwise, it is combined with the original contract. Additional contract revenue arising from any claims by the customer is recognized when the contract modification is approved by the customer. Any revisions in revenue, cost, and profit estimates or in measurements of the extent of progress toward completion are accounted for in the consolidated statements of income in the fiscal year in which those revisions are determined. A disclosure is made of the effect of such revisions in the financial statements, if significant.

The following table details notes and accounts receivable related to the long-term contracts accounted for under the percentage-of-completion method, by maturities:

(¥ in millions)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **At December 31:** | Less than 1 year | 1-2 years | Over 2 years | Less than 1 year | 1-2 years | Over 2 years |
| Trade notes | ¥ 495 | ¥ — | ¥ — | ¥ 513 | ¥ — | ¥ — |
| Trade accounts | 15,068 | 1,538 | 178 | 17,639 | 1,402 | 158 |
| | ¥ 15,563 | ¥ 1,538 | ¥ 178 | ¥ 18,152 | ¥ 1,402 | ¥ 158 |

With respect to the inventories related to the long-term contracts, the aggregated amounts of manufacturing or production costs which exceed the aggregated estimate costs of all in-process, the total aggregated amounts subject to uncertainty, and advances received offset against inventories were not material at December 31, 2017 and 2016.

## 12. INCOME TAXES

Income before income taxes and equity in net income of affiliated companies and income taxes are comprised of the following:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Income before income taxes and equity in net income of affiliated companies:** | | | |
| Domestic | ¥ 122,730 | ¥ 83,926 | ¥ 65,093 |
| Foreign | 90,171 | 113,045 | 104,411 |
| Total | ¥ 212,901 | ¥ 196,971 | ¥ 169,504 |
| **Income taxes:** | | | |
| Current— | | | |
| Domestic | ¥ 43,657 | ¥ 24,999 | ¥ 14,209 |
| Foreign | 26,199 | 31,115 | 33,405 |
| | 69,856 | 56,114 | 47,614 |
| Deferred— | | | |
| Domestic | (5,489) | 2,748 | 9,720 |
| Foreign | 5,555 | (2,316) | (3,073) |
| | 66 | 432 | 6,647 |
| Total | ¥ 69,922 | ¥ 56,546 | ¥ 54,261 |

A reconciliation of the differences between the Japanese statutory tax rate and the effective tax rate is as follows:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Normal Japanese statutory tax rates applied to income before income taxes and equity in net income of affiliated companies | 30.8% | 33.0% | 33.0% |
| Increase (decrease) in taxes resulting from: | | | |
| Increase in valuation allowance | 0.0 | 0.1 | 0.2 |
| Permanently nondeductible expenses | 0.4 | 0.4 | 0.7 |
| Nontaxable dividend income | (0.1) | (0.4) | (0.2) |
| Extra tax deduction on expenses for research and development | (2.0) | (2.1) | (2.6) |
| Difference in statutory tax rates of foreign subsidiaries | (0.0) | (0.7) | 2.1 |
| Revision of tax rate in Japan | — | (0.5) | — |
| Revision of tax rate in the U.S. | 3.3 | — | — |
| Other—net | 0.4 | (1.1) | (1.2) |
| Effective income tax rates applied to income before income taxes and equity in net income of affiliated companies | 32.8% | 28.7% | 32.0% |

Deferred tax assets and liabilities are included in the consolidated balance sheets as follows:

(¥ in millions)

| At December 31: | 2017 | 2016 |
|---|---|---|
| Other current assets | ¥ — | ¥ 46,798 |
| Other assets—Other | 39,006 | 14,464 |
| Other current liabilities | — | (160) |
| Other long-term liabilities | (33,680) | (49,698) |
| Net deferred tax assets | ¥ 5,326 | ¥ 11,404 |

The significant components of deferred tax assets and liabilities are as follows:

(¥ in millions)

| At December 31: | | 2017 | | 2016 |
|---|---|---|---|---|
| **Deferred tax assets:** | | | | |
| Allowance for doubtful accounts and credit losses | ¥ | 5,985 | ¥ | 5,604 |
| Intercompany profits | | 14,649 | | 10,183 |
| Adjustment of investment securities | | 4,941 | | 5,361 |
| Write-downs of inventories and fixed assets | | 2,369 | | 2,424 |
| Accrued bonus | | 3,552 | | 3,475 |
| Retirement and pension costs | | 5,961 | | 9,040 |
| Accrued expenses | | 9,099 | | 10,514 |
| Tax loss and credit carryforwards | | 7,798 | | 7,596 |
| Other temporary differences | | 25,582 | | 43,316 |
| Gross deferred tax assets | | 79,936 | | 97,513 |
| Less: Valuation allowance | | (6,687) | | (6,334) |
| Net deferred tax assets | ¥ | 73,249 | ¥ | 91,179 |
| **Deferred tax liabilities:** | | | | |
| Adjustment of investment securities | ¥ | 33,369 | ¥ | 30,487 |
| Unremitted earnings of foreign subsidiaries and affiliates | | 26,581 | | 24,196 |
| Other temporary differences | | 7,973 | | 25,092 |
| Gross deferred tax liabilities | ¥ | 67,923 | ¥ | 79,775 |

Since the Tax Cuts and Jobs Act was enacted on December 22, 2017, in the U.S., the federal tax rate used in the calculation of deferred tax assets and deferred tax liabilities of U.S. subsidiaries decreased from 35.0% to 21.0%. The revision resulted in a decrease of net deferred tax assets and an increase of income taxes-deferred by ¥7,091 million.

Since the revision of the tax law in Japan was approved by the Diet on March 29, 2016, the statutory tax rate used in the calculation of deferred tax assets and deferred tax liabilities decreased from 32.2% to 30.8% for deferred tax assets and liabilities to be realized or settled between January 1, 2017 and December 31, 2018 and from 32.2% to 30.6% for those after January 1, 2019. The revision resulted in an increase of net deferred tax assets and a decrease of income taxes-deferred by ¥927 million.

Due to the revision of the tax law in the year ended March 31, 2015, the statutory tax rate used in the calculation of deferred tax assets and deferred tax liabilities decreased from 35.6% to 33.0% for deferred tax assets and liabilities to be realized or settled between April 1, 2015 and December 31, 2016 and to 32.2% for those after January 1, 2017. The revision resulted in a decrease of net deferred tax assets and a decrease of income taxes-deferred by ¥3,125 million.

Deferrals of income taxes relating to intercompany profits of ¥14,649 million and ¥10,183 million at December 31, 2017 and 2016, respectively, included in the above table are accounted for in accordance with ASC 810, “Consolidation.” The movement of ¥4,466 million, ¥(2,515) million, and ¥(2,975) million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively, in such deferral of income taxes is presented as “Income taxes – Deferred” in the consolidated statements of income. The total amounts of deferred tax assets recorded in accordance with ASC 740, “Income Taxes,” were ¥58,600 million and ¥80,996 million at December 31, 2017 and 2016, respectively.

Deferred tax liabilities have been recorded for unremitted earnings of all foreign subsidiaries and affiliates since their earnings are not considered to be permanently reinvested. Substantially all of the undistributed earnings of domestic subsidiaries and affiliates would not, under the present Japanese tax law, be subject to tax through tax-free distributions.

The following table presents the reconciliation of the beginning and ending balances of the valuation allowance:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Balance at beginning of period | ¥ 6,334 | ¥ 6,787 | ¥ 6,536 |
| Addition | 389 | 415 | 1,156 |
| Deduction | (451) | (536) | (958) |
| Foreign currency exchange rate changes | 415 | (332) | 53 |
| Balance at end of period | ¥ 6,687 | ¥ 6,334 | ¥ 6,787 |

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the net deductible temporary differences are expected to reverse and/or the tax losses and credits are carried forward, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances at December 31, 2017.

At December 31, 2017, the tax loss carryforwards which are available to offset future taxable income in the aggregate amounted to ¥29,006 million, ¥7,892 million of which will expire in the period from 2018 through 2023, and ¥21,114 million of which has no limitation.

The following table presents the reconciliation of unrecognized tax benefits:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Balance at beginning of period | ¥ 61 | ¥ 61 | ¥ 2,131 |
| Gross increase for tax positions taken in prior years | 2 | 2 | 3 |
| Gross decrease for tax positions taken in prior years | — | — | — |
| Settlements | — | — | (2,074) |
| Lapse of statute of limitations | — | — | — |
| Other | (1) | (2) | 1 |
| Balance at end of period | ¥ 62 | ¥ 61 | ¥ 61 |

The total amounts of unrecognized tax benefits that would affect the effective tax rate, if recognized, were not material at December 31, 2017, 2016 and 2015.

Based on the information available as of December 31, 2017, a change to the unrecognized tax benefits within the next 12 months is not expected to be material.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expenses in the consolidated statements of income. Both interest and penalties accrued at December 31, 2017 and 2016, and interest and penalties included in income tax expenses for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 were not material.

The Company files income tax returns in Japan, the U.S., and various foreign tax jurisdictions, and their open tax years vary across countries. At December 31, 2017, the Company is no longer subject, with limited exception, to regular income tax examinations by the tax authorities for the nine months on or before December 31, 2015 in Japan, and for the years on or before December 31, 2012 in the U.S. While the tax authorities could conduct a transfer pricing examination for the years on and after April 1, 2012, the intercompany transactions between related parties in the U.S. and Japan for the years on or before December 31, 2017 are less likely to be subject to a tax examination since the Advance Pricing Agreement between the U.S. and Japan was concluded.

## 13. SHAREHOLDERS’ EQUITY

**Dividends**

The Companies Act permits companies to pay dividends at any time during the fiscal year in addition to the year-end dividends upon resolution of the General Meeting of Shareholders. Semiannual interim dividends may also be paid once a year upon resolution of the Meeting of the Board of Directors if the articles of incorporation of the companies so stipulate. For those companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, (4) the term of service of the directors is one year, and (5) prescribing that the Board of Directors may declare dividends in its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind). The Company meets all the above criteria.

The Companies Act also provides certain limitations on the amounts available for dividends. Under the Companies Act, the amount available for dividends is based on other retained earnings, less treasury stock, as recorded on the books of the Parent Company. At December 31, 2017, other retained earnings, less treasury stock, recorded on the Parent Company's books of account were ¥362,568 million.

**Purchase of Treasury Stock**

The Companies Act also allows companies to purchase treasury stock. Companies may purchase treasury stock through market transactions by a resolution at the Meeting of the Board of Directors if companies have prescribed so in their articles of incorporation. The Company meets this condition. The same limitations as those for dividends exist in the amount available for this purchase of treasury stock.

**Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus**

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as additional paid-in capital or as a legal reserve depending on the equity account charged upon the payment of such dividends until the total of additional paid-in capital and legal reserve equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, capital surplus, legal reserve, and other retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the General Meeting of Shareholders.

**Effects of Changes in Ownership Interests in Subsidiaries**

The following table presents the effects of changes in Kubota Corporation's ownership interests in its subsidiaries on capital surplus:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Net income attributable to Kubota Corporation | ¥ 136,445 | ¥ 132,485 | ¥ 110,107 |
| **Transfers from (to) non-controlling interests:** | | | |
| Increase in capital surplus for purchases of non-controlling interests | — | 438 | 34 |
| Decrease in capital surplus for purchases of non-controlling interests | — | (3,614) | (39) |
| Increase in capital surplus for changes in ownership interests in subsidiaries from other transactions | 327 | 3 | 1 |
| Decrease in capital surplus for changes in ownership interests in subsidiaries from other transactions | (54) | (60) | (38) |
| Net transfers from (to) non-controlling interests | 273 | (3,233) | (42) |
| Change from net income attributable to Kubota Corporation and transfer from (to) non-controlling interests | ¥ 136,718 | ¥ 129,252 | ¥ 110,065 |

In March 2016, the Company purchased the remaining non-controlling interest, representing 40%, of Kubota (U.K.) Ltd. for the purpose of its conversion into a wholly-owned subsidiary. In April 2016, the Company purchased the remaining non-controlling interest, representing 30%, of Kubota ChemiX Co., Ltd. for the purpose of its conversion into a wholly-owned subsidiary. In November 2016, the Company purchased the remaining non-controlling interest, representing 20%, of Kubota (Deutschland) GmbH for the purpose of its conversion into a wholly-owned subsidiary.

## 14. OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss), including reclassification adjustments and tax effects:

(¥ in millions)

| | Year ended December 31, 2017 | | | Year ended December 31, 2016 | | | Nine months ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before-tax amount | Tax benefit (expense) | Net-of-tax amount | Before-tax amount | Tax benefit (expense) | Net-of-tax amount | Before-tax amount | Tax benefit (expense) | Net-of-tax amount |
| **Foreign currency translation adjustments:** | | | | | | | | | |
| Foreign currency translation adjustments arising during period | ¥ 9,913 | ¥ (814) | ¥ 9,099 | ¥ (25,084) | ¥ 760 | ¥ (24,324) | ¥ (18,814) | ¥ 1,202 | ¥ (17,612) |
| Reclassification adjustment for gains (losses) realized in net income | — | — | — | — | — | — | — | — | — |
| | 9,913 | (814) | 9,099 | (25,084) | 760 | (24,324) | (18,814) | 1,202 | (17,612) |
| **Unrealized gains (losses) on securities:** | | | | | | | | | |
| Unrealized gains (losses) on securities arising during period | 17,073 | (5,363) | 11,710 | 10,576 | (3,429) | 7,147 | (14,216) | 4,586 | (9,630) |
| Reclassification adjustment for gains (losses) realized in net income | (8,403) | 2,588 | (5,815) | (6,806) | 2,246 | (4,560) | (1,559) | 514 | (1,045) |
| | 8,670 | (2,775) | 5,895 | 3,770 | (1,183) | 2,587 | (15,775) | 5,100 | (10,675) |
| **Unrealized gains on derivatives:** | | | | | | | | | |
| Unrealized gains (losses) on derivatives arising during period | — | — | — | — | — | — | — | — | — |
| Reclassification adjustments for gains (losses) realized in net income | — | — | — | — | — | — | 16 | (6) | 10 |
| | — | — | — | — | — | — | 16 | (6) | 10 |
| **Pension liability adjustments:** | | | | | | | | | |
| Pension liability adjustments arising during period | 8,015 | (2,456) | 5,559 | (11,428) | 3,007 | (8,421) | (10,343) | 3,326 | (7,017) |
| Reclassification adjustment for gains (losses) realized in net income | 804 | (261) | 543 | (152) | 44 | (108) | 106 | (4) | 102 |
| | 8,819 | (2,717) | 6,102 | (11,580) | 3,051 | (8,529) | (10,237) | 3,322 | (6,915) |
| **Other comprehensive income (loss)** | ¥ 27,402 | ¥ (6,306) | ¥ 21,096 | ¥ (32,894) | ¥ 2,628 | ¥ (30,266) | ¥ (44,810) | ¥ 9,618 | ¥ (35,192) |

The following table presents the components of other comprehensive income attributable to Kubota Corporation and non-controlling interests—net of tax:

(¥ in millions)

| | Year ended December 31, 2017 | | | Year ended December 31, 2016 | | | Nine months ended December 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kubota Corporation | Non-controlling interests | Total | Kubota Corporation | Non-controlling interests | Total | Kubota Corporation | Non-controlling interests | Total |
| Foreign currency translation adjustments | ¥ 5,377 | ¥ 3,722 | ¥ 9,099 | ¥ (23,818) | ¥ (506) | ¥ (24,324) | ¥ (12,648) | ¥ (4,964) | ¥ (17,612) |
| Unrealized gains (losses) on securities | 5,803 | 92 | 5,895 | 2,596 | (9) | 2,587 | (10,528) | (147) | (10,675) |
| Unrealized gains on derivatives | — | — | — | — | — | — | 10 | — | 10 |
| Pension liability adjustments | 6,090 | 12 | 6,102 | (8,543) | 14 | (8,529) | (6,872) | (43) | (6,915) |
| **Other comprehensive income (loss)** | ¥ 17,270 | ¥ 3,826 | ¥ 21,096 | ¥ (29,765) | ¥ (501) | ¥ (30,266) | ¥ (30,038) | ¥ (5,154) | ¥ (35,192) |

The following table presents the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) attributable to the Company:

(¥ in millions)

| **Year ended December 31, 2017** | Foreign currency translation adjustments | Unrealized gains (losses) on securities | Unrealized gains on derivatives | Pension liability adjustments | Total |
|---|---|---|---|---|---|
| Balance at beginning of year | ¥ 26,009 | ¥ 49,551 | ¥ — | ¥ (26,224) | ¥ 49,336 |
| Other comprehensive income (loss) before reclassification | 5,377 | 11,618 | — | 5,547 | 22,542 |
| Reclassification to net income | — | (5,815) | — | 543 | (5,272) |
| Net change | 5,377 | 5,803 | — | 6,090 | 17,270 |
| Balance at end of year | ¥ 31,386 | ¥ 55,354 | ¥ — | ¥ (20,134) | ¥ 66,606 |
| **Year ended December 31, 2016** | **Foreign currency translation adjustment** | **Unrealized gains (losses) on securities** | **Unrealized gains on derivatives** | **Pension liability adjustments** | **Total** |
| Balance at beginning of year | ¥ 50,112 | ¥ 46,955 | ¥ — | ¥ (17,775) | ¥ 79,292 |
| Changes in ownership interests in subsidiaries | (285) | — | — | 94 | (191) |
| Other comprehensive income (loss) before reclassification | (23,818) | 7,156 | — | (8,445) | (25,107) |
| Reclassification to net income | — | (4,560) | — | (98) | (4,658) |
| Net change | (24,103) | 2,596 | — | (8,449) | (29,956) |
| Balance at end of year | ¥ 26,009 | ¥ 49,551 | ¥ — | ¥ (26,224) | ¥ 49,336 |
| **Nine months ended December 31, 2015** | **Foreign currency translation adjustment** | **Unrealized gains (losses) on securities** | **Unrealized gains on derivatives** | **Pension liability adjustments** | **Total** |
| Balance at beginning of period | ¥ 62,876 | ¥ 57,483 | ¥ (10) | ¥ (10,903) | ¥ 109,446 |
| Changes in ownership interests in subsidiaries | (116) | — | — | — | (116) |
| Other comprehensive income (loss) before reclassification | (12,648) | (9,483) | — | (6,988) | (29,119) |
| Reclassification to net income | — | (1,045) | 10 | 116 | (919) |
| Net change | (12,764) | (10,528) | 10 | (6,872) | (30,154) |
| Balance at end of period | ¥ 50,112 | ¥ 46,955 | ¥ — | ¥ (17,775) | ¥ 79,292 |

The following table presents the effect of the reclassifications from accumulated other comprehensive income on the consolidated statements of income:

(¥ in millions)

| Year ended December 31, 2017 | | Amount reclassified from accumulated other comprehensive income *1 | Affected line item in the statement where net income is presented |
|---|---|---|---|
| Unrealized gains (losses) on securities | ¥ | (8,403) | Gain on sales of securities—net |
| | | 2,588 | Income taxes |
| | | (5,815) | Net income attributable to Kubota Corporation |
| Pension liability adjustments | | 804 *2 | |
| | | (261) | Income taxes |
| | | 543 | Net income attributable to Kubota Corporation |
| Total | ¥ | (5,272) | |

| Year ended December 31, 2016 | | Amount reclassified from accumulated other comprehensive income *1 | Affected line item in the statement where net income is presented |
|---|---|---|---|
| Unrealized gains (losses) on securities | ¥ | (6,826) | Gain on sales of securities—net |
| | | 20 | Other—net |
| | | 2,246 | Income taxes |
| | | (4,560) | Net income attributable to Kubota Corporation |
| Pension liability adjustments | | (152) *2 | |
| | | 44 | Income taxes |
| | | (108) | Net income |
| | | 10 | Net income attributable to non-controlling interests |
| | | (98) | Net income attributable to Kubota Corporation |
| Total | ¥ | (4,658) | |

| Nine months ended December 31, 2015 | | Amount reclassified from accumulated other comprehensive income *1 | Affected line item in the statement where net income is presented |
|---|---|---|---|
| Unrealized gains (losses) on securities | ¥ | (1,559) | Gain on sales of securities—net |
| | | 514 | Income taxes |
| | | (1,045) | Net income attributable to Kubota Corporation |
| Unrealized gains on derivatives | | 16 | Interest expense |
| | | (6) | Income taxes |
| | | 10 | Net income attributable to Kubota Corporation |
| Pension liability adjustments | | 106 *2 | |
| | | (4) | Income taxes |
| | | 102 | Net income |
| | | 14 | Net income attributable to non-controlling interests |
| | | 116 | Net income attributable to Kubota Corporation |
| Total | ¥ | (919) | |

*1 Indicates decrease (increase) in earnings in the consolidated statements of income.

*2 Included in net periodic benefit costs (See Note 10. RETIREMENT AND PENSION PLANS.)

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

**Risk Management Policy**

The Company is subject to market rate risks due to fluctuation of foreign currency exchange rates and interest rates. The Company manages these risks by using derivative financial instruments in accordance with established policies and procedures. The Company does not use derivative financial instruments for speculation purposes. The credit risks associated with these instruments are not considered to be significant since the counterparties are financial institutions with high creditworthiness and the Company considers them to be not material.

**Foreign Currency Exchange Rate Risks**

The Company's exposure to the foreign currency exchange rate risk relates primarily to its foreign currency denominated assets and liabilities associated with its international operations. The Company enters into forward foreign exchange contracts, foreign currency option contracts (collectively, the "foreign exchange contracts"), cross-currency swap contracts, and cross-currency interest rate swap contracts, which are designated to mitigate its exposure to foreign currency exchange rate risks.

**Interest Rate Risks**

The Company is exposed to interest rate risks mainly inherent in its debt obligations with both fixed and variable rates (See Note 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT). In order to hedge these risks, the Company uses interest rate swap contracts and cross-currency interest rate swap contracts to manage the risks of its fixed and variable interest rate exposures.

**Cash Flow Hedges**

The accounting treatments of changes in the fair value of foreign exchange contracts, interest rate swap contracts and cross-currency interest rate swap contracts depend on whether derivatives are designated as cash flow hedges. The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges are reported in accumulated other comprehensive income. As for foreign exchange contracts related to forecasted intercompany transactions, the amounts are subsequently reclassified into earnings when unrelated third-party transactions occur. In the case of interest rate swap contracts, the amounts are reclassified into earnings when the related interest expense is recognized through interest expense. In the case of cross-currency interest rate swap contracts, the amounts are reclassified into earnings through interest expense and foreign exchange gain (loss) when the related earnings are recognized. There were no unrecognized net gains or losses (net of tax) on derivatives included in accumulated other comprehensive income at December 31, 2017 that will be reclassified into earnings within the next 12 months. The ineffective portion of changes in the fair value of derivatives is immediately recorded in earnings.

**Derivatives Not Designated as Hedging Instruments**

The Company uses derivatives not designated as cash flow hedges in certain relationships, such as a part of foreign exchange contracts, cross-currency swap contracts, interest rate swap contracts, and cross-currency interest rate swap contracts, for economic purposes. Changes in the fair value of derivatives not designated are reported in earnings immediately.

**Fair Values of Derivative Instruments and Income Effect of Derivative Instruments**

The following table presents fair values of derivative instruments:

(¥ in millions)

| | Other current assets | | Other assets — Other | | Other current liabilities | | Other long-term liabilities | |
|---|---|---|---|---|---|---|---|---|
| **At December 31:** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Derivatives not designated as hedging instruments:** | | | | | | | | |
| Foreign exchange contracts | ¥ 149 | ¥ 45 | ¥ — | ¥ — | ¥ 575 | ¥ 5,136 | ¥ — | ¥ — |
| Cross-currency swap contracts | — | — | — | — | — | — | — | — |
| Interest rate swap contracts | 21 | — | 114 | — | 97 | 9 | 322 | — |
| Cross-currency interest rate swap contracts | 1,260 | 4,870 | — | 2,094 | 1,173 | 9 | 1,490 | 25 |
| Total | ¥ 1,430 | ¥ 4,915 | ¥ 114 | ¥ 2,094 | ¥ 1,845 | ¥ 5,154 | ¥ 1,812 | ¥ 25 |

The following table presents the income effects of derivative instruments:

(¥ in millions)

| | Gain (loss) recognized in other comprehensive income (loss) and realized in net income, before tax | | |
|---|---|---|---|
| **Derivative instruments in cash flow hedges** | Effective portion recognized in other comprehensive income (loss) | Consolidated statements of income line item | Effective portion reclassified from accumulated other comprehensive income to net income |
| **Year ended December 31, 2017:** | | | |
| Total | ¥ — | | ¥ — |
| **Year ended December 31, 2016:** | | | |
| Total | ¥ — | | ¥ — |
| **Nine months ended December 31, 2015:** | | | |
| Interest rate swap contracts | ¥ — | Interest expense | ¥ (16) |
| Total | ¥ — | | ¥ (16) |

(¥ in millions)

| Derivative instruments not designated as hedging instruments | Consolidated statements of income line item | Gain (loss) recognized in net income, before tax |
|---|---|---|
| **Year ended December 31, 2017:** | | |
| Foreign exchange contracts | Foreign exchange gain (loss)—net | ¥ (1,197) |
| Cross-currency swap contracts | Foreign exchange gain (loss)—net | 26 |
| Interest rate swap contracts | Other—net | (709) |
| Cross-currency interest rate swap contracts | Other—net | (8,039) |
| Total | | ¥ (9,919) |
| **Year ended December 31, 2016:** | | |
| Foreign exchange contracts | Foreign exchange gain (loss)—net | ¥ 281 |
| Cross-currency swap contracts | Foreign exchange gain (loss)—net | (248) |
| Interest rate swap contracts | Other—net | (24) |
| Cross-currency interest rate swap contracts | Other—net | (1,165) |
| Total | | ¥ (1,156) |
| **Nine months ended December 31, 2015:** | | |
| Foreign exchange contracts | Foreign exchange gain (loss)—net | ¥ (1,526) |
| Cross-currency swap contracts | Foreign exchange gain (loss)—net | 673 |
| Interest rate swap contracts | Other—net | (52) |
| Cross-currency interest rate swap contracts | Other—net | 7,640 |
| Total | | ¥ 6,735 |

The amount of gain or loss related to the hedging ineffectiveness was not material for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015.

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

### Fair Value of Financial Instruments

The following table summarizes the carrying amount and fair value of financial instruments:

(¥ in millions)

| | | Fair value | | | |
|---|---|---|---|---|---|
| **At December 31:** | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| **2017**: | | | | | |
| **Financial assets:** | | | | | |
| Finance receivables—net | ¥ 660,885 | ¥ — | ¥ 645,198 | ¥ — | ¥ 645,198 |
| Long-term trade accounts receivable | 69,127 | — | 74,336 | — | 74,336 |
| **Financial liabilities:** | | | | | |
| Long-term debt | (651,640) | — | (639,780) | — | (639,780) |
| **2016**: | | | | | |
| **Financial assets:** | | | | | |
| Finance receivables—net | ¥ 589,170 | ¥ — | ¥ 579,710 | ¥ — | ¥ 579,710 |
| Long-term trade accounts receivable | 69,174 | — | 74,366 | — | 74,366 |
| **Financial liabilities:** | | | | | |
| Long-term debt | (621,476) | — | (612,453) | — | (612,453) |

The fair value of finance receivables, long-term trade accounts receivable, and long-term debt is stated at the present value of future cash flows as obtained by discounting the amount at the current market rate. The carrying amount of finance receivables—net in the table excludes finance leases. Long-term trade accounts receivable in the table includes the current portion, which is included in trade accounts receivable on the consolidated balance sheets. The carrying amount of long-term debt in the table excludes capital lease obligations but includes the current portion, which is included in the current portion of long-term debt in the consolidated balance sheets.

The carrying amount of cash and cash equivalents, notes and accounts receivable (excluding the current portion of long-term trade accounts receivable), other current financial assets, notes and accounts payable, short-term borrowings, and other current financial liabilities approximates fair value because of the short maturity of those instruments. The fair value measurements of these assets and liabilities are categorized as Level 2, except for cash and debt securities included in other current financial assets, which are categorized as Level 1. The carrying amount and fair value of other investments and derivatives are disclosed in Note 17. FAIR VALUE MEASUREMENTS.

**Concentration of Credit Risks**

A large portion of trade accounts receivable and retail finance receivables are from dealers or customers in the farm equipment market in North America. Trade accounts receivable and retail finance receivables arise from sales of the Company's products to a large number of dealers and to retail customers, respectively. The Company considers that credit risks on these receivables are limited since no single dealer or customer represents a significant concentration of credit risks.

## 17. FAIR VALUE MEASUREMENTS

**Assets and liabilities that are measured at fair value on a recurring basis**

The following table presents the Company’s financial assets and financial liabilities that are measured at fair value on a recurring basis:

(¥ in millions)

| At December 31: | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2017:** | | | | |
| **Assets:** | | | | |
| Available-for-sale securities: | | | | |
| Equity securities of financial institutions | ¥ 46,328 | ¥ — | ¥ — | ¥ 46,328 |
| Other equity securities | 95,937 | — | — | 95,937 |
| Derivatives: | | | | |
| Foreign exchange contracts | — | 149 | — | 149 |
| Interest rate swap contracts | — | 135 | — | 135 |
| Cross-currency interest rate swap contracts | — | 1,260 | — | 1,260 |
| Total assets | ¥ 142,265 | ¥ 1,544 | ¥ — | ¥143,809 |
| **Liabilities:** | | | | |
| Derivatives: | | | | |
| Foreign exchange contracts | ¥ — | ¥ 575 | ¥ — | ¥ 575 |
| Interest rate swap contracts | — | 419 | — | 419 |
| Cross-currency interest rate swap contracts | — | 2,663 | — | 2,663 |
| Total liabilities | ¥ — | ¥ 3,657 | ¥ — | ¥ 3,657 |
| **2016:** | | | | |
| **Assets:** | | | | |
| Available-for-sale securities: | | | | |
| Equity securities of financial institutions | ¥ 48,435 | ¥ — | ¥ — | ¥ 48,435 |
| Other equity securities | 88,582 | — | — | 88,582 |
| Derivatives: | | | | |
| Foreign exchange contracts | — | 45 | — | 45 |
| Cross-currency interest rate swap contracts | — | 6,964 | — | 6,964 |
| Total assets | ¥ 137,017 | ¥ 7,009 | ¥ — | ¥144,026 |
| **Liabilities:** | | | | |
| Derivatives: | | | | |
| Foreign exchange contracts | ¥ — | ¥ 5,136 | ¥ — | ¥ 5,136 |
| Interest rate swap contracts | — | 9 | — | 9 |
| Cross-currency interest rate swap contracts | — | 34 | — | 34 |
| Total liabilities | ¥ — | ¥ 5,179 | ¥ — | ¥ 5,179 |

Available-for-sale securities are valued using a quoted price for identical instruments in active markets. Derivatives are valued using observable market inputs from major international financial institutions. The reconciliation to the line items presented in the consolidated balance sheets of available-for-sale securities and derivatives are disclosed in Note 4. INVESTMENTS and Note 15. DERIVATIVE FINANCIAL INSTRUMENTS, respectively.

**Assets and liabilities that are measured at fair value on a nonrecurring basis**

The assets and liabilities that were measured at fair value on a nonrecurring basis were not material at December 31, 2017 and 2016.

## 18. SUPPLEMENTAL EXPENSE INFORMATION

**Research and Development Expenses, Advertising Costs, Shipping and Handling Costs, and Depreciation and Amortization**

The following table presents the amounts of research and development expenses, advertising costs, shipping and handling costs, and depreciation and amortization included in cost of revenues and selling, general, and administrative expenses:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Research and development expenses | ¥ 48,110 | ¥ 43,012 | ¥ 29,636 |
| Advertising costs | 18,700 | 15,360 | 12,299 |
| Shipping and handling costs | 83,079 | 71,860 | 54,661 |
| Depreciation and amortization | 45,296 | 43,371 | 31,193 |

**Other Operating Expenses—net**

Other operating expenses (income)—net for the year ended December 31, 2017 included a loss of ¥893 million from disposal of fixed assets, a loss of ¥284 million related to liquidation of subsidiaries, and gains of ¥966 million related to sales of investments in subsidiaries and affiliated companies.

Other operating expenses (income)—net for the year ended December 31, 2016 included a loss of ¥203 million from disposal of fixed assets and a loss of ¥540 million related to liquidation of subsidiaries.

Other operating expenses (income)—net for the nine months ended December 31, 2015 included a loss of ¥760 million from disposal of fixed assets and a loss of ¥3,738 million from impairment of long-lived assets.

The loss from impairment of long-lived assets is mainly related to the land in Shinkashima (located in Ibaraki) in the "Corporate" segment, which was recognized since the possibility of sale has considerably increased during the period. The amount of loss from impairment of ¥1,892 million was the portion of the carrying amount exceeding its fair value. The fair value was determined based on the market value, considering the possible sale price in the future.

## 19. NET INCOME ATTRIBUTABLE TO KUBOTA CORPORATION PER COMMON SHARE

The Company introduced a restricted compensation plan (hereinafter, the "Plan") for the Company's Directors. Among the new shares issued under the Plan, those transfer restrictions which have not been cancelled are distinguished as participating securities from common shares.

A holder of participating securities has the same rights as a holder of common shares to net income attributable to Kubota Corporation.

The numerator and denominator used to calculate net income attributable to Kubota Corporation per common share—basic are presented in the following table.

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Net income attributable to Kubota Corporation | ¥ 136,445 | ¥ 132,485 | ¥ 110,107 |
| Net income available to participating securities | 2 | — | — |
| Net income available to common shareholders | ¥ 136,443 | ¥ 132,485 | ¥ 110,107 |

| (thousands of shares) | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Weighted-average number of common shares outstanding | 1,237,023 | 1,243,069 | 1,244,522 |
| Weighted-average number of participating securities | 15 | — | — |
| Weighted-average number of common shares | 1,237,008 | 1,243,069 | 1,244,522 |

There are no potentially dilutive shares outstanding for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015.

## 20. COMMITMENTS AND CONTINGENCIES

### Commitments

The Company leases certain office space and equipment and employee housing under cancelable and noncancelable lease agreements. Leased assets under capital leases are comprised of the following:

(¥ in millions)

| At December 31: | 2017 | 2016 |
|---|---|---|
| Buildings | 1,949 | 1,474 |
| Machinery and equipment | 2,232 | 2,206 |
| Accumulated depreciation | (1,527) | (1,213) |
| Software | 238 | 244 |
| Total | ¥ 2,892 | ¥ 2,711 |

Amortization expenses under capital leases for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 were ¥276 million, ¥561 million, and ¥424 million, respectively.

The following table presents the annual maturities of future minimum lease commitments under capital and non-cancelable operating leases at December 31, 2017:

(¥ in millions)

| Years ending December 31: | Capital leases | Operating leases |
|---|---|---|
| 2018 | ¥ 673 | ¥ 3,192 |
| 2019 | 492 | 2,411 |
| 2020 | 277 | 1,626 |
| 2021 | 162 | 782 |
| 2022 | 144 | 469 |
| 2023 and thereafter | 765 | 686 |
| Total minimum lease payments | 2,513 | ¥ 9,166 |
| Less: Amounts representing interest | (33) | |
| Present value of net minimum capital lease payments | ¥ 2,480 | |

Capital lease obligations are included in the current portion of long-term debt and long-term debt in the consolidated balance sheets. Rental expenses under operating leases for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015 were ¥10,576 million, ¥8,314 million, and ¥6,011 million, respectively.

Commitments for capital expenditures outstanding at December 31, 2017 amounted to ¥10,521 million.

### Guarantees

The Company is contingently liable as guarantor of the indebtedness of distributors, including affiliated companies and customers for their borrowings from financial institutions. The Company would have to perform under these guarantees in the event of default on a payment within the guarantee periods of one to four years. The maximum potential amount of undiscounted future payments of these financial guarantees at December 31, 2017 was ¥15,429 million. The fair value of these financial guarantees is not material and the probability of incurrence of a loss is remote.

The Company provides contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a specified period or term. The Company determines its reserve for product warranties based on an analysis of the historical data of costs to perform under product warranties.

The following table presents the reconciliation of the beginning and ending balances of accrued product warranty cost:

(¥ in millions)

| Years ended December 31: | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | ¥ 15,015 | ¥ 14,187 |
| Addition | 15,349 | 11,590 |
| Utilization | (12,496) | (10,853) |
| Other | 221 | 91 |
| Balance at end of year | ¥ 18,089 | ¥ 15,015 |

Accrued product warranty cost is included in other current liabilities in the consolidated balance sheets.

**Legal Proceedings**

Since May 2007, the Company has been subject to 29 asbestos-related lawsuits in Japan, which were filed against the Company or defendant parties consisting of the Japanese government and asbestos-related companies including the Company. The total claims for compensation aggregate ¥26,684 million, which relate to 694 construction workers who suffered from asbestos-related diseases. The Company does not have any cost-sharing arrangements with other potentially responsible parties for these 29 lawsuits. The Company has disclosed the aggregate claimed amount of ¥26,684 million as the maximum within the reasonably possible range of loss because the expected loss will be between zero and the aggregate claimed amount. Though the Company is currently unable to develop an amount that appears at this time to be a better estimate than any other amount within the range, the Company has continued its efforts to develop the amount or narrow the range of loss by quantifying the effects of key assumptions such as the probability of losing lawsuits, the total amount of ultimate compensation if lost, and the allocation rate among defendants, which includes both the government and other asbestos-related companies. In quantifying the key assumptions, the Company reviews the status of each lawsuit and assesses its potential financial exposure on a regular basis. Each quarter, representatives from the accounting and legal departments meet to discuss and assess outstanding claims. The legal department consults outside legal counsel about the progress and potential ultimate outcome of the cases. The seven cases related to the 23 among 29 lawsuits were decided in favor of the Company, but the plaintiffs appealed the court ruling immediately after the judgments. Among the seven, one appellate court ruled in favor of the Company, but the plaintiff again appealed the Supreme Court ruling immediately after the judgement. Since the above cases will continue until an ultimate outcome is reached, the Company believes that the current developments in the cases do not provide any additional information that would facilitate a better estimation for any of the above key assumptions. The Company expects that the degree of uncertainty related to each of the assumptions will decrease as the lawsuits progress, but is currently unable to predict the ultimate outcome of all lawsuits or when any of them will be finally resolved. Finally, because similar asbestos-related cases in Japan are still pending and have not been finally concluded, the Company is not able to use them as a reference in estimating the above assumptions.

**Matters Related to the Health Hazard of Asbestos**

**(Background)**

Until 1995, the Company’s plant in Amagasaki, Hyogo Prefecture, Japan, had previously produced asbestos-related products, although the Company had other plants which also produced asbestos-related products and completely ceased such production by 2001. The Company decided to make voluntary consolation payments to certain residents in June 2005, and established a relief payment program in place of the consolation payment to the residents in April 2006. With regard to the current and former employees who suffered and are suffering from asbestos-related diseases, the Company provides compensation which is not required by law, but is made in accordance with the Company’s internal policies.

The Japanese government established the Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the “New Asbestos Law”) in March 2006. This law was enacted for the purpose of promptly providing relief to the people suffering from asbestos-related diseases who are not eligible for relief by compensation from insurance in accordance with the Workers' Accident Compensation Insurance Law (the "Insurance"). The relief aid payments are contributed by the national government, municipal governments, and business entities. The contributions made by business entities include a special contribution by the companies which operated a business closely related to asbestos, and commenced from the year ended March 31, 2008.

**(Accounting for Asbestos-Related Expenses)**

The Company expenses all of the payments for the asbestos health hazards based on the Company's significant accounting policies (See Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES). The recorded expenses are ¥791 million, ¥815 million, and ¥551 million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively, which are included in selling, general, and administrative expenses. The expenses include payments to certain residents who lived near the Company's plant and current and former employees, and the special contribution in accordance with the New Asbestos Law.

The Company has accrued balances for the asbestos-related expenses of ¥72 million and ¥177 million at December 31, 2017 and 2016, respectively. The accrual includes possible payments to certain residents who lived near the Company's plant and current and former employees, and the special contribution in accordance with the New Asbestos Law. The payments to those residents and current and former employees are each made in a lump sum and their accounting policies and procedures are the same. Though the Company is not certain if the claimants who are currently under review will meet the Company's specified criteria at the time of their filing claims with the Company, the Company accrued the possible payments calculated by using the historical designation rate of the Company's payment program since the payments to those claimants are considered to be probable. The Company believes it is not possible to reasonably estimate the number of current and former employees and residents who lived near the Company's plant and who will apply for payments in the future. Accordingly, such payments are not included in the accrued amounts as described above.

In its effort to develop an estimate of a reasonably possible loss or range of loss, the Company has considered all available data, including historical claims (period and cumulative) and the average payments made and public information related to asbestos-related disease. In addition, the Company has considered various methods, including: 1) estimating future payments by using the rate of incidence of asbestos related disease, and 2) estimating future payments directly based on a time series of data of historical payments. However, reliable statistics related to the rate of incidence in asbestos-related disease are not available to the Company.

Furthermore, there have not been any asbestos-related events impacting other companies in Japan for which all claims have been finalized, and became available to the Company, for estimation of the rate of incidence. In addition, although the Company recorded voluntary consolation payments, relief payments and compensation payments totaling ¥756 million, ¥358 million, ¥551 million, ¥747 and ¥722 million for the years ended March 31, 2014 and 2015, for the nine months ended December 31, 2015, and for the years ended December 31, 2016 and 2017, respectively, a correlation cannot be reasonably established between time and payment history. The Company believes it is not possible to reasonably estimate the amount of its ultimate liability relating to this contingency. As a result, the Company concluded that it was not able to develop a reasonable estimate as to the possible loss or range of loss.

The Company's share of the special contributions is determined based on the ratio of the Company's historical usage of asbestos to the total quantity of asbestos imported into Japan in the past. The Company accrued ¥69 million and ¥68 million of the special contribution for the year ended December 31, 2017 and 2016, respectively.

## 21. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental information related to the consolidated statements of cash flows is as follows:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Cash paid during the period:** | | | |
| Interest | ¥ 19,073 | ¥ 14,785 | ¥ 11,349 |
| Income taxes, net of refunds | 56,439 | 49,898 | 69,093 |
| **Non-cash investing and financing activities:** | | | |
| Retirement of treasury stock | 13,190 | 6,011 | 2,517 |
| Assets obtained by entering into capital leases | 372 | 191 | 72 |

For the year ended December 31, 2016, the Company purchased non-controlling interests reported in the Farm & Industrial Machinery segment and the Water & Environmental segment, and for the nine months ended December 31, 2015, the Company purchased non-controlling interests reported in the Farm & Industrial Machinery segment. Since the Company retains the controlling interests before and after the transactions, the net cash flow related to purchases of non-controlling interests is classified in financing activities.

## 22. SEGMENT INFORMATION

The Company engages in various fields of business and industries by providing products and services which are categorized into the following three segments: Farm & Industrial Machinery; Water & Environment; and Other. The Farm & Industrial Machinery segment manufactures and distributes farm equipment, agricultural-related products, engines, construction machinery, and electronic equipped machinery. The Water & Environment segment manufactures and distributes pipe-related products (ductile iron pipes, plastic pipes, pumps, valves, and other products), environment-related products (environmental control plants and other products), and social infrastructure-related products (industrial castings, ceramics, spiral welded steel pipes, and other products). The Other segment offers a variety of services.

The segments represent the components of the Company for which separate financial information is available and that is utilized on a regular basis by the chief operating decision-maker in determining how to allocate the Company's resources and evaluate performance. The segments also represent the Company's organizational structure, principally based on the nature of products and services.

The accounting policies for the reportable segments are consistent with the accounting policies used in the Company's consolidated financial statements.

### Reportable Segments

Information by reportable segment is summarized as follows:

(¥ in millions)

| | Farm & Industrial Machinery | Water & Environment | Other | Adjustments | Consolidated |
|---|---|---|---|---|---|
| **Year ended December 31, 2017:** | | | | | |
| Revenues: | | | | | |
| External customers | ¥ 1,436,578 | ¥ 286,095 | ¥ 28,862 | ¥ — | ¥ 1,751,535 |
| Intersegment | 334 | 2,021 | 26,642 | (28,997) | — |
| Total | 1,436,912 | 288,116 | 55,504 | (28,997) | 1,751,535 |
| Operating income | ¥ 198,166 | ¥ 26,230 | ¥ 2,856 | ¥ (28,426) | ¥ 198,826 |
| Identifiable assets at December 31, 2017 | ¥ 2,251,845 | ¥ 242,859 | ¥ 139,640 | ¥ 219,586 | ¥ 2,853,930 |
| Depreciation and amortization | 34,944 | 6,511 | 620 | 3,221 | 45,296 |
| Capital expenditures | 43,222 | 5,178 | 557 | 3,270 | 52,227 |
| **Year ended December 31, 2016:** | | | | | |
| Revenues: | | | | | |
| External customers | ¥ 1,272,144 | ¥ 294,530 | ¥ 29,417 | ¥ — | ¥ 1,596,091 |
| Intersegment | 455 | 1,744 | 25,951 | (28,150) | — |
| Total | 1,272,599 | 296,274 | 55,368 | (28,150) | 1,596,091 |
| Operating income | ¥ 184,991 | ¥ 22,166 | ¥ 3,622 | ¥ (22,002) | ¥ 188,777 |
| Identifiable assets at December 31, 2016 | ¥ 2,121,941 | ¥ 249,184 | ¥ 140,975 | ¥ 158,482 | ¥ 2,670,582 |
| Depreciation and amortization | 32,735 | 7,054 | 500 | 3,082 | 43,371 |
| Capital expenditures | 54,637 | 7,834 | 788 | 2,148 | 65,407 |
| **Nine months ended December 31, 2015:** | | | | | |
| Revenues: | | | | | |
| External customers | ¥ 1,020,279 | ¥ 203,747 | ¥ 20,749 | ¥ — | ¥ 1,244,775 |
| Intersegment | 405 | 1,518 | 19,698 | (21,621) | — |
| Total | 1,020,684 | 205,265 | 40,447 | (21,621) | 1,244,775 |
| Operating income | ¥ 175,025 | ¥ 10,894 | ¥ 1,727 | ¥ (20,772) | ¥ 166,874 |
| Identifiable assets at December 31, 2015 | ¥ 1,998,074 | ¥ 258,033 | ¥ 87,510 | ¥ 189,385 | ¥ 2,533,002 |
| Depreciation and amortization | 23,142 | 5,413 | 388 | 2,250 | 31,193 |
| Capital expenditures | 28,534 | 5,822 | 273 | 667 | 35,296 |

(Notes)

1. The unallocated corporate expenses included in "Adjustments" amounted to ¥28,428 million, ¥22,002 million, and ¥20,772 million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively. The unallocated corporate assets included in "Adjustments" amounted to ¥317,267 million, ¥259,965 million, and ¥247,391 million at December 31, 2017, 2016 and 2015, respectively, which consisted mainly of cash and cash equivalents, securities, and corporate properties held or used by the administration department of the Parent Company. "Adjustments" also included the elimination of intersegment transfers.
2. The aggregated amounts of operating income are equivalent to those presented in the consolidated statements of income. Refer to the consolidated statements of income for the reconciliation of operating income to income before income taxes and equity in net income of affiliated companies.
3. Intersegment transfers are recorded at values that approximate market prices.

**Revenues from External Customers by Product Group**

Information about revenues from external customers by product group is summarized as follows:

(¥ in millions)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| **Farm & Industrial Machinery:** | | | |
| Farm equipment and engines | ¥ 1,152,533 | ¥ 1,032,237 | ¥ 849,921 |
| Construction machinery | 257,419 | 212,951 | 148,785 |
| Electronic equipped machinery | 26,626 | 26,956 | 21,573 |
| | 1,436,578 | 1,272,144 | 1,020,279 |
| **Water & Environment:** | | | |
| Pipe-related products | 163,665 | 170,451 | 125,967 |
| Environment-related products | 78,820 | 81,506 | 44,850 |
| Social Infrastructure-related products | 43,610 | 42,573 | 32,930 |
| | 286,095 | 294,530 | 203,747 |
| **Other** | 28,862 | 29,417 | 20,749 |
| Total | ¥ 1,751,535 | ¥ 1,596,091 | ¥ 1,244,775 |

**Geographic Information**

Information about revenues from external customers by destination and property, plant, and equipment based on physical location are summarized as follows:

(¥ in millions)

| **Revenues from external customers by destination:** | Year ended December 31, 2017 | Year ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|---|
| Japan | ¥ 564,213 | ¥ 551,441 | ¥ 401,856 |
| North America | 546,096 | 479,947 | 395,582 |
| Europe | 226,663 | 192,478 | 150,044 |
| Asia outside Japan | 342,908 | 306,030 | 240,952 |
| Other areas | 71,655 | 66,195 | 56,341 |
| Total | ¥ 1,751,535 | ¥ 1,596,091 | ¥ 1,244,775 |
| **Property, plant, and equipment based on physical location:** | **December 31, 2017** | **December 31, 2016** | **December 31, 2015** |
| Japan | ¥ 189,768 | ¥ 181,015 | ¥ 169,373 |
| North America | 56,439 | 59,327 | 38,679 |
| Europe | 30,042 | 21,134 | 22,129 |
| Asia outside Japan | 54,618 | 49,054 | 51,416 |
| Other areas | 3,370 | 3,701 | 4,273 |
| Total | ¥ 334,237 | ¥ 314,231 | ¥ 285,870 |

(Notes)

1. Revenues from North America included those from the United States of ¥482,447 million, ¥429,250 million and ¥352,950 million for the years ended December 31, 2017 and 2016, and the nine months ended December 31, 2015, respectively.
2. There was no single customer from which revenues exceeded 10% or more of total consolidated revenues of the Company.

## 23. SUBSEQUENT EVENTS

On February 14, 2018, the Company's Board of Directors resolved to pay a cash dividend to shareholders of record on December 31, 2017 of ¥17.00 per common share (¥85.00 per 5 common shares) for a total of ¥20,978 million.

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka-shi, Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kubota Corporation:

We have audited the accompanying consolidated financial statements of Kubota Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2017 and 2016, and for the nine-month period ended December 31, 2015 and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kubota Corporation and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years ended December 31, 2017 and 2016, and for the nine-month period ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

**Report on Management's Report on Internal Control over Financial Reporting**

Notwithstanding the second paragraph of the "Auditors' Responsibility" section, we have performed an audit of management's report on internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act of Japan. A translated copy of management's report on ICFR along with a translated copy of our report is included within this Annual Securities Report as information for readers.

Deloitte Touche Tohmatsu LLC

Osaka, Japan
March 23, 2018

Member of
Deloitte Touche Tohmatsu Limited

(TRANSLATION)

**INDEPENDENT AUDITORS' REPORT**
**(Filed under the Financial Instruments and Exchange Act of Japan)**

NOTE TO READERS:
The following is an English translation of the Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

There are differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the attestation standards established by the American Institute of Certified Public Accountants ("AICPA").

In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under the attestation standards established by the AICPA, the auditors express an opinion on the Company's ICFR directly. Also in an audit of ICFR under FIEA, there is detailed guidance on ICFR while under the attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure of the scope of assessment of internal control over business processes, we used a measure of approximately two thirds of total consolidated revenues for the selection of significant business units.

March 23, 2018

To the Board of Directors of
Kubota Corporation:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Koichiro Tsukuda

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Akihiro Okada

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Takeshi Io

**Audit of Financial Statements**

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet as of December 31, 2017 of Kubota Corporation and its consolidated subsidiaries (the "Company"), and the related consolidated statements of income, comprehensive income (loss), changes in equity and cash flows for the year from January 1, 2017 to December 31, 2017, and a summary of significant accounting policies and other explanatory information, and consolidated supplementary schedules.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America pursuant to the third paragraph of Supplementary Provisions of Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (No. 11 of the Cabinet Office Ordinance in 2002), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Audit Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kubota Corporation and its consolidated subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Audit of Internal Control**

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Kubota Corporation and its consolidated subsidiaries as of December 31, 2017.

*Management's Responsibility for the Report on Internal Control*

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

*Auditors' Responsibility*

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Kubota Corporation and its consolidated subsidiaries as of December 31, 2017 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

**Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

COVER

| | |
|---|---|
| [Document Filed] | Confirmation Letter |
| [Applicable Law] | Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| [Filed to] | Director, Kanto Local Finance Bureau |
| [Filing Date] | March 23, 2018 |
| [Company Name] | Kabushiki Kaisha Kubota |
| [Company Name in English] | Kubota Corporation |
| [Title and Name of Representative] | Masatoshi Kimata, President and Representative Director |
| [Title and Name of CFO] | Shigeru Kimura, Director and Senior Managing Executive Officer,<br>General Manager of Planning & Control Headquarters |
| [Address of Head Office] | 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, JAPAN |
| [Place Where Available for Public Inspection] | Kubota Corporation, Hanshin Office<br>(1-1, Hama 1-chome, Amagasaki-shi, Hyogo, JAPAN)<br><br>Kubota Corporation, Tokyo Head Office<br>(1-3, Kyobashi 2-chome, Chuo-ku, Tokyo, JAPAN)<br><br>Kubota Corporation, Chubu Regional Office<br>(22-8, Meieki 3-chome, Nakamura-ku, Nagoya, JAPAN)<br><br>Kubota Corporation, Yokohama Branch<br>(6, Onoe-cho 1-chome, Naka-ku, Yokohama, JAPAN)<br><br>Tokyo Stock Exchange, Inc.<br>(2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo, JAPAN) |

## 1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Masatoshi Kimata, President and Representative Director, and Shigeru Kimura, Director and Senior Managing Executive Officer, General Manager of Planning & Control Headquarters confirmed that statements contained in the Annual Securities Report for the 128th fiscal year (from January 1, 2017 to December 31, 2017) were adequate under the Financial Instruments and Exchange Act of Japan.

## 2. Special Notes

Not applicable

COVER

| | |
|---|---|
| [Document Filed] | Internal Control Report |
| [Applicable Law] | Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| [Filed to] | Director, Kanto Local Finance Bureau |
| [Filing Date] | March 23, 2018 |
| [Company Name] | Kabushiki Kaisha Kubota |
| [Company Name in English] | Kubota Corporation |
| [Title and Name of Representative] | Masatoshi Kimata, President and Representative Director |
| [Title and Name of CFO] | Shigeru Kimura, Director and Senior Managing Executive Officer,<br>General Manager of Planning & Control Headquarters |
| [Address of Head Office] | 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, JAPAN |
| [Place Where Available for Public Inspection] | Kubota Corporation, Hanshin Office<br>(1-1, Hama 1-chome, Amagasaki-shi, Hyogo, JAPAN)<br><br>Kubota Corporation, Tokyo Head Office<br>(1-3, Kyobashi 2-chome, Chuo-ku, Tokyo, JAPAN)<br><br>Kubota Corporation, Chubu Regional Office<br>(22-8, Meieki 3-chome, Nakamura-ku, Nagoya, JAPAN)<br><br>Kubota Corporation, Yokohama Branch<br>(6, Onoe-cho 1-chome, Naka-ku, Yokohama, JAPAN)<br><br>Tokyo Stock Exchange, Inc.<br>(2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo, JAPAN) |

(TRANSLATION)

**Management's Report on Internal Control over Financial Reporting**

| NOTE TO READERS<br>The following in an English translation of management's report on internal control over financial reporting ("ICFR") filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.<br>There are differences between management's assessment of ICFR under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the attestation standards established by the American Institute of Certified Public Accountants ("AICPA").<br>In management assessment of ICFR under FIEA, there is detailed guidance on the scope of management's assessment of ICFR, such as quantitative guidance on business unit selection and/or account selection. In management's assessment of ICFR under the attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure of the scope of assessment of internal control over business processes, we used a measure of approximately two-thirds of total consolidated revenues for the selection of significant business units. |
|---|

**1. Matters Relating to the Basic Framework for Internal Control over Financial Reporting**

Masatoshi Kimata, President and Representative Director, and Shigeru Kimura, Director and Senior Managing Executive Officer, General Manager of Planning & Control Headquarters are responsible for designing and operating effective internal control over financial reporting of Kubota Corporation and its subsidiaries (collectively, the "Company"), and have designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

**2. Matters Relating to Scope of Assessment, the Assessment Date, and Assessment Procedures**

The assessment of internal control over financial reporting was performed as of December 31, 2017, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on the entire financial reporting in a consolidation ("company-level-controls") and based on the result of this assessment, we appropriately selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the Company's internal control.

We determined the required scope of assessment of internal control over financial reporting for Kubota Corporation, as well as its subsidiaries and affiliated companies from the perspective of the materiality that may affect the reliability of our financial reporting. This materiality that may affect the reliability of financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes in light of the results of assessment of company-leveled controls conducted for Kubota Corporation, as well as its subsidiaries and affiliated companies. We did not include those subsidiaries and affiliated companies which do not have any quantitatively or qualitatively material impact on the consolidated financial statements in the scope of assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we selected business units to be tested, and the business units whose combined revenues (after elimination of intercompany transfers) reaches approximately two thirds of total consolidated revenues for the prior fiscal year were selected as "significant business units."

At the selected significant business units, we included, in the scope of assessment, those business processes leading to revenue, accounts receivable, finance receivables, and inventories as significant accounts that may have a material impact on the business objectives of the Company. Further, we added certain business processes which included in business units other than the significant business units to our scope of assessment to the scope of assessment, as the business processes having greater materiality considering their impact on the financial reporting, those business processes relating to a greater likelihood of material misstatements and significant accounts involving estimates and management's judgment, and those business processes relating to businesses or operations dealing with high-risk transactions.

**3. Matters Related to the Results of the Assessment**

As a result of the assessment above, we concluded that our internal control over financial reporting was effective as of December 31, 2017.

**4. Supplementary Matters**

Not applicable

**5. Special Information**

Not applicable