



NEWS RELEASE

May 12, 2011
Kobelco Construction Machinery Co., Ltd.

Summary of Kobelco Construction Machinery's Financial Results for Fiscal 2010 (April 1, 2010 – March 31, 2011)

The Great East Japan Earthquake that occurred on March 11, 2011 caused devastating damage. We extend our heartfelt sympathy to the victims of the Earthquake.

Kobelco Construction Machinery Group sent relief goods for victims and donated hydraulic excavators to the disaster-stricken areas immediately after the Earthquake. From now on, it will focus on bringing the supply chain back to its normal state as quickly as possible and providing the disaster-stricken areas with its products and services in a swift manner. It will also make utmost efforts to meet the needs of its global customers.

[General Market Conditions in Fiscal 2010]

In the domestic construction machinery market, investment restraint and reluctance in buying continued since the Lehman Shock due to uncertainty over demand. However, renewal demand has been recovering gradually from the first half. Regarding the aggregate demand for hydraulic excavators in fiscal 2010, demand for heavy excavators and mini excavators increased by 40% and 30% respectively over the previous year.

As for the overseas construction machinery market, in China, despite concerns over tightening policy in response to the increasingly notable inflation trend, planned infrastructure development led by the government and demand for the mining industry continued to increase, and the market remained strong. In newly emerging countries in Asia, with Indonesia at the head of the group with the largest demand, demand from infrastructure developments, mine developments and forestry development, etc. increased. Also, there has been a sign of recovery in the U.S. market. On the other hand, the European market remained weak as a whole due to delays in recovering from the financial crisis, as each country faced different conditions from others.

The aggregate world demand, in summary, was 240,000 units for heavy excavators (70% increase over the previous year) and slightly under 100,000 units for mini excavators (nearly 40% increase over the previous year). Demand increased in all areas over the previous year.

Kobelco Construction Machinery Group initiated the "Medium-Term Management Plan <Fiscal 2010-2012>" from April 2010 and has been taking steps to reconstruct the business structure in order to respond to the globally expanding business. In fiscal 2010, completion of developing overseas production systems came into sight to an extent, with achievements such as increasing production capacity in China, which has grown into the largest market in the world, expansion of production menu and production capacity in the plant in Thailand, and starting full-scale operations in the plant in India. From this fiscal year, a project for establishing the Global Engineering Center (hereafter called GEC), which will aim at optimizing the production and development of the entire Group, will be initiated. Also, along with this, domestic production bases for medium- and large-sized hydraulic excavators will be relocated to the Itsukaichi Plant in Hiroshima city, which will be reorganized into a plant with competitiveness of the highest world standard. Construction of the buildings of the Itsukaichi plant is scheduled to start in June this year, aiming to start operations in May 2012.

Kobelco's hybrid hydraulic excavator, SK80H (hybrid), received the Minister of the Environment Award at the end of November last year. Not only the hybrid hydraulic excavators but also the energy saving technologies installed on the current standard models have contributed to the solid recognition of Kobelco as a provider of low energy consumption machines.

The Group achieved significant recovery in profits through concerted efforts made by the

entire Group. The financial results for fiscal 2011 (April 2010 – March 2011) were as follows:

<Financial Results for fiscal 2011>

In millions of yen		Net sales	Operating Income	Ordinary Income	Net Income
Consolidated	FY 2010	313,143 (+46.1%)	28,186 (+255.8%)	26,303 (+270.7%)	6,920 -
	FY 2009	214,345	7,921	7,095	-1,413

Note: Figures in parentheses () show the percentage changes over the previous year.

With regard to consolidated net sales, domestic sales were 84.1 billion yen (+8.5% year-on-year), and overseas sales were 229 billion yen (+67.4% year-on-year). Overseas consolidated sales accounted for 73.1% of the total consolidated sales. The percentage increased further in continuation from the previous fiscal year. (Percentage of overseas sales: FY2008: 60.3%, FY2009: 63.8%)

[Fiscal 2010: Review by Geographic Area]

■ Japan

The domestic construction machinery market recovered steadily. Demands for heavy excavators and mini excavators increased by 40% and 30% respectively over the previous year. However, demands for heavy excavators and mini excavators remain at 70% and 80% respectively of the levels in fiscal 2008, when the Lehman Shock took place.

The used equipment market remained weak due to supply shortage of used equipment associated with the recovery of domestic demand and worsened export environment caused by appreciation of the yen.

Amid the decline in public works, registration for the NETIS (New Technology Information System) by the Ministry of Land, Infrastructure, Transport and Tourism was made with an aim to carefully respond to the customer needs. Following the registration of “iNDR”, a noise reduction technology, “automatic idling stop function” was registered for all models, leading to a high reputation that this will enable increasing evaluation points on public works performance. Also, with regard to heavy excavators, not only the hybrid technology that was commended by the Minister of the Environmental but also the energy saving technology installed on current standard models have contributed to solid recognition of Kobelco as a provider of low energy consumption machines. The domestic share of heavy excavators exceeded 20%, making a great step forward to become the second largest in the industry.

As the domestic demand recovered and the overseas demand centered on newly emerging countries continued to increase steadily, parts shortages became a serious problem and efforts were made to secure parts. Also, in order to enhance cost competitiveness, we undertook productivity improvement activities and cost reduction (VE) activities. The activities that aimed to improve productivity by 30% was evaluated highly as “Karakuri Kaizen” (ingenious improvement), bringing confidence that the new Itsukaichi plant, construction of which will start in June this year, will become a plant that will have productivity and cost competitiveness of the world’s highest standard. Experienced generations and young generations are working together cooperatively trying to gather knowledge and innovation of the floor in preparation for creating the world’s strongest production base.

■ China

The aggregate demand in China for heavy excavators and mini excavators combined for 2010 (subject period in China: January-December) was 160,000 units (previous year: slightly over 90,000 units). Demand increased more than 70% over the previous year including demand for Chinese manufacturers. We have continued to take constant measures to increase medium- to long-term production capacity and meet the needs of the market. However, supply of parts could not catch up with the rapidly increasing demand from around the middle of last year, leading to an inability to quickly respond to some of

the requirements from the markets. Despite this, under the conditions where aggregate demand increased by 70%, Kobelco increased its sales by slightly over 90%, which was higher than the market growth, increasing its share in continuation from last year. Meanwhile, Chinese manufacturers, too, have been growing rapidly and their share in 2010 was as much as nearly 30% of the total.

Although the RMB 4-trillion public investments hammered out by the central government ended in 2010, the economy has been continuing to grow steadily in each area such as active public works, urban development and mine development, etc. While there are some uncertain elements such as tightening of monetary policies, the construction machinery market is expected to remain strong.

■ **Overseas (excluding China)**

In overseas markets excluding China, based on its global alliance with CNH, Kobelco developed its business primarily in the APAC area, which is its main territory.

In the APAC area, Southeast Asia as a whole has been continuing its self-sustaining growth. Demand increased by slightly over 70% from the previous year. This area experienced relatively small impact of the Lehman Shock, but even when compared to the level in 2008, demand for heavy excavators was 40% higher. Aggregate demand for heavy excavators in the entire Southeast Asian region reached just under 17,000 units in 2010, finally overtaking the aggregate demand in Japan. It is expected that this market will continue to follow a steady growth path in the future, while there will be some fluctuations.

In Indonesia, which is the largest market in Southeast Asia, the local corporation, Daya Kobelco (Pt. Daya Kobelco Construction Machinery Indonesia), celebrated the 10th anniversary of its establishment and is undertaking the tasks of enhancing its service structure and increasing its share in the area where growth is expected. At the plant in Thailand (Thai Kobelco Construction Machinery Ltd.), which is the production base in Southeast Asia, 30-ton machines were added to its production menu, and production of 30-ton machines together with 13-ton and 20-ton machines are being carried out to the full capacity. Also, the new plant in India (Kobelco Construction Equipment India Pvt. Ltd.), which had been under construction, started partial production at the end of last year and started full-scale operation in March this year.

The important management challenges for the being are to consistently absorb newly emerging markets which are mainly in Asia where the markets are steadily growing, as well as to establish a competitive production structure and to put the global sales and service structures on the right track.

On the other hand, in the U.S. and European markets, which are CNH's territories, conditions continued to be severe when compared to newly emerging countries.

[Outlook for Fiscal 2011 Onward and Key Issues in the Future]

The Great East Japan Earthquake that occurred on March 11, 2011 caused unprecedented damage. Fortunately, Kobelco Group had no fatalities among its employees and their families, and sustained no damage to its main production facilities. Also, no serious damage occurred on the facilities of its sales bases.

However, among not only direct business partners but also indirect business partners, there are some that were afflicted with significant damage, which caused some disruptions in distribution of parts. While it seems it will take some time before the supply chain starts to function normally, it is expected that the supply chain will be normalized gradually from around the middle of the first half and the recovery will continue throughout the fiscal year.

Currently, demand for hydraulic excavators is solid globally, and there are not many concerning elements in terms of demand. We will be able to catch up with the demand rapidly once it becomes possible for us to respond to the increasing demand in a timely manner.

The key phrases in the "Medium-Term Management Plan" that started from fiscal 2010 are "promotion of globalization" focusing on Asia, which is expected to grow in the medium- and long-term future, "enhancing technological development capabilities" as an engine for growth, and "strengthening manufacturing capabilities". Large scale investments have been frozen after the Lehman Shock. However, in order to develop business activities permanently, we

initiated the tasks of relocating production bases to the new Itsukaichi plant and reconstructing the business structure. The new plant will be transformed into a plant that has the world's highest standard with regard to medium- and large-sized hydraulic excavators, our main products. In addition, the GEC will be established as a control tower for optimizing the development and production of the Group as a whole.

Kobelco Construction Machinery Group will go back to the basis of manufacturing and strengthen its "manufacturing capabilities". In addition to quality improvement, productivity improvement activities and cost reduction (VE) activities in cooperation with the business partners will be promoted further. In the area of sales of marketing, effects of the integration into the two domestic subsidiary structure will be maximized and the growing markets, especially Chinese and newly emerging counties' markets will be cultivated further with a global perspective.

<Forecast for Fiscal 2011>

In fiscal 2011, demands are expected to grow in China and Southeast Asia and moderate recovery is expected in Japan and the U.S. In Europe, too, gradual recovery is expected. On the whole, continued expansion and growth are expected.

We are unable to disclose concrete forecasts due to high level of uncertainty.