

[Translation]

Quarterly Report

(The First Quarter of the 131st Business Term)
From January 1, 2020 to March 31, 2020

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

Kubota Corporation

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Confirmation Letter

COVER

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This is an English translation of the Quarterly Report 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 translation of the Confirmation Letter for the original Quarterly Report is included at the end of this document.

For the purposes of this Quarterly 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.

1. Overview of the Company

1. Key Financial Data

(Unit: millions of yen, except earnings per share)

	Three months ended March 31, 2020	Three months ended March 31, 2019	Year ended December 31, 2019
Revenue	¥ 439,543	¥ 480,712	¥ 1,920,042
Profit before income taxes	31,030	54,164	209,022
Profit attributable to owners of the parent	20,756	37,282	149,061
Comprehensive income attributable to owners of the parent	(20,342)	47,489	167,048
Equity attributable to owners of the parent	1,400,086	1,365,789	1,442,837
Total assets	3,035,659	3,038,306	3,139,318
Earnings per share attributable to owners of the parent:			
Basic	17.01	30.26	121.59
Diluted	—	—	—
Ratio of equity attributable to owners of the parent to total assets (%)	46.1	45.0	46.0
Net cash (used in) provided by operating activities	(27,499)	10,533	82,410
Net cash used in investing activities	(19,793)	(38,840)	(91,470)
Net cash provided by (used in) financing activities	6,152	9,011	(21,515)
Cash and cash equivalents, at the end of the period	151,460	211,509	199,665

(Notes)

1. The condensed consolidated financial statements and the consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).
2. As the Company prepares the condensed consolidated financial statements, its non-consolidated financial data are not presented.
3. Revenue does not include consumption taxes.
4. Amounts less than presentation units are rounded to the nearest unit.
5. *Earnings per share attributable to owners of the parent—Diluted* is not stated because Kubota Corporation did not have potentially dilutive common shares that were outstanding during the period.

2. Description of Business

There were no material changes in the Company’s business during the three months ended March 31, 2020, nor were there any material changes in its associates.

2. Business Overview

1. Risk Factors

For the three months ended March 31, 2020, there were no events or facts described in “2. Business Overview” or “4. Financial Information,” that might have material effects on investors’ investment decisions. There were no material changes in the information described in the Risk Factors section of the Annual Securities Report for the year ended December 31, 2019.

The negative impact on results of operations for the three months ended March 31, 2020 caused by the infection spread of COVID-19 is described in “(1) Analysis of Results of Operations” of “2. Analysis of Consolidated Financial Position, Results of Operations, and Cash Flows by Management”. However, depending on the circumstances, there may be a continuous material adverse effect on the Company’s business activities.

2. Analysis of Consolidated Financial Position, Results of Operations, and Cash Flows by Management

(1) Analysis of Results of Operations

For the three months ended March 31, 2020, revenue of Kubota Corporation and its subsidiaries (hereinafter, the “Company”) decreased by ¥41.2 billion (8.6%) from the same period in the prior year to ¥439.5 billion.

Domestic revenue decreased by ¥5.9 billion (3.8%) from the same period in the prior year to ¥150.0 billion because revenue in Farm & Industrial Machinery decreased mainly due to decreased sales of farm equipment. On the other hand, revenue in Water & Environment, whose businesses are mainly related to public works projects, increased slightly.

Overseas revenue decreased by ¥35.2 billion (10.9%) from the same period in the prior year to ¥289.5 billion because of significantly decreased sales of construction machinery, tractors, and engines. In addition, revenue in Water & Environment also decreased.

Operating profit decreased by ¥22.4 billion (42.4%) from the same period in the prior year to ¥30.5 billion because profitability of products, which were shipped in this fiscal year, in its manufacturing bases, deteriorated due to a significant reduction in production in the fourth quarter of 2019. In addition, there was a negative effect from decreased sales in the domestic and overseas markets. Profit before income taxes decreased by ¥23.1 billion (42.7%) from the same period in the prior year to ¥31.0 billion due to decreased operating profit. Income tax expenses were ¥8.1 billion. Share of profits of investments accounted for using the equity method was ¥0.3 billion. Profit for the period decreased by ¥17.2 billion (42.6%) from the same period in the prior year to ¥23.2 billion. Profit attributable to owners of the parent decreased by ¥16.5 billion (44.3%) from the same period in the prior year to ¥20.8 billion.

Revenue from external customers and operating profit by each reportable segment was as follows:

Beginning with the current consolidated fiscal year, in conformity with the change in the business reporting structure of the Company, the amounts related to "Air-conditioning equipment" are reported in the "Water & Environment" segment, whereas they were formerly reported in the "Farm & Industrial Machinery" segment. The information for the same period in the prior year has been retrospectively adjusted to conform to the current fiscal year’s presentation.

1) Farm & Industrial Machinery

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

Revenue in this segment decreased by 10.3% from the same period in the prior year to ¥346.9 billion, and accounted for 78.9% of consolidated revenue.

Domestic revenue decreased by 8.0% from the same period in the prior year to ¥66.3 billion. Sales of farm equipment and agricultural-related products decreased mainly due to adverse reaction from rushed demand before the consumption tax hike.

Overseas revenue decreased by 10.8% from the same period in the prior year to ¥280.6 billion. In North America, sales of construction machinery significantly decreased because of adverse reaction from carryover of shipments of some products from the fiscal 2018 to the fiscal 2019 caused by typhoon, which had occurred in 2018. In addition, sales of engines also decreased from the prior year mainly due to production adjustment by OEM clients and deterioration in oil

and gas market. In Europe, sales of tractors significantly decreased mainly due to a negative effect from business suspension by dealers along with the infection spread of COVID-19. In addition, sales of engines also decreased significantly due to business suspension and a reduction in production of OEM clients caused by the infection spread of COVID-19. In Asia outside Japan, revenue decreased because sales of tractors in Thailand decreased due to a negative impact of water shortage which had continued since the prior year. In addition, sales of construction machinery in China decreased due to suspended construction work along with the infection spread of COVID-19.

Operating profit in this segment decreased by 40.8% from the same period in the prior year to ¥30.5 billion due to some negative effects such as decreased revenue in the domestic and overseas markets and a deterioration in profitability of products, which were shipped in this fiscal year, in its manufacturing bases.

2) Water & Environment

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

Revenue in this segment decreased by 1.3% from the same period in the prior year to ¥84.9 billion, and accounted for 19.3% of consolidated revenue.

Domestic revenue increased by 0.2% from the same period in the prior year to ¥76.0 billion. In pipe- and infrastructure-related products, revenue from ductile iron pipes and construction business increased. In environment-related products, revenue from construction of waste disposal and treatment facility in Futaba Town, Fukushima Prefecture decreased mainly.

Overseas revenue decreased by 13.1% from the same period in the prior year to ¥8.9 billion. Revenue from construction business and membrane systems decreased.

Operating profit in this segment decreased by 11.6% from the same period in the prior year to ¥8.3 billion due to an increase in construction costs of plant.

3) Other

Other is mainly comprised of a variety of services.

Revenue in this segment decreased by 4.2% from the same period in the prior year to ¥7.8 billion, and accounted for 1.8% of consolidated revenue.

Operating profit in this segment decreased by 6.4% from the same period in the prior year to ¥1.0 billion.

(2) Analysis of Financial Position

Total assets at March 31, 2020 were ¥3,035.7 billion, a decrease of ¥103.7 billion from the prior fiscal year-end. With respect to assets, finance receivables decreased due to a decrease in retail sales in North America and Thailand. In addition, cash and cash equivalents decreased as well.

With respect to liabilities, trade payables decreased. Equity decreased due to a deterioration in other components of equity along with fluctuations in foreign exchange rates and prices of securities. The ratio of equity attributable to owners of the parent to total assets stood at 46.1%, 0.1 percent higher than the prior fiscal year-end.

(3) Analysis of Cash Flows

Net cash used in operating activities during the three months ended March 31, 2020 was ¥27.5 billion, while net cash provided by operating activities during the same period in the prior year was ¥10.5 billion. The change was mainly due to a decrease in profit for the period and the changes in working capital, such as a decrease in trade payables.

Net cash used in investing activities was ¥19.8 billion, a decrease of ¥19.0 billion in net cash outflow compared with the same period in the prior year. This decrease was mainly due to a decrease in cash outflow related to acquisition of property, plant, and equipment and intangible assets.

Net cash provided by financing activities was ¥6.2 billion, a decrease of ¥2.9 billion in net cash inflow compared with the same period in the prior year mainly due to a decrease in funding.

As a result of the above, and after taking into account the effects from exchange rate changes, cash and cash equivalents at March 31, 2020 were ¥151.5 billion, a decrease of ¥48.2 billion from the beginning of the current period.

(4) Issues to Address on Business and Finance

There were no material changes in the outstanding issues for the Company to address during the three months ended March 31, 2020, and no additional issues arose during the period.

(5) Research and Development

The Company's research and development expenses for the three months ended March 31, 2020 were ¥14.0 billion.

There were no material changes in the Company's research and development activities during the three months ended March 31, 2020.

3. Material Contracts

There were no material contracts which were approved for conclusion or concluded for the three months ended March 31, 2020.

3. 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) (March 31, 2020)	Number of shares issued as of filing date (shares) (May 14, 2020)	Stock exchange on which Kubota Corporation is listed	Description
Common shares	1,220,576,846	1,220,576,846	Tokyo Stock Exchange, Inc. (the first section)	The number of shares per one unit of shares is 100 shares.
Total	1,220,576,846	1,220,576,846	—	—

(2) Information on Share Acquisition Rights

1) Details of Stock Option Plan

Not applicable.

2) Details of Other Stock Acquisition Rights

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares, the Amount of Common Shares, 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 shares (millions of yen)	Balance of common shares (millions of yen)	Changes in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
From: January 1, 2020	—	1,220,576	¥ —	¥ 84,130	¥ —	¥ 73,117
To: March 31, 2020	—	1,220,576	¥ —	¥ 84,130	¥ —	¥ 73,117

(5) Major Shareholders

Not applicable.

(6) Information on Voting Rights

Information on voting rights on the shareholders' list as of December 31, 2019 is stated in this sub-section since Kubota Corporation could not identify the number of voting rights as of March 31, 2020 due to the lack of information.

1) Issued Shares

(As of December 31, 2019)

Classification		Number of shares (shares)	Number of voting rights	Description
Shares without voting rights		—	—	—
Shares with restricted voting rights (treasury shares, etc.)		—	—	—
Shares with restricted voting rights (others)		—	—	—
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common shares:	311,500	—	—
	(Crossholding shares) Common shares:	718,400	—	—
Shares with full voting rights (others)	Common shares:	1,219,286,000	12,192,860	—
Shares less than one unit	Common shares:	260,946	—	Shares less than one unit (100 shares)
Number of issued shares		1,220,576,846	—	—
Total number of voting rights		—	12,192,860	—

(Note)

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

2) Treasury Shares

(As of December 31, 2019)

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 share) Kubota Corporation	2-47, Shikitsuhashigashi 1-chome, Naniwa-ku, Osaka, JAPAN	311,500	—	311,500	0.02
(Crossholding shares) 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, JAPAN	566,000	—	566,000	0.04
Total crossholding share	—	718,400	—	718,400	0.05
Total	—	1,029,900	—	1,029,900	0.08

2. Changes in Directors and Senior Management

There has been no change in Directors nor senior management since the filing date of the Annual Securities Report for the 130th business term to March 31, 2020.

(Reference Information)

Kubota Corporation adopted the Executive Officer System. There has been no change in the Executive Officers who do not hold the post of Director since the filing date of the Annual Securities Report for the 130th business term to March 31, 2020.

4. Financial Information

1. Condensed Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

(1) Condensed Consolidated Statement of Financial Position

(Unit: millions of yen)

	Note	March 31, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		¥ 151,460	¥ 199,665
Trade receivables		701,203	682,596
Finance receivables		281,608	293,933
Other financial assets	5	75,404	71,968
Inventories		388,112	382,401
Income taxes receivable		2,596	6,287
Other current assets		78,562	82,034
Total current assets		1,678,945	1,718,884
Noncurrent assets:			
Investments accounted for using the equity method		33,952	33,729
Finance receivables		664,779	699,238
Other financial assets	5	128,885	148,936
Property, plant, and equipment		394,233	405,349
Goodwill and intangible assets		62,087	60,986
Deferred tax assets		48,096	46,984
Other noncurrent assets		24,682	25,212
Total noncurrent assets		1,356,714	1,420,434
Total assets		¥ 3,035,659	¥ 3,139,318

(Unit: millions of yen)

	Note	March 31, 2020	December 31, 2019
LIABILITIES AND EQUITY			
Current liabilities:			
Bonds and borrowings		¥ 408,466	¥ 386,538
Trade payables		250,081	293,774
Other financial liabilities	6	74,628	78,860
Income taxes payable		15,069	18,611
Provisions		34,923	31,001
Other current liabilities	7	193,326	192,959
Total current liabilities		976,493	1,001,743
Noncurrent liabilities:			
Bonds and borrowings		501,703	516,443
Other financial liabilities	6	26,845	30,247
Retirement benefit liabilities		15,084	15,773
Deferred tax liabilities		20,930	32,984
Other noncurrent liabilities	7	4,814	4,914
Total noncurrent liabilities		569,376	600,361
Total liabilities		1,545,869	1,602,104
Equity:			
Equity attributable to owners of the parent:			
Share capital		84,130	84,130
Share premium		85,414	84,671
Retained earnings		1,237,829	1,238,824
Other components of equity		(6,650)	35,849
Treasury shares		(637)	(637)
Total equity attributable to owners of the parent		1,440,086	1,442,837
Noncontrolling interests		89,704	94,377
Total equity		1,489,790	1,537,214
Total liabilities and equity		¥ 3,035,659	¥ 3,139,318

See notes to condensed consolidated financial statements.

(2) Condensed Consolidated Statement of Profit or Loss and
Condensed Consolidated Statement of Comprehensive Income

Condensed Consolidated Statement of Profit or Loss

(Unit: millions of yen, except earnings per share)

Three months ended March 31:	Note	2020		2019	
		¥	%	¥	%
Revenue	8	439,543	100.0	480,712	100.0
Cost of sales		(321,818)		(342,026)	
Selling, general, and administrative expenses		(88,068)		(85,114)	
Other income		3,183		723	
Other expenses		(2,382)		(1,414)	
Operating profit		30,458	6.9	52,881	11.0
Finance income		1,195		1,639	
Finance costs		(623)		(356)	
Profit before income taxes		31,030	7.1	54,164	11.3
Income tax expenses		(8,089)		(14,300)	
Share of profits of investments accounted for using the equity method		287		570	
Profit for the period		¥ 23,228	5.3	¥ 40,434	8.4

Profit attributable to:

Owners of the parent		¥ 20,756	4.7	¥ 37,282	7.8
Noncontrolling interests		¥ 2,472	0.6	¥ 3,152	0.6

Earnings per share attributable to owners of the parent:

Basic	9	¥ 17.01		¥ 30.26	
Diluted		¥ —		¥ —	

Condensed Consolidated Statement of Comprehensive Income

(Unit: millions of yen)

	Note	2020		2019	
		¥		¥	
Profit for the period		23,228		40,434	
Other comprehensive income, net of income tax:					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit pension plans		203		(11)	
Net change in fair value of financial assets measured at fair value through other comprehensive income		(13,408)		6,422	
Items that may be reclassified subsequently to profit or loss:					
Exchange rate differences on translating foreign operations		(34,135)		5,323	
Total other comprehensive income, net of income tax		(47,340)		11,734	
Comprehensive income for the period		¥ (24,112)		¥ 52,168	
Comprehensive income attributable to:					
Owners of the parent		¥ (20,342)		¥ 47,489	
Noncontrolling interests		¥ (3,770)		¥ 4,679	

See notes to condensed consolidated financial statements.

(3) Condensed Consolidated Statement of Changes in Equity

(Unit: millions of yen)

	Note	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Noncontrolling interests	Total equity
		Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares			
Balance as of January 1, 2020		¥ 84,130	¥ 84,671	¥ 1,238,824	¥ 35,849	¥ (637)	¥ 1,442,837	¥ 94,377	¥ 1,537,214
Profit for the period				20,756			20,756	2,472	23,228
Total other comprehensive income, net of income tax					(41,098)		(41,098)	(6,242)	(47,340)
Comprehensive income for the period				20,756	(41,098)		(20,342)	(3,770)	(24,112)
Transfer to retained earnings				1,434	(1,434)		—		—
Dividends paid	10			(23,185)			(23,185)	(50)	(23,235)
Share-based payments with transfer restrictions			24				24		24
Changes in ownership interests in subsidiaries			719		33		752	(853)	(101)
Balance as of March 31, 2020		¥ 84,130	¥ 85,414	¥ 1,237,829	¥ (6,650)	¥ (637)	¥ 1,400,086	¥ 89,704	¥ 1,489,790
Balance as of January 1, 2019		¥ 84,130	¥ 85,305	¥ 1,135,395	¥ 35,343	¥ (323)	¥ 1,339,850	¥ 86,583	¥ 1,426,433
Profit for the period				37,282			37,282	3,152	40,434
Total other comprehensive income, net of income tax					10,207		10,207	1,527	11,734
Comprehensive income for the period				37,282	10,207		47,489	4,679	52,168
Transfer to retained earnings				(16)	16		—		—
Dividends paid	10			(22,184)			(22,184)	(50)	(22,234)
Share-based payments with transfer restrictions			15				15		15
Changes in ownership interests in subsidiaries			659		(40)		619	(574)	45
Balance as of March 31, 2019		¥ 84,130	¥ 85,979	¥ 1,150,477	¥ 45,526	¥ (323)	¥ 1,365,789	¥ 90,638	¥ 1,456,427

See notes to condensed consolidated financial statements.

(4) Condensed Consolidated Statement of Cash Flows

(Unit: millions of yen)

Three months ended March 31:	Note	2020	2019
Cash flows from operating activities:			
Profit for the period		¥ 23,228	¥ 40,434
Depreciation and amortization		16,527	14,847
Loss from disposal of property, plant, and equipment and intangible assets, net		(2,316)	341
Finance income and costs		(692)	(1,148)
Income tax expenses		8,089	14,300
Share of profits of investments accounted for using the equity method		(287)	(570)
Increase in trade receivables		(31,481)	(71,438)
Decrease in finance receivables		12,539	397
Increase in inventories		(14,977)	(19,803)
Decrease in other assets		9,346	8,134
(Decrease) increase in trade payables		(39,988)	19,426
Increase in other liabilities		6,953	13,160
Net changes in retirement benefit assets and liabilities		211	43
Other, net		(145)	(3,222)
Interest received		588	950
Dividends received		253	316
Interest paid		(388)	(298)
Income taxes paid, net		(14,959)	(5,336)
Net cash (used in) provided by operating activities		(27,499)	10,533
Cash flows from investing activities:			
Payments for acquisition of property, plant, and equipment		(11,451)	(30,301)
Payments for acquisition of intangible assets		(4,472)	(3,425)
Proceeds from sales of property, plant, and equipment		3,798	322
Payments for acquisition of securities		(419)	(1)
Proceeds from sales and redemptions of securities		2,022	2
Payments for loans receivable from associates		(15,550)	(11,700)
Collection of loans receivable from associates		11,800	9,150
Payments for time deposits		(10,706)	(7,826)
Proceeds from withdrawal of time deposits		5,603	1,554
Payments for acquisition of short-term investments		(2,789)	(869)
Proceeds from sales and redemptions of short-term investments		1,032	4,840
Other, net		1,339	(586)
Net cash used in investing activities		(19,793)	(38,840)
Cash flows from financing activities:			
Funding from bonds and long-term borrowings		45,286	50,072
Redemptions of bonds and repayments of long-term borrowings		(53,406)	(47,694)
Net increase in short-term borrowings		39,974	32,277
Repayments for lease liabilities		(3,773)	(3,283)
Dividends paid	10	(23,185)	(22,184)
Payments for acquisition of noncontrolling interests		(24)	(963)
Other, net		1,280	786
Net cash provided by financing activities		6,152	9,011
Effect of exchange rate changes on cash and cash equivalents		(7,065)	1,682
Net decrease in cash and cash equivalents		(48,205)	(17,614)
Cash and cash equivalents, at the beginning of the period		199,665	229,123
Cash and cash equivalents, at the end of the period		¥ 151,460	¥ 211,509

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

1. REPORTING ENTITY

Kubota Corporation (the "Parent Company") is an entity located in Japan. The Parent Company and its subsidiaries (the "Company") manufacture and sell a comprehensive range of machinery and other industrial and consumer products, including farm equipment, engines, construction machinery, pipe-related products and environment-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.

2. BASIS OF FINANCIAL STATEMENTS

Compliance with International Financial Reporting Standards ("IFRS")

The condensed consolidated financial statements of the Company are prepared in accordance with International Accounting Standard ("IAS") 34, as permitted by the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (the "Ordinance") since the Company is fully qualified as a *Specified Company under Designated International Financial Reporting Standards* pursuant to the provision of Article 1-2 of the Ordinance. Since they do not include all the information and disclosures required for a complete set of financial statements, they should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

Basis of Measurement

Except for the items measured at fair value, such as financial instruments, the Company's condensed consolidated financial statements are prepared on a historical cost basis.

Functional Currency and Presentation Currency

The condensed consolidated financial statements of the Company are presented in Japanese yen, which is the Parent Company's functional currency, and figures are rounded to the nearest million yen.

Significant Accounting Judgements, Estimates, and Assumptions

The condensed consolidated financial statements of the Company are prepared by using judgements, estimates, and assumptions relating to the application of accounting policies and reporting of assets, liabilities, revenue, and expenses. Actual results could differ from those accounting estimates and assumptions.

The estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognized in the reporting period in which the change is made and in the future periods.

The significant accounting judgements, estimates, and assumptions made in preparing the condensed consolidated financial statements are consistent with those made in preparing the consolidated financial statements for the year ended December 31, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied on the condensed consolidated financial statements are consistent with those applied on the consolidated financial statements for the year ended December 31, 2019,

Income taxes on a quarterly basis are computed using the estimated annual effective tax rate.

4. SEGMENT INFORMATION

The Company engages in various fields of business and industries by providing products and services that 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, and construction machinery. The Water & Environment segment manufactures and distributes pipe- and infrastructure-related products (ductile iron pipes, plastic pipes, valves for public sector, industrial castings, ceramics, spiral welded steel pipes, air-conditioning equipment, and other products), and environment-related products (environmental control plants, pumps, valves for private sector and other products). The Other segment offers a variety of services.

Financial information of the segments 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 condensed consolidated financial statements.

Beginning with the current consolidated fiscal year, in conformity with the change in the business reporting structure of the Company, the amounts related to "Air-conditioning equipment" are reported in the "Water & Environment" segment, whereas they were formerly reported in the "Farm & Industrial Machinery" segment. The information for the prior fiscal year has been retrospectively adjusted to conform to the current fiscal year's presentation.

Information by reportable segment is summarized as follows:

(Unit: millions of yen)

Three months ended March 31:	Farm & Industrial Machinery	Water & Environment	Other	Adjustments	Consolidated
2020:					
Revenue:					
External customers	¥ 346,898	¥ 84,852	¥ 7,793	¥ —	¥ 439,543
Intersegment	43	271	7,019	(7,333)	—
Total	346,941	85,123	14,812	(7,333)	439,543
Operating profit	¥ 30,485	¥ 8,298	¥ 1,006	¥ (9,331)	¥ 30,458
2019:					
Revenue:					
External customers	¥ 386,575	¥ 86,001	¥ 8,136	¥ —	¥ 480,712
Intersegment	91	296	6,878	(7,265)	—
Total	386,666	86,297	15,014	(7,265)	480,712
Operating profit	¥ 51,459	¥ 9,388	¥ 1,075	¥ (9,041)	¥ 52,881

(Notes)

1. *Adjustments* include items such as the elimination of intersegment transfers and corporate expenses which are not allocated to any particular reportable segment. The corporate expenses included in *Adjustments* consist mainly of administration department expenses, basic research expenses, and foreign exchange gains or losses incurred by the Parent Company.
2. The aggregated amounts of operating profit are equal to those presented in the condensed consolidated statement of profit or loss. Please refer to the condensed consolidated statement of profit or loss for the reconciliation of operating profit to profit before income taxes.
3. Intersegment transfers are recorded at values that approximate market prices.

5. OTHER FINANCIAL ASSETS

Other financial assets are composed of the following:

	(Unit: millions of yen)	
	March 31, 2020	December 31, 2019
Financial assets measured at amortized cost:		
Long-term trade accounts receivable	¥ 38,174	¥ 37,880
Time deposits	34,209	31,147
Restricted cash*	12,182	13,661
Others	20,679	21,108
Financial assets measured at fair value through other comprehensive income:		
Debt financial assets	9,227	8,180
Equity financial assets	87,926	108,850
Financial assets measured at fair value through profit or loss:		
Derivatives	1,892	78
Total	¥ 204,289	¥ 220,904
Current assets	75,404	71,968
Noncurrent assets	128,885	148,936

(Note)

* Deposits pledged as collateral that are restricted from its withdrawal and advances received for public work that are restricted from its usage.

6. OTHER FINANCIAL LIABILITIES

Other financial liabilities are composed of the following:

	(Unit: millions of yen)	
	March 31, 2020	December 31, 2019
Financial liabilities measured at amortized cost:		
Lease liabilities	¥ 37,828	¥ 40,811
Notes and accounts payable for capital expenditures	24,594	27,288
Deposits received	21,134	19,204
Others	13,052	12,692
Financial liabilities measured at fair value through profit or loss:		
Derivatives	4,865	9,112
Total	¥ 101,473	¥ 109,107
Current liabilities	74,628	78,860
Noncurrent liabilities	26,845	30,247

7. OTHER LIABILITIES

Other liabilities are composed of the following:

	(Unit: millions of yen)	
	March 31, 2020	December 31, 2019
Employment benefit obligation	¥ 50,765	¥ 43,881
Accrued expenses	35,679	36,862
Refund liabilities	44,375	47,072
Contract liabilities	16,047	14,924
Others	51,274	55,134
Total	¥ 198,140	¥ 197,873
Current liabilities	193,326	192,959
Noncurrent liabilities	4,814	4,914

8. REVENUE

The following table presents the Company's revenue recognized from contracts with customers and other sources of revenue by product group and location:

Beginning with the first quarter of the current consolidated fiscal year, the Company reassesses product categories in response to change in the composition of segments. The comparative information has been retrospectively adjusted to conform to the current fiscal year's presentation.

(Unit: millions of yen)

Three months ended March 31, 2020	Japan	North America	Europe	Asia outside Japan	Other area	Total
Farm equipment and engines	¥ 57,578	¥ 107,814	¥ 37,823	¥ 56,837	¥ 7,106	¥ 267,158
Construction machinery	8,088	26,444	21,076	4,147	1,295	61,050
Farm & Industrial Machinery	65,666	134,258	58,899	60,984	8,401	328,208
Pipe- and infrastructure-related products	42,124	2,360	509	2,537	1,717	49,247
Environment-related products	33,861	134	88	1,206	316	35,605
Water & Environment	75,985	2,494	597	3,743	2,033	84,852
Other	7,709	1	1	10	—	7,721
Revenue recognized from:						
Contracts with customers	149,360	136,753	59,497	64,737	10,434	420,781
Other sources of revenue	667	12,360	—	5,388	347	18,762
Total	¥ 150,027	¥ 149,113	¥ 59,497	¥ 70,125	¥ 10,781	¥ 439,543

(Unit: millions of yen)

Three months ended March 31, 2019	Japan	North America	Europe	Asia outside Japan	Other area	Total
Farm equipment and engines	¥ 62,708	¥ 110,018	¥ 45,013	¥ 65,300	¥ 6,226	¥ 289,265
Construction machinery	8,722	38,926	22,159	7,060	2,959	79,826
Farm & Industrial Machinery	71,430	148,944	67,172	72,360	9,185	369,091
Pipe- and infrastructure-related products	38,548	2,091	378	3,065	2,303	46,385
Environment-related products	37,248	191	74	1,488	615	39,616
Water & Environment	75,796	2,282	452	4,553	2,918	86,001
Other	8,028	11	1	11	1	8,052
Revenue recognized from:						
Contracts with customers	155,254	151,237	67,625	76,924	12,104	463,144
Other sources of revenue	693	11,444	—	5,034	397	17,568
Total	¥ 155,947	¥ 162,681	¥ 67,625	¥ 81,958	¥ 12,501	¥ 480,712

Revenue recognized from other sources of revenue includes revenue from retail finance and revenue from finance lease using effective interest rate method. The amounts of the above revenue are ¥14,064 million and ¥13,300 million for the three months ended March 31, 2020 and 2019, respectively.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The Company adopted a restricted stock compensation plan (the "Plan") for the Company's Directors. Among the new shares issued under the Plan, contingently returnable shares are distinguished as participating equity instruments from common shares.

Each common share and participating equity instrument has the same right to profit attributable to owners of the parent.

The numerator and denominator used to calculate basic earnings per share attributable to owners of the parent are presented in the following table:

Three months ended March 31:	2020	2019
		(Unit: millions of yen)
Profit attributable to owners of the parent	¥ 20,756	¥ 37,282
Profit attributable to participating equity instruments	—	—
Profit attributable to common shareholders	¥ 20,756	¥ 37,282
		(thousands of shares)
Weighted-average number of common shares issued	1,219,928	1,232,121
Weighted-average number of participating equity instruments	5	3
Weighted-average number of common shares outstanding	1,219,923	1,232,118

There were no potentially dilutive shares outstanding for the three months ended March 31, 2020 and 2019.

10. DIVIDENDS

Dividends paid are as follows:

Three months ended March 31, 2020

Date of resolution	Class of shares	Dividends (millions of yen)	Dividends per common share (yen)	Record date	Effective date
The Meeting of the Board of Directors on February 14, 2020	Common shares	¥ 23,185	¥ 19.00	December 31, 2019	March 23, 2020

Three months ended March 31, 2019

Date of resolution	Class of shares	Dividends (millions of yen)	Dividends per common share (yen)	Record date	Effective date
The Meeting of the Board of Directors on February 14, 2019	Common shares	¥ 22,184	¥ 18.00	December 31, 2018	March 25, 2019

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are classified into the following three levels by inputs used for measurements:

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

Financial instruments measured at fair value

The following table presents fair values of financial instruments measured at fair value:

(Unit: millions of yen)

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets	¥ 9,227	¥ —	¥ —	¥ 9,227
Equity financial assets	84,591	—	3,335	87,926
Financial assets measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	—	1,604	—	1,604
Cross-currency interest rate swap contracts	—	288	—	288
Total	¥ 93,818	¥ 1,892	¥ 3,335	¥ 99,045
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 662	¥ —	¥ 662
Interest swap contracts	—	1,797	—	1,797
Cross-currency interest rate swap contracts	—	2,406	—	2,406
Total	¥ —	¥ 4,865	¥ —	¥ 4,865

(Unit: millions of yen)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets	¥ 8,180	¥ —	¥ —	¥ 8,180
Equity financial assets	106,218	—	2,632	108,850
Financial assets measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	—	64	—	64
Cross-currency swap contracts	—	14	—	14
Total	¥ 114,398	¥ 78	¥ 2,632	¥ 117,108
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 2,231	¥ —	¥ 2,231
Cross-currency swap contracts	—	100	—	100
Interest swap contracts	—	1,215	—	1,215
Cross-currency interest rate swap contracts	—	5,566	—	5,566
Total	¥ —	¥ 9,112	¥ —	¥ 9,112

Debt financial assets and equity financial assets classified in Level 1 are measured at fair value using quoted prices for identical assets in active markets.

Derivatives are classified in Level 2 since they are measured at fair value using observable market inputs obtained from major international financial institutions.

Equity financial assets classified in Level 3 are unlisted equity securities and measured at fair value using methods such as the comparable company comparison method with the earnings before interest and tax (“EBIT”) ratio (from -5.6 to 14.1), etc. As the EBIT ratio increases (decreases), the fair values on those equity financial assets increase (decrease).

Transfers between levels are recognized at the end of the reporting periods when such transfers occur. There were no significant transfers of financial instruments between the levels for the three months ended March 31, 2020 and 2019.

The following table presents reconciliation of financial instruments classified in Level 3:

(Unit: millions of yen)

Three months ended March 31:		2020		2019
Balance at the beginning of the period	¥	2,632	¥	3,025
Gains or losses*		763		(232)
Purchases		30		14
Sales		(90)		(7)
Balance at the end of the period	¥	3,335	¥	2,800

(Note)

* Gains or losses are those related to unlisted equity securities held as of March 31, 2020 and 2019, and included in net change in fair value of financial assets measured at fair value through other comprehensive income in the condensed consolidated statement of comprehensive income.

Financial instruments measured at amortized cost

The following table summarizes the carrying amount and fair value of financial instruments measured at amortized cost:

(Unit: millions of yen)

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair value	Carrying amount	Fair value
Finance receivables:				
Retail finance receivables	¥ 696,245	¥ 701,199	¥ 716,075	¥ 699,687
Finance lease receivables	250,142	290,763	277,096	316,736
Long-term trade accounts receivable	67,070	71,780	66,863	71,829
Bonds and borrowings	910,169	919,830	902,981	901,316

The fair value of finance receivables, long-term trade accounts receivable, and bonds and borrowings is stated at the present value of future cash flows discounted by the current market rate. Long-term trade accounts receivable in the above table includes the current portion, which is included in trade receivables in the condensed consolidated statement of financial position.

The carrying amounts of cash and cash equivalents, trade receivables (excluding the current portion of long-term trade accounts receivable), other financial assets (excluding debt financial assets measured at fair value, equity financial assets, and derivatives), trade payables, and other financial liabilities (excluding lease liabilities and derivatives) approximate their fair values due to their short-term maturity.

12. CONTINGENT LIABILITIES

Legal Proceedings

Since May 2007, the Company has been subject to 33 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 of all 33 lawsuits aggregate ¥28,475 million, which relate to 743 construction workers who suffered from asbestos-related diseases.

23 among 33 lawsuits were compiled into seven cases, which were decided in favor of the Company, but the plaintiffs appealed the court ruling of these seven cases. The appellate court ordered the Company to pay compensation damages of ¥7 million under the judgement. Apart from the above case, the four appellate courts ruled in favor of the Company, but the plaintiffs of the four cases appealed to the supreme courts.

Since the above cases will continue until an ultimate outcome is reached and the 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 predicting the ultimate outcomes of the above cases.

The Company reviews the status of each lawsuit on a regular basis by utilizing consultations of outside legal counsel, however, due to the above reasons, the Company believes that it is currently unable to predict the ultimate outcome of all lawsuits.

The Company does not have any cost-sharing arrangements with other potentially responsible parties, including the government for these 33 lawsuits.

Matters Related to the Health Hazards of Asbestos

The Company's plant in Amagasaki, Hyogo Prefecture, Japan, previously produced asbestos-related products. The Company decided to make voluntary consolation payments to certain residents in June 2005, and established a relief payment program in place as a voluntary 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.

In its effort to develop an estimate of future asbestos-related expenditures, the Company has considered all available data, including a time series of historical claims and payments, the rate of incidence of asbestos related disease, and public information related to asbestos-related disease. However the health hazards of asbestos tend to have a longer incubation period, and therefore reliable statistics related to the rate of incidence in asbestos-related disease are not available to the Company. Furthermore, since there have not been any asbestos-related events impacting other companies in Japan for which all claims have been finalized, for estimation of the rate of incidence, the Company believes it is not possible to decide the range of the final possible outcome in the future. For these reasons, the Company believes it is not possible to reliably estimate the amount of its ultimate liability, and the Company does not accrue on this contingency.

The Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the "New Asbestos Law") was established by the Japanese government, and 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.

The Company accrues asbestos-related expenses when the Company receives the related claims, which include 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 accrued balances for those expenses are ¥179 million and ¥143 million at March 31, 2020 and December 31, 2019, respectively. The asbestos related expenses recognized for the three months ended March 31, 2020 and 2019 were ¥189 million and ¥329 million, respectively.

13. SUBSEQUENT EVENTS

On April 17, 2020, pursuant to the provisions of the Article 165, Paragraph 2 of the Companies Act, the Board of Directors of the Parent Company resolved to acquire in the market up to 20 million shares and at a total price up to ¥20,000 million of the Parent Company's outstanding common shares on and after April 20, 2020 through December 14, 2020.

14. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved on May 14, 2020 by Yuichi Kitao, President and Representative Director of the Parent Company, and Masato Yoshikawa, Director and Senior Managing Executive Officer, General Manager of Planning & Control Headquarters of the Parent Company.

2. Other

On February 14, 2020, the Board of Directors of the Parent Company resolved and paid dividends as follows:

1) Shareholders to Be Paid Dividends

Shareholders of record on December 31, 2019

2) Amount of Dividends

¥19.00 per common share, a total of ¥23,185 million

3) Effective Date of Claim of Payment and Start Date of Payment

March 23, 2020

COVER

[Document Filed]	Confirmation Letter
[Applicable Law]	Article 24-4-8, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed to]	Director, Kanto Local Finance Bureau
[Filing Date]	May 14, 2020
[Company Name]	Kabushiki Kaisha Kubota
[Company Name in English]	Kubota Corporation
[Title and Name of Representative]	Yuichi Kitao, President and Representative Director
[Title and Name of CFO]	Masato Yoshikawa, Director and Senior Managing Executive Officer 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, Tokyo Head Office (1-3, Kyobashi 2-chome, Chuo-ku, Tokyo, JAPAN) Tokyo Stock Exchange, Inc (2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo, JAPAN)

1. Matters Related to Adequacy of Statements Contained in the Quarterly Report

Yuichi Kitao, President and Representative Director, and Masato Yoshikawa, Director and Senior Managing Executive Officer, General Manager of Planning & Control Headquarters, confirmed that statements contained in the Quarterly Report for the first quarter of the 131st business term (from January 1, 2020 to March 31, 2020) were adequate under the Financial Instruments and Exchange Act of Japan.

2. Special Notes

Not applicable.