Financial Results
for the year ended December 31, 2018

Masato Yoshikawa
Director and Senior Managing Executive Officer,
General Manager of Planning & Control Headquarters

February 20, 2019
Voluntary Adoption of IFRS

Kubota Corporation has adopted International Financial Reporting Standards (hereinafter “IFRS”) instead of accounting principles generally accepted in the United States of America (hereinafter “U.S. GAAP”) from the 1st quarter of the fiscal year ended December 31, 2018. The figures for the fiscal year ended December 31, 2017 used in the analysis were reclassified into the figures in accordance with IFRS.
• A decrease in profit before income taxes includes the effect of gain on sales of securities of 8.4 billion yen, which is no longer recorded from the fiscal year ended December 31, 2018 due to the adoption of IFRS, recorded in fiscal 2017.
• Variance from the revised forecast:
  ✓ The variance of revenue was mainly due to higher overseas sales in Farm & Industrial Machinery than our forecast, particularly in North America and Europe.
  ✓ The shortfall in operating profit was mainly due to a sharp appreciation of the yen at the end of the prior year, and a temporary deterioration in profitability, which was resulting from higher logistics costs due to delayed production caused by typhoon. In addition, revenue recognition was delayed to January of 2019 because shipments from Japan in the end of the year didn’t reach to dealers in spite of our efforts to increase shipment to compensate for inventory shortages in overseas countries.
Revenue in Farm & Industrial Machinery, Water & Environment, and Others increased.

### Revenue by Reportable Segment

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

For reference: Changes excluding the effects of fluctuation in exchange [-6.0 billion yen]

>Overseas revenue in Machinery increased by 7%. Total overseas revenue increased by 8%.
Revenue by Reportable Segment (Year-on-Year)

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

**Domestic**
- Sales of tractors, rice transplanters, and combine harvesters increased slightly due to an increase in market share.
- Sales of agricultural-related products and engines increased as well.
- Sales of tractors increased mainly in North America and Thailand.
- Sales of combine harvesters and rice transplanters decreased significantly due to a slump in market share.
- Sales of construction machinery (CE) and engines increased significantly in major markets such as North America, Europe, and China.
- In Others category, sales of parts and implement and financial income increased in North America.

**Overseas**
- Revenue from CE increased by 2.0 billion yen (+6%) mainly due to adverse reaction from concentrated demand for large-sized equipment resulting from tightening of engine emission regulations in the prior year, in addition to solid demand.
- Revenue from engines increased by 3.3 billion yen (+23%) mainly due to expanded production of products for North American market by OEMs.
- Revenue from Others increased by 7.8 billion yen (+5%) due to an increase in sales of agricultural-related products, etc.

An increase in revenue from Others includes a decrease of 6.0 billion yen resulting from the withdrawal from the vending machines business.

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

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

**Overseas**
- Revenue from CE increased in each region.
  - In North America, sales of major three models, mini-excavators, compact truck loaders, and skid steer loaders increased due to expanded demand while there was a negative effect from inventory shortages resulting from delays in production caused by typhoons.
  - Sales in Europe increased along with strong demand for housing and construction.
  - Sales in China significantly increased along with an increased construction and labor shortage.
- Revenue from engines significantly increased mainly due to global expansion of demand for construction and industrial machinery and rushed demand for engines resulting from tightening of engines emission regulations as well.
- Revenue from Others increased due to an increased sales of service parts and financial income mainly in North America and an increase in sales of implement of Great Plains Manufacturing, Inc.
- Revenue in North America and Europe increased, while revenue in Asia outside Japan decreased due to a significant decrease in sales of farm equipment in China.

**Water & Environment**

**Domestic revenue decreased by 2.3 billion yen (-1%).**
- In pipe-related business, sales of ductile iron pipes decreased significantly, while sales of pumps and construction business increased.
- In environment-related business, sales of environmental plants and EPC (engineering, procurement, and construction) businesses such as exhaust gas treatment plant increased.
- In social infrastructure-related business, sales of steel pipes for civil engineering work increased.

**Overseas revenue increased by 8.9 billion yen (+20%).**
- Sales of ductile iron pipes to the Middle East, wastewater treatment plant (Johkasou) in China, and industrial castings for petrochemical plants increased.

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

②Overseas revenue in Farm & Industrial Machinery
- Overseas revenue: +78.7 billion yen (+7%)
  - Farm equipment: +2.5 billion yen (+6%)
  - CE: +30.2 billion yen (+14%), Engines: +23.5 billion yen (+19%), Others: +25.5 billion yen (+11%)
- Revenue from tractors in Farm equipment increased by 28.1 billion yen (+6%).
  - Sales in North America increased mainly because demand for compact tractors expanded and the market condition of middle-sized tractors bottomed out along with favorable economy condition. In addition, there was the positive effect from the newly introduced model of utility vehicle as well.
  - Sales in Thailand also increased mainly due to a rise in the prices of rice and cassava and generally favorable weather during the rainy seasons.
- Revenue from combine harvesters and rice transplanters in Farm equipment decreased by 30.6 billion yen (-26%).
  - In China, sales of combine harvesters and rice transplanters decreased because the market shrunk drastically mainly due to a slump in rice prices and drop in prices of used products amid severe competition among contractors.
- Revenue from CE increased in each region.
  - In North America, sales of major three models, mini-excavators, compact truck loaders, and skid steer loaders, increased mainly due to expanded demand while there was a negative effect from inventory shortages resulting from delays in production caused by typhoons.
  - Sales in Europe increased along with strong demand for housing and construction.
  - Sales in China significantly increased along with an increased construction and labor shortage.
- Revenue from engines significantly increased mainly due to global expansion of demand for construction and industrial machinery and rushed demand for engines resulting from tightening of engines emission regulations as well.
- Revenue from Others increased due to an increased sales of service parts and financial income mainly in North America and an increase in sales of implement of Great Plains Manufacturing, Inc.
- Revenue in North America and Europe increased, while revenue in Asia outside Japan decreased due to a significant decrease in sales of farm equipment in China.

③Water & Environment
- Domestic revenue decreased by 2.3 billion yen (-1%).
  - In pipe-related business, sales of ductile iron pipes decreased significantly, while sales of pumps and construction business increased.
  - In environment-related business, sales of environmental plants and EPC (engineering, procurement, and construction) businesses such as exhaust gas treatment plant increased.
  - In social infrastructure-related business, sales of steel pipes for civil engineering work increased.
- Overseas revenue increased by 8.9 billion yen (+20%).
  - Sales of ductile iron pipes to the Middle East, wastewater treatment plant (Johkasou) in China, and industrial castings for petrochemical plants increased.
• Foreign exchange gain/loss, which was included in other income/expense under U.S. GAAP, is included in operating profit due to the adoption of IFRS.
• The negative impact of material was due to a rise in prices of steel, steel scrap, and resin.
• The negative impact of changes in sales incentive ratio was mainly due to a rise in interest rate in North America.
• Negative impact of Other includes an increase in sales expenses and factory fixed expenses. Some expenses, such as depreciation and amortization, R&D expenses, and cost for air transport of engines, increased.
Operating profit in Farm & Industrial Machinery was almost at the same level as the prior year because some positive effects from increased sales in domestic and overseas market and the yen depreciation against the Euro compensated for some negative effects such as a rise in material prices, deteriorated sales incentive ratios, and increased sales expenses.

- Increased transportation costs along with air transport of engines, which was resulting from expanded global demand and delayed production due to typhoons, caused operating profit to decrease by 4.0 billion yen.

- Operating profit in Water & Environment decreased mainly due to a rise in material prices and a deterioration of product mix sold resulting from a significant decrease in domestic sales of ductile iron pipes.

- Adjustment deteriorated mainly due to an increase in foreign exchange loss.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue (Unit: billions of yen)</th>
<th>Year ended Dec. 31, 2018</th>
<th>Year ended Dec. 31, 2017</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td></td>
<td>1,527.6</td>
<td>1,436.5</td>
<td>+91.1</td>
</tr>
<tr>
<td></td>
<td>Operating profit</td>
<td>200.9</td>
<td>200.7</td>
<td>+0.1</td>
</tr>
<tr>
<td></td>
<td>OP margin</td>
<td>13.2%</td>
<td>14.0%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Water</td>
<td></td>
<td>292.3</td>
<td>285.7</td>
<td>+6.6</td>
</tr>
<tr>
<td></td>
<td>Operating profit</td>
<td>19.9</td>
<td>24.4</td>
<td>-4.5</td>
</tr>
<tr>
<td></td>
<td>OP margin</td>
<td>6.8%</td>
<td>8.5%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>30.4</td>
<td>28.9</td>
<td>+1.5</td>
</tr>
<tr>
<td></td>
<td>Operating profit</td>
<td>3.0</td>
<td>3.0</td>
<td>+0.0</td>
</tr>
<tr>
<td></td>
<td>OP margin</td>
<td>9.9%</td>
<td>10.4%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Adjustment</td>
<td></td>
<td>-34.5</td>
<td>-28.2</td>
<td>-6.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,850.3</td>
<td>1,751.0</td>
<td>+99.3</td>
</tr>
<tr>
<td></td>
<td>Operating profit</td>
<td>189.3</td>
<td>200.0</td>
<td>-10.6</td>
</tr>
<tr>
<td></td>
<td>OP margin</td>
<td>10.2%</td>
<td>11.4%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>
The deterioration in finance income and costs (net) was mainly because gain on sales of securities was no longer recorded in finance income from the fiscal year ended December 31, 2018. We continued to sell securities during 2018.

### Finance Income/ Finance Costs (Net)

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

* Gain (loss) on sales of securities is no longer recorded in the consolidated statement of profit or loss from the fiscal year ended December 31, 2018 due to the adoption of IFRS 9.
### Profit Before Income Taxes/ Profit for the Year

<table>
<thead>
<tr>
<th>(Unit: billions of yen)</th>
<th>Year ended Dec. 31, 2018</th>
<th>Year ended Dec. 31, 2017</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>197.2</td>
<td>10.7</td>
<td>214.0</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>-49.1</td>
<td>-24.1</td>
<td>-73.2</td>
</tr>
<tr>
<td>(Effective tax rate)</td>
<td>(24.9%)</td>
<td></td>
<td>(34.2%)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>2.0</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>150.1</td>
<td>8.1</td>
<td>143.3</td>
</tr>
</tbody>
</table>

**Profit attributable to:**

- Owners of the parent: 138.6 yen (7.5%), 134.2 yen (7.7%), +4.4 yen, +3.3%
- Noncontrolling interests: 11.6 yen (0.6%), 9.1 yen (0.5%), +2.4 yen, +26.4%

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

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

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

- Profit before income taxes decreased by 8.4 billion yen from the prior year after excluding gain on sales of securities.
- Income tax expenses significantly decreased due to a decrease in effective tax rate along with the federal corporate tax rate cut in the U.S. and reversal of deferred tax assets in 2017 along with the decision of the federal corporate tax rate cut in the U.S.
- Annual cash dividend increased by 2 yen from the prior year to 34 yen.
- Retirement of treasury shares was 2.9 billion yen (1.5 million shares).
There is no change in basic policy on shareholder return.

Dividend payout ratio for 2018 was 30.2% and shareholder return ratio for 2018 was 32.3%. Both of ratios exceeded the target of 30%.
Total assets increased by 63.3 billion yen (+2.2%) from the prior year.

Trade receivables excluding the effects of fluctuation in exchange rate increased by 38.0 billion yen.
- Trade receivables increased in sales subsidiaries in the U.S. and Europe where sales were strong.

Inventories excluding the effects of fluctuation in exchange rate increased by 26.0 billion yen.
- Inventories increased mainly due to the impact of concentration of shipments from Japan to overseas subsidiaries at the end of the year caused by typhoons while inventories decreased in China, where demand for farm equipment shrank significantly.

Total current and noncurrent finance receivables excluding the effects of fluctuation in exchange rate increased by 104.0 billion yen.
- Total finance receivables increased mainly due to strong retail sales in North America and Thailand.
- Collection status of finance receivables remained favorable.
**Statement of Financial Position (Liabilities)**

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

- Total liabilities increased by 12.4 billion yen (+0.9%).
- Total current and noncurrent interest-bearing liabilities excluding the effects of fluctuation in exchange rate increased by 26.0 billion yen.
  - Interest-bearing liabilities increased in North America due to an increase in finance receivables while it decreased in parent due to redemption of bonds.
- Other components of equity decreased due to fluctuations in foreign exchange rates and prices of securities.
• Double-digit ROE has been achieved for the seventh consecutive fiscal year.
• ROE declined by 0.2 percentage points from the prior year.
• Net cash provided by operating activities was 89.1 billion yen.
  - Total amount of cash inflow from profit for the year and depreciation and amortization was 199.8 billion yen in total. Cash outflow caused by an increase in finance receivables was 97.3 billion yen and cash outflow caused by other items was 13.3 billion yen.
  - Cash inflow/outflow caused by changes in finance receivables is included in net cash provided by (used in) operating activities under IFRS, while it was included in net cash used in investing activities under U.S. GAAP.
  - A decrease in net cash provided by operating activities from the prior year was due to an increase in finance receivables and inventories.
  - We will make efforts to expand net cash provided by operating activities by reducing inventories.
Equipment operations excluding financial service maintained a debt-free status.
The financial business maintained sufficient profitability.
  - Profit margin significantly improved due to decreased income tax expenses along with the federal corporate tax rate cut in the U.S.
Recent Developments
In Machinery
In the U.S. market, the current economy is solid while there is uncertainty about the future of the economy along with U.S.-China trade frictions and the unstable stock market.

- The number of housing starts (SAAR) remains at the high level around 1.2 million unit.

- **Tractors**
  - Demand for compact tractors (0-40hp) mainly for home owners is expected to continue to grow moderately.
  - It is unlikely that severe competition will be relaxed, and each manufacturer is expected to maintain same level of incentive program in 2018, which was strong.
  - Demand for large-sized tractors (over 120hp) is also expected to bottom out and turn to moderate recovery.
  - Sales of our large-sized tractor increased by double digits from the prior year in 2018 as well, and we aim to expand our market share and further increase the sales in 2019.

- **CE**
  - The market growth is expected to slow due to a rise in interest rates and soaring housing prices.
  - In addition to the positive effects from a launch of new model of CTL, we expect significant growth of business by cultivation of major rental companies and strengthening of the dealer network.

- **Engines**
  - Orders from major OEMs, such as manufacturers of construction and industrial machinery and refrigeration equipment, remain favorable currently, and growth is expected to continue in 2019 as well.

- We aim to improve profitability in North America by raising product prices from March in response to increased costs caused by soaring steel prices and a rise in interest rate.
### Recent Developments in Machinery (Europe)

**Europe**

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Demand Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tractors</td>
<td>Demand for medium-sized tractors (for agricultural market) is expected to be sluggish because farmer income declined due to abnormal weather such as drought that occurred in 2018. Demand for compact tractors is expected to show only a slight recovery due to the impact of Brexit and others, while recovery from the abnormal weather in the prior year is expected. Demand for medium- and large-sized tractor is expected to be sluggish due to a decline in farm income. Aiming to increase market share by improvement of product supply capabilities.</td>
</tr>
<tr>
<td>Implements</td>
<td>Strong demand cannot be expected due to the slump in the agricultural market.</td>
</tr>
<tr>
<td>CE</td>
<td>Demand for CE is expected to decline resulting from uncertainty about the future resulting from some events, such as Brexit and financial instability in Italy, as well as adverse reaction from a sharp increase in demand in the past few years. Aiming to expand market share by strengthening sales network and introducing new models.</td>
</tr>
<tr>
<td>Engines</td>
<td>Orders from major OEM remain strong. A significant decline is not expected, while it is expected to have an impact of adverse reaction from rushed orders by new exhaust emission regulations (StageV) implemented in this year.</td>
</tr>
</tbody>
</table>

- **Tractors**
  - Demand for medium-sized tractors (for agricultural market) is expected to be sluggish because farmer income declined due to abnormal weather such as drought that occurred in 2018.
  - Demand for compact tractors is expected to show only a slight recovery mainly due to the impact of Brexit while stagnated demand resulting from abnormal weather in some countries such as France, Germany, Italy in 2018 is expected to recover.
  - Although demand for tractors as a whole is expected to shrink, our sales are expected to increase due to an increase in market share along with improvement of product supply capabilities.

- **Implements in agriculture-related market**
  - Strong demand cannot be expected due to the slump in agricultural market.

- **CE**
  - Demand in Europe as a whole is expected to decline from the prior year, albeit at a high level, resulting from uncertainty about the future caused by some events, such as the Brexit and financial instability in Italy, as well as adverse reaction from a sharp increase in demand in the past few years.
  - We aim to expand market share by strengthening sales network and introducing new models.

- **Engines**
  - A significant decline is not expected due to continued strong orders from major OEMs, while it is expected to have an impact of adverse reaction from rushed orders by new exhaust emission regulations (StageV) implemented in 2019.
  - A decrease in shipments volume is expected to be offset by raising unit prices along with switching to Stage V.
In Thailand, demand is expected to continue to expand moderately this year due to an increase in crop yield amount in the prior year and stable prices of rice at high levels.

### Rice cropping market
- Demand for tractor is expected to remain to expand moderately despite favorable market conditions because government encourages to shift from rice to other crops along with the high level of crop yield amount in the prior year.
- Demand for combine harvesters is expected to recover significantly due to adverse reaction from sluggish demand in the prior year caused by drought in Northeast, which is a major region for rice cropping.

### Dry-field cropping market
- Demand of farm equipment for dry-field cropping market as a whole is expected to expand because cassava exports are continuing to be strong while sugar cane purchase prices are sluggish.

### CE
- Demand for CE is expected to expand due to continuing infrastructure investment in Bangkok and regional cities.

### Exports to neighboring countries
- Demand for farm equipment in Cambodia and Laos is expected to expand due to strong exports of rice and cassava.
- In Myanmar, although the negative impact of the rapid depreciation of Myanmar Kyat since the 2nd half of the prior year is expected to continue, demand for farm equipment is expected to expand moderately due to the gradual mitigation of its impact and the progress of mechanization.
• The volume of budgeted government subsidies for purchase of farm equipment are not
determined. However, it is unlikely that the subsidies will exceed the prior year's level.
• Although there is a possibility of having rushed demand partially before the 4th exhaust
emission regulations, which will be launched in 2020, the severe market condition is expected
to continue due to some factors, such as intensifying competition among contractors and
stagnated prices of grain and used products.
• Demand is also expected to continue to move to equipment with higher horse power and
higher processing capacity.

• Tractors
  - Demand is expected to continue to shrink moderately.

• Combines
  - While demand for cone combines, which have a low mechanization rate, is expected to
    expand, demand for combine harvesters, which are our main products, will continue to
    shrink moderately.

• On the assumption that demand will continue to shrink in farm equipment business, profitability
  is expected to be improved despite decreased sales by aiming thorough cost-cutting and a
  review of sales measures, such as incentive programs.

• CE
  - Demand is expected to grow continuously due to continued active infrastructure
    investment while growth rate is expected to slow in response to slowdown trend of
    Chinese economy.
  - Small sized CE (0-4t), which is our strong range, has yet to penetrate adequately in the
    market, and demand is expected to expand over the medium term due to labor
    shortages and soaring labor costs in urban areas.

• Engines
  - Demand mainly for CE is expected to remain strong.

---

**Recent Developments in Machinery (Asia)**

**China**

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

<table>
<thead>
<tr>
<th>Tractors</th>
<th>Combines</th>
<th>Rice transplanters</th>
<th>CE</th>
<th>Engines</th>
</tr>
</thead>
</table>

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

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

- **Rice transplanters**
  - Demand is expected to continue to shrink moderately.

- **CE**
  - Demand is expected to grow continuously due to strong urban infrastructure construction, labor shortages, and soaring labor costs, while growth rate is expected to slow in response to slowdown trend of economy.
  - Strong demand of engines for CE is expected to continue.

**Budgeted government subsidies for purchase of agricultural equipment**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1st stage</td>
<td>-</td>
<td>-</td>
<td>11.0</td>
<td>13.0</td>
<td>20.0</td>
<td>17.0</td>
<td>21.0</td>
<td>22.8</td>
<td>18.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Full year</td>
<td>13.0</td>
<td>15.5</td>
<td>17.5</td>
<td>21.5</td>
<td>21.8</td>
<td>23.8</td>
<td>23.8</td>
<td>23.7</td>
<td>18.6</td>
<td>18.6</td>
</tr>
</tbody>
</table>

KUBOTA Corporation [Financial results for the year ended December 31, 2018]
The impact of the elimination of government subsidies in the prior year has not been noticeable, and demand for farm equipment is expected to expand moderately mainly due to the recovery in rice prices and rushed demand mainly by the large farmers before the consumption tax hike.

The construction market related to CE and engines is expected to be solid mainly due to increased construction of infrastructures in urban areas.

Farm Equipment
- While demand by small farmers is expected to decrease mainly due to aging of farmers, sales are expected to increase due to increased sales to large farmers, whose demand is expected to expand mainly due to the centralizing of farmland by agricultural administration and the expansion of subsidies to the smart agriculture sector.

CE
- Demand is expected to remain at the same level as the prior year due to a gradual slowdown of the Olympic Games-related construction demand, while rushed demand before the consumption tax hike is expected.
- We aim to expand our market share by introducing new models and expanding sales to rental companies.

Engines
- Strong demand is expected to continue and sales are expected to remain at the same level as the prior year when sales increased significantly.
### Anticipated Operating Results

<table>
<thead>
<tr>
<th></th>
<th>Year ending Dec. 31, 2019 (Forecast)</th>
<th>Year ended Dec. 31, 2018 (Actual)</th>
<th>Changes</th>
<th>Six months ending June 30, 2019 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,970.0</td>
<td>1,850.3</td>
<td>+119.7</td>
<td>+6.5</td>
</tr>
<tr>
<td>Domestic</td>
<td>626.0</td>
<td>577.3</td>
<td>+48.7</td>
<td>+8.4</td>
</tr>
<tr>
<td>Overseas</td>
<td>1,344.0</td>
<td>1,273.0</td>
<td>+71.0</td>
<td>+5.6</td>
</tr>
<tr>
<td>Operating profit</td>
<td>10.2%</td>
<td>10.2%</td>
<td>+10.7</td>
<td>+5.6</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>10.6%</td>
<td>10.7%</td>
<td>+10.8</td>
<td>+5.5</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent</td>
<td>7.4%</td>
<td>7.5%</td>
<td>+6.4</td>
<td>+4.6</td>
</tr>
</tbody>
</table>
• Domestic
  - Revenue in Water & Environment is expected to increase significantly mainly due to a project to reduce the volume of radioactive contaminated waste in Futaba Town, Fukushima Prefecture.
  - Revenue in Farm & Industrial Machinery is also expected to increase due to increased sales of farm equipment, agricultural-related products, and CE.

• Overseas
  - Revenue from CE and tractors in Farm & Industrial machinery are expected to increase significantly, while revenue in Water & Environment is expected to increase slightly.
  - Fluctuation of exchange rate is expected to decrease revenue by 47.0 billion yen because the yen will appreciate against all major currencies such as U.S. dollar, Euro, Baht, and RMB.
• The foreign exchange sensitivity of U.S. dollar is 2.7 billion yen per one yen change in the value of U.S. dollar and that of Euro is 0.7 billion yen per one yen change in the value of Euro.
  - Due to increased exports denominated in each currency, the sensitivity of U.S. dollar has been changed from the previous 2.0 billion yen, and those of Euro has been changed from the previous 0.6 billion yen.

• In this fiscal year, the whole effect from raised product prices will contribute to an increase of 15.0 billion yen in operating profit, including raised product prices in the U.S. since 2013.

• Negative impact of Others (-22.0 billion yen) is mainly due to an increase in selling expenses and fixed manufacturing costs.

### Anticipated Operating Profit

<table>
<thead>
<tr>
<th>(Unit: billions of yen)</th>
<th>Year ending Dec. 31, 2019 (Forecast)</th>
<th>Year ended Dec. 31, 2018 (Actual)</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>Operating profit</td>
<td>200.0</td>
<td>10.2</td>
<td>189.3</td>
</tr>
</tbody>
</table>

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

1. Fluctuation in exchange rates
   - US$ (110→108)
   - Euro (130→122)
   - Other currencies
   - -3.0 billion yen
   - -5.5 billion yen
   - -6.0 billion yen
   - **-14.5 billion yen**

2. Foreign exchange gain/loss
   - **+3.5 billion yen**

3. Material
   - Machinery
   - -9.0 billion yen
   - Water
   - -2.0 billion yen
   - **-11.0 billion yen**

4. Change in sales incentive ratio
   - North America: -7.6 billion yen, China: +0.8 billion yen etc.
   - **-6.3 billion yen**

5. Impact of increased sales
   - **+46.0 billion yen**

6. Sales price increase
   - **+15.0 billion yen**

7. Other
   - **-22.0 billion yen**
### Anticipated Operating Profit by Reportable Segment

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

KUBOTA Corporation (Financial results for the year ended December 31, 2018)
- Capital expenditure is up to 100 billion yen.
  - In this fiscal year, we plan to invest in the acquisition of land for the establishment of a new R&D base in Japan and the start-up of the production of new models in engines.
Cautionary Statements with Respect to Forward-Looking Statements

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

For Earth, For Life կենսաընկեր