

Financial Results for the six months ended June 30, 2019



Masato Yoshikawa

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

August 15, 2019



Financial Summary

For Earth, For Life


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

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

Revenue by Reportable Segment

For Earth, For Life


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

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

Revenue by Reportable Segment (Year-on-Year)

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

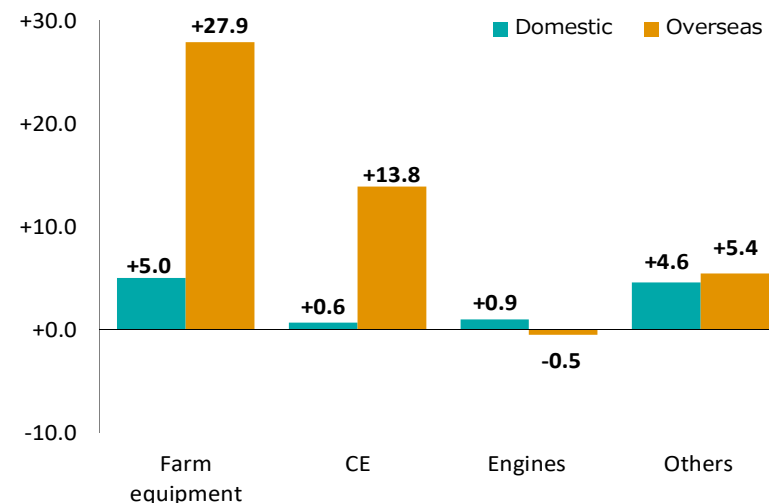
Domestic

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

Overseas

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

■ Changes in revenue by product (Billions of yen)



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

Domestic

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

Overseas

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

Operating Profit

For Earth, For Life
Kubota

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

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

1. Fluctuation in exchange rates	US\$ (109→110 *1) Euro (132→124 *1) Other currencies	+1.5 billion yen -3.0 billion yen -1.5 billion yen	-3.0 billion yen
---	--	--	-------------------------

2. Foreign exchange gain/loss			+1.5 billion yen
--------------------------------------	--	--	-------------------------

3. Material	Machinery Water	-4.0 billion yen -1.5 billion yen	-5.5 billion yen
--------------------	--------------------	--------------------------------------	-------------------------

4. Change in sales incentive ratio	U.S. : +8.8 billion yen etc.		+8.2 billion yen
---	------------------------------	--	-------------------------

5. Impact of increased sales			+17.0 billion yen
-------------------------------------	--	--	--------------------------

6. Sales price increase			+6.5 billion yen
--------------------------------	--	--	-------------------------

7. Other			-14.9 billion yen
-----------------	--	--	--------------------------

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

Operating Profit by Reportable Segment

For Earth, For Life


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

Profit Before Income Taxes/ Profit for the Period

For Earth, For Life
Kubota

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

Profit attributable to:

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

		Year ending Dec. 31, 2019	Year ended Dec. 31, 2018	Changes
Dividend per common share	Interim	17 yen	16 yen	+1 yen
	Year-end	(Undecided)	18 yen	-
	Total	(Undecided)	34 yen	-

〈Basic policy for the return of profit〉

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

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

Statement of Financial Position (Assets)

For Earth, For Life
Kubota

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

<Reference> Foreign exchange rate at the end of the term (yen)

U.S. dollar	108	111	-3
Euro	122	127	-5

Statement of Financial Position (Liabilities)

For Earth, For Life


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

Statement of Financial Position (Equity)

For Earth, For Life


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

Statement of Cash Flows

For Earth, For Life


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

Financial Services <Reference (unaudited)>

For Earth, For Life
Kubota

Statement of Financial Position

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

Statement of Profit or Loss (Financial Services)

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

Recent Developments In Machinery

Recent Developments in Machinery (U.S.)

U.S.

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

Tractors / RS

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

CE / RS

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

Engines / WS

Sales increased due to favorable demand for construction and industrial machinery.

■ YoY growth rate of retail sales units in the tractor market by horsepower ■ New privately owned housing units started (Seasonally adjusted annual rate)

		Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	Jan.-Jun.	Jan.-Dec.
2018	0-40hp	+1.6%	+11.6%	+13.1%	+7.3%	+8.3%	+9.2%
	40-120hp	-2.1%	+6.5%	-0.1%	+2.4%	+3.0%	+2.1%
	0-120hp	+0.4%	+10.3%	+8.7%	+5.5%	+6.8%	+7.0%
2019	0-40hp	+9.6%	+4.9%	-	-	+6.4%	-
	40-120hp	-1.0%	-0.1%	-	-	-0.4%	-
	0-120hp	+6.2%	+3.6%	-	-	+4.5%	-

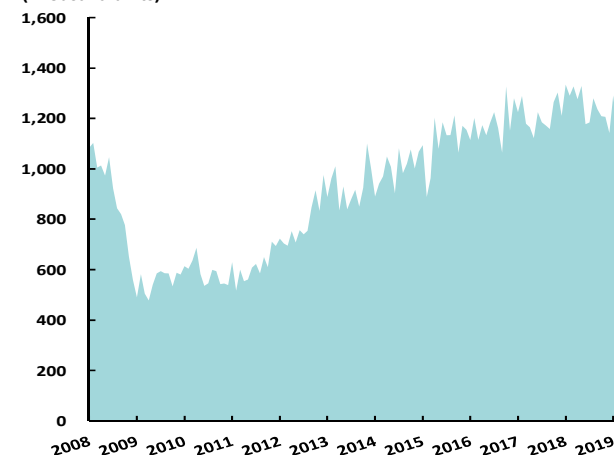
Source: AEM (Association of Equipment Manufacturers)

■ YoY growth rate of retail sales units in the mini-excavator market (0-8t)

		Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Jun.	Jan.-Dec.
2018		+5.9%	+15.3%	+14.1%	+0.8%	+11.6%	+9.3%
2019		+2.7%	+7.4%	-	-	+5.6%	-

Source: AEM (Association of Equipment Manufacturers)

(Thousand units)



Source: U.S. Census Bureau

* RS: Retail sales, WS: Wholesale

Recent Developments in Machinery (Europe)

For Earth, For Life
Kubota

Europe

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

Tractors / RS

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

Implements / WS

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

CE / RS

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

Engines / WS

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

Recent Developments in Machinery (Asia)

Thailand and neighboring countries

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

Tractors / RS

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

Combines / RS

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

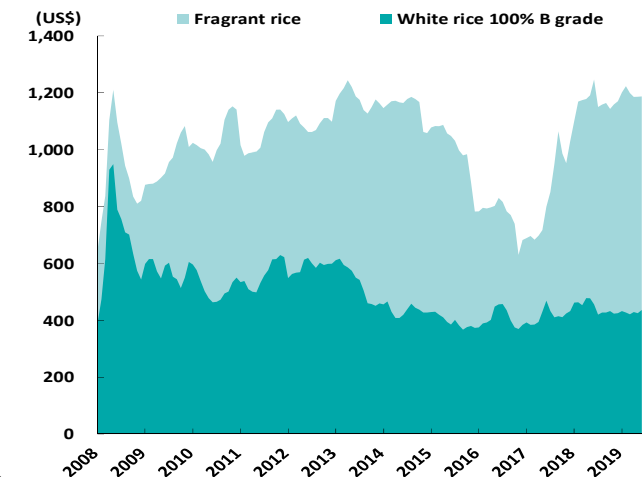
CE / RS

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

Exports to neighboring countries / RS

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

■ Export price of Thai rice (US\$/t)



Source: USDA, Thai Rice Exporters Association

Recent Developments in Machinery (Asia)

China

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

Tractors / RS

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

Combines / RS

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

Rice transplanters / RS

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

CE / RS

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

Engines / WS

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

■ Budgeted government subsidies for purchasers of farm equipment

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

Recent Developments in Machinery (Japan)

Japan

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

Farm equipment / RS

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

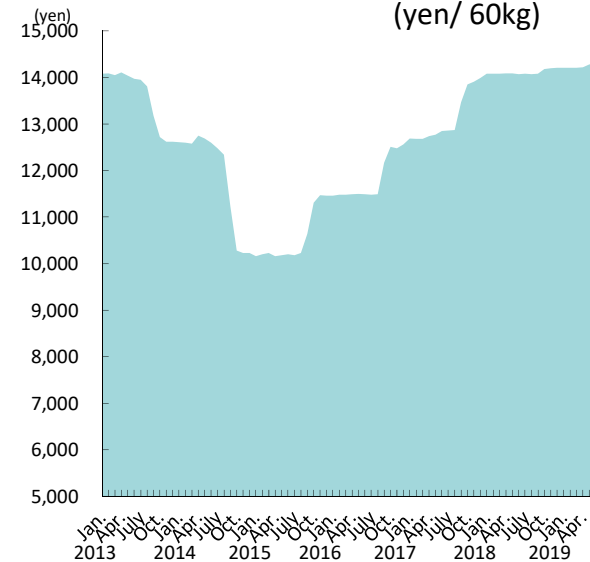
CE / RS

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

Engines / WS

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

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



Source: Ministry of Agriculture, Forestry and Fisheries

Forecast

Anticipated Operating Results

For Earth, For Life
Kubota

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

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

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

Exchange Rate, CAPEX, Depreciation and R&D Expenses

■ Anticipated foreign exchange rate

		Year ending Dec. 31, 2019			Year ended Dec. 31, 2018
		(Forecast)	(Original forecast)	(Actual)	(Actual)
¥/US\$	1st Half (Jan.-Jun.)	-	108	110	109
	2nd half (Jul.-Dec.)	106	108	-	112
	Full year average (Jan.-Dec.)	108	108	-	110
¥/Euro	1st Half (Jan.-Jun.)	-	122	124	132
	2nd half (Jul.-Dec.)	120	122	-	129
	Full year average (Jan.-Dec.)	122	122	-	130

■ CAPEX, Depreciation and R&D expenses

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

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

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
Kubota