

NEWS RELEASE

May 9, 2013
Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Annual Results for Fiscal Year 2012 (April 1, 2012 – March 31, 2013)

General Market Conditions and Financial Results in FY2012

In the domestic construction machinery market in fiscal 2012 (ended March 2013), reconstruction demand following the Great East Japan Earthquake as well as public construction investment against the background of a large-scale supplementary budget were steady, and demand grew centered on rental companies. Demand for mini excavators has been strong in earthquake-stricken areas, and reconstruction works have been gradually switching to those for daily living. As for the gross demand for hydraulic excavators in FY2012, demand for heavy excavators increased over 20% over the previous year and that of mini excavators increased slightly less than 30% over the previous year.

In the overseas construction machinery market (in the calendar year), the Chinese market, the biggest hydraulic excavator market in the world, declined due to the economic downturn. As a result, the gross demand for hydraulic excavators in China decreased by 40% over the previous year.

As for the markets in Southeast Asian countries, although natural resource-related demand was weak, demand in Southeast Asia as a whole increased slightly over 10% over the previous year, supported by the steady demand in infrastructure development. The market in the United States was also strong and increased by 30% over the previous year. Strong uncertainty is still lingering in the European market affected by the prolonged impact of the financial crisis, but there are signs that the fall had come to an end and the economy is turning up to a slight increase over the previous year.

To sum up, gross overseas demand for excavators decreased from the previous year to 240,000 units and that of mini excavators slightly increased over the previous year to 120,000 units.

As the final phase for the previous Fiscal 2010-2012 Medium Term Management Plan, Kobelco Construction Machinery Group launched the Global Engineering Center (hereinafter, "GEC") in April last year to optimize production and development of the entire Kobelco Construction Machinery Group. Kobelco relocated excavator production in May from the Gion Factory to the Itsukaichi area in Hiroshima. Kobelco completed relocation of the manufacturing line, including the assembly line and fabrication line, in nearly one year while continuing full production to accommodate domestic demand, and succeeded in creating a path to improve quality, productivity, and cost competitiveness.

As for new products, the group developed a 20-ton class hybrid hydraulic excavator, the SK200H, and started selling it from October 1, 2012. Additionally, it has made plans to start selling medium- and large-size hydraulic excavators that meet new emission regulations.

Despite some negative impact, including the prolonged stagnation of the Chinese market and a sudden fluctuation in the exchange rate, the Group worked in unity to achieve the following financial results for FY 2012 (April, 2012 to March, 2013).

<Financial Results for FY2012>

{Unit: million yen. () is the rate over the previous year}

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	Current Term (FY2012)	267,821 (-12.8%)	12,675 (-45.4%)	6,852 (-70.0%)	2,657 (-40.8%)
	Previous Term (FY2011)	307,159	23,200	22,865	4,488

Consolidated net domestic sales were 107.0 billion yen (+8.0% over the previous year), overseas sales were 160.7 billion yen (-22.7% over the previous year), and the ratio of overseas sales was 60.0%, decreasing two years in a row. (Ratios of the overseas sales in the last two years: 73.1% in 2010 and 67.7% in 2011).

FY2012: Kobelco Construction Machinery's Situation by Geographic Area

■ Japan

As for the Kobelco Construction Machinery Group's sales of hydraulic excavators in Japan in FY2012 over the previous year, that of heavy excavators increased by over 30% and that of mini excavators increased by 50%, exceeding the growth rate of the market because the demand in earthquake reconstruction as well as willingness to make investments in hydraulic excavator equipment throughout Japan intensified. The Group will continue to put the highest priority on the demand for earthquake reconstruction in Japan.

The used equipment market was weak due to several factors, including the lack of supply of used machines due to the promotion of inventory adjustment of machines in operation, changes in the Chinese market which is the largest export destination, and deterioration of the export environment due to the strong yen.

The new Itsukaichi Factory, where heavy excavators are manufactured, opened in May of last year. Relocation work continued while the facility was in full operation to accommodate the strong demand in Japan, and relocation was completed in January this year. Also at the Ogaki Factory, where mini excavators are manufactured, factory reforms have been sequentially carried out to improve productivity. Kobelco will complete them over the coming year. In addition to turning the two factories in Japan into production facilities with the highest levels of productivity and cost competitiveness in the world, Kobelco will improve and expand the activities of the GEC as the control center for development and production on a global level.

■ China

Gross demand for heavy and mini hydraulic excavators together in 2012 was approximately 100,000 units (170,000 units in the previous year), a decrease of about 40% over the previous year. Financial restraints, which had been continuing since 2011, triggered a serious economic downturn, and both overseas and Chinese manufacturers experienced decreases over the previous year. For Kobelco, demand for mini excavators increased over the previous year; but remained weak due to deterioration of the entire market.

Although it is uncertain as to when the demand for hydraulic excavators in China will recover, the fall appears to have come to an end, and demand is expected to gradually show positive signs. Growth speed is expected to transition more steadily than before because developments in various fields will make progress, including the development of inland areas and farming villages to adjust income disparity, as well as the development of sewerage and communication infrastructure in urban areas.

■ Overseas (excluding China)

In overseas markets excluding China, Kobelco operated mainly in the APAC area. Additionally, Kobelco had a global alliance with CNH Global N.V. for 10 years beginning in January 2002, but dissolved the alliance on December 31, 2012. For the first time in 10 years, Kobelco returned to the United States and Europe on its own. The group has been steadily working on establishing distribution networks in the United States and Europe.

Putting the business back on track in North America and Europe will be the challenge in the immediate future.

In the APAC area, Southeast Asia had been maintaining steady growth until the first half of fiscal 2012, but demand slowed down in the second half due to the decline in demand from mining. Gross demand for hydraulic excavators in Southeast Asia in FY2012 was 25,000 units, an increase of about 10% over the previous year. Looking at the major regions, gross demand in Thailand increased by 80% over the previous year due to the demand in flood reconstruction as well as steady economic growth. Much like the increase in demand, Kobelco's sales also increased by 80%. Indonesia showed a good performance in the first half, but its economy steeply declined in the second half due to the decline in the natural resource industry. As a result, demand in the full FY2012 decreased slightly over the previous year. Although Kobelco also slowed down in the second half, sales volume increased by over 40% over the previous year because the ratio of products for the sluggish mining industry was low and those for the palm tree industry and general civil engineering were high. It is expected that Southeast Asia will continue on a growth path although it may have some fluctuations.

Kobelco's share by sales in Southeast Asia increased by 6.7% over the previous year due to a number of factors, including bringing the annual production capacity to 5,500 units at its locally-incorporated company, Thai Kobelco Construction Machinery Ltd., in Thailand to eliminate the supply shortage.

Gross demand in India decreased by 7% due to the economic contraction. Though still on the road of market development, Kobelco Construction Equipment India Pvt. Ltd., an Indian subsidiary that sells the latest machines to the high-end market, increased its sales volume by 6% and minimized the impact of the economic downturn.

Projected Gross Demand, Key Issues, and Outlook for FY2013

<Projected Gross Demand in FY2013>

Demand in Japan is expected to continue to be firm centering on machines for rental companies, due to full-scale reconstruction from the Great East Japan Earthquake, higher demand before the increase in the consumption tax, and increased investments due to high expectations of Abenomics.

The Chinese market, which accounts for over half of the world market, has been stagnant in terms of large excavators for mining areas. However, demand for medium-size and mini excavators is expected to increase since general civil engineering and construction in urban areas have been intensifying. The Chinese market is expected to shift from economic contraction to steady growth.

In Asia, excluding China, demand is expected to maintain steady growth since it is basically on a growth path. Although some Southeast Asian countries are able to maintain independent growth, there are some countries affected by the economic stagnation in Europe and economic downturn in China. Other countries face economic slowdown due to political confusion and anti-inflation measures.

Demand in the United States is expected to recover steadily since construction for new energy projects, including shale gas, has been expanding and the number of housing starts has been recovering. Full recovery in Europe is expected to come further in the future. Although Europe has escaped from the financial crisis, debt issues still carry risks and financial restraint policies of each country will be maintained.

<Key Issues in FY2013>

Tackle the challenges by promoting a flexible yet strong management capable of adapting to changes in business environment.

- ◎ Focus on the U.S. and European operations, which Kobelco has re-entered for the first time in 10 years. Place the highest priority on developing a sales network, especially in North and South America.
- ◎ Improve the functions of the GEC as a control center. Further increase productivity and cost reductions at production bases both in Japan and overseas.
- ◎ Determine strategic parts and build a system to expand parts sales to improvement the foundation of the stock business.
- ◎ Improve services through utilization of IT data. Develop a service system which focuses on prevention and maintenance.

<Outlook for FY2013>

The overall outlook for FY2013 is as mentioned above. Although there are some uncertainties, including the timing of recovery in the Chinese and European economies, demand is expected to steadily improve as a whole because demand in Japan and Southeast Asian countries are anticipated to continue improving and demand in North America is expected to increase.

The outlook for FY2013 is as follows.

{Unit: million yen. () is the rate over the previous year}

	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated Outlook FY2013	307,000 (+14.6%)	18,000 (+42.0%)	12,000 (+75.1%)	7,000 (+163.5%)
Consolidated Results FY2012	267,821	12,675	6,852	2,657

(Exchange rate assumptions for FY2013: 1 US Dollar = 95 Yen, 1 Euro = 120 Yen)

- * The forecast above is based on the information available at the time of this announcement. The actual results may significantly differ due to various factors in the future.