

## **NEWS RELEASE**

May 13, 2014  
Kobelco Construction Machinery Co., Ltd.

### **Kobelco Construction Machinery's Annual Results for Fiscal Year 2013 (April 1, 2013 – March 31, 2014)**

#### **General Market Conditions and Financial Results for Fiscal 2013**

In fiscal 2013, the domestic construction machinery market grew mainly due to increased demand for machines for rental companies, owing to factors such as a full-fledged launch of earthquake reconstruction projects, inspection and renovation works for aging infrastructure to build national resilience, and last-minute demand due to stricter emission controls and the consumption tax increase from April 1, 2014. As for aggregate demand for hydraulic excavators, demand for heavy excavators increased over 40% year on year and demand for mini excavators increased over 20%.

In the overseas construction machinery market (in the calendar year), economic decline has stopped in China, which has the world's largest hydraulic excavator market, and there have been signs of recovery. Although construction projects related to daily living in urban areas have been steadily recovering, demand from mines and large scale developments remained stagnant. Demand for heavy excavators decreased slightly and demand for mini excavators increased over 10%. As a result, aggregate demand for hydraulic excavators (consisting of heavy and mini excavators) in China stayed the same as the previous year. Overall demand in Southeast Asian countries remained weak due to stagnation in resource-related projects, as well as stagnant economic growth caused by depreciation of currencies following quantitative easing reduction policies by the U.S. As a result, aggregate demand for heavy excavators in Southeast Asia decreased slightly less than 20% year on year. Although the North American market has shown a steady recovery for the last several years, this recovery has slowed, and the demand for heavy excavators decreased slightly year on year, while demand for mini excavators slightly increased. In Europe, there have been signs of recovery from stagnation due to the financial crisis, but the market did not show a strong recovery. As a result, demand for heavy excavators increased slightly year on year and demand for mini excavators decreased slightly less than 10%.

In terms of aggregate overseas demand, demand for heavy excavators decreased slightly year on year to 236,000 units. Demand for mini excavators increased slightly less than 10% to 136,000 units.

Fiscal 2013 was the first year of the Kobelco Construction Machinery Group's Medium-Term Business Plan (fiscal 2013 – 2015). In Japan, the Group kept both factories in Itsukaichi and Ogaki operating over their production capacity to meet the increasing demand. In Europe and the U.S., where the Group has entered for the first time in 10 years, the Group was able to establish sales networks at a higher rate than planned and affirmed the strength of the Kobelco brand, as well as the expectation of customers. The Group will continue providing meticulous services and high-quality products to maximize Kobelco's brand value throughout the world.

Kobelco Construction Machinery Group's business environment changed dramatically in fiscal 2013 due to factors such as the booming domestic market, sudden downturn in Southeast Asia, and re-entry to Europe and the U.S. However, through collective effort, the Group achieved the following financial results for fiscal 2013 (April, 2013 – March, 2014).

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	Current Term (Fiscal 2013)	318,217 (+18.8%)	24,561 (+93.8%)	15,119 (+120.6%)	15,699 (+490.8%)
	Previous Term (Fiscal 2012)	267,821	12,675	6,852	2,657

Consolidated net domestic sales were 138.3 billion yen (+29.2% year on year), overseas sales were 179.9 billion yen (+11.9% year on year), and the ratio of overseas sales to consolidated net sales decreased slightly year on year to 56.5%. (Ratios of overseas sales in the last three years: 73.1% in 2010, 67.7% in 2011, and 60.0% in 2012).

### Fiscal 2013: Kobelco Construction Machinery's Situations by Geographic Area

#### ■ Japan

Demand was brisk throughout the nation and rapidly increased not only in East Japan, which includes earthquake reconstruction areas, but also in West Japan and the Kyushu region.

As for the Kobelco Construction Machinery Group's domestic unit sales of hydraulic excavators in fiscal 2013, sales of heavy excavators increased 30% year on year and sales of mini excavators increased slightly less than 20% as customer appetite to make capital investments in hydraulic excavators grew throughout Japan. The Group operated at maximum production to meet increasing domestic demand, but could not meet the increased demand for heavy excavators. As a result, Kobelco's domestic market share for heavy excavators dropped slightly.

The used equipment market remained stagnant due to negative factors such as a supply shortage of used machines caused by inventory adjustment of operating machines, as well as unfavorable changes in the export environment, including the stagnation in major export destinations such as China and Southeast Asia.

At the Itsukaichi Factory and the Ogaki Factory, which manufacture heavy and mini excavators respectively, the Group was able to maintain production above capacity throughout fiscal 2013 owing to growing demand and productivity improvement reform. The Group will continue establishing global development and production systems by further expanding the operations of the Global Engineering Center (GEC), which has been taking the lead in production innovation, while also continuing with efforts to make the two factories in Japan achieve the world's highest level of productivity and cost competitiveness.

#### ■ China

Although the demand for hydraulic excavators in China has escaped the worst, aggregate demand for hydraulic excavators (consisting of heavy and mini hydraulic excavators) in 2013 stayed the same as the previous year at approximately 100,000 units. This was because demand for heavy excavators for mines and large-scale public civil engineering projects struggled while demand for mini excavators grew for small-scale construction projects in urban areas. Aggregate demand remained the same, but overseas manufacturers quickly got back on a track to recovery while Chinese manufacturers were struggling. Kobelco Construction Machinery Group's unit sales exceeded the market trend. Sales of heavy excavators increased slightly year on year while sales of mini excavators increased 40%.

#### ■ Overseas (excluding China)

In overseas markets excluding China, the Group engaged in business expansion in Europe and the U.S. in addition to the APAC region. In Europe and the U.S., the Group entered these markets in 2013 for the first time in 10 years and put effort into establishing distribution networks. As a result, the Group regained the same market level that it had before the dissolution of the partnership with CNH. The Group will continue providing meticulous services and high quality products to maximize Kobelco's brand value throughout the world.

In the APAC region, aggregate demand in Southeast Asia was stagnant and decreased slightly less than 20% year on year with heavy excavator sales of 20,000 units, due to various factors such as stagnation in resource-related projects, the impact of the quantitative easing reduction

policies by the U.S., and political instability. For example, in Indonesia, the largest market in Southeast Asia, demand was stable in the first half despite a slowdown due to factors such as stagnation in demand from mines, but it slowed down rapidly in the second half due to stagnant economic growth caused by the depreciation of the currency that was affected by the quantitative easing reduction policies by the U.S. The Kobelco Construction Machinery Group also suffered the impact of stagnant demand and its sales declined slightly less than 20%.

At Thai Kobelco Construction Machinery Ltd., a subsidiary in Thailand and a production base of Southeast Asia, the company reduced production to adjust inventory in response to stagnant demand in Southeast Asia.

Aggregate demand in India decreased over 20% due to the impact of the economic downturn. Kobelco Construction Equipment India Pvt. Ltd., a subsidiary in India, which has been developing the market in the country by selling state-of-the-art machines for the high-end market, also suffered the economic downturn. However, the company minimized the impact of the economic downturn and kept the decrease in its unit sales down to a little over 10%. Furthermore, in addition to its marketing activities in India, the company has commenced exports to the Middle East and other regions and has begun functioning as a hub for cross-sourcing under its strategy of overall optimization.

## **Projected Aggregate Demand, Key Tasks, and Outlook for Fiscal 2014**

### **<Projected Aggregate Demand for Fiscal 2014>**

Demand in Japan is anticipated to remain at a relatively high level owing to public construction projects and private capital investment against the backdrop of factors such as a full-fledged launch of earthquake reconstruction projects and inspection and renovation works for aging infrastructure to build national resilience. However, aggregate demand for new machines is anticipated to decrease in comparison with fiscal 2013, which saw accelerated demand that year caused by stricter emission controls and the consumption tax increase from April 1, 2014.

In China, demand for mid-size and mini excavators is forecast to remain steady since the number of construction projects that are related to daily living in urban areas has been increasing. However, it is anticipated that it would require some more time until full recovery because demand for large excavators used in mines and large-scale public construction projects has continued to be stagnant, lacks dynamism, and remains uncertain.

In Asia, excluding China, uncertainties such as the impact of the sluggish economy in China, political instability, and currency fluctuations still cannot be eliminated. However, demand in the region is anticipated to maintain a stable growth as the world's economic situation settles because the region is basically on a process of self-sustaining growth. In North America, rapid economic recovery seemed to have peaked last year, but demand is anticipated to show steady growth as the number of housing starts and construction projects related to new energies like shale gas increases. Europe is considered to have broken away from a tense financial crisis and is back on a gradual road to recovery, but full recovery is anticipated to come slightly further into the future because there are still uncertainties such as the situation in Ukraine.

### **<Key Tasks in Fiscal 2014>**

The Kobelco Construction Machinery Group will tackle challenges by expanding business and promoting a flexible yet strong management capable of adapting to changes in the business environment.

- ◎ Perform strategic tasks by each geographic area.  
Strengthening and stabilization of business in Europe and the U.S., improvement of strategic parts, improvement of service structure, etc.
- ◎ Move forward to become a stronger business entity.  
Expansion of cross-sourcing, maximization (securing and stabilization) of global production through productivity improvement, improvement of business performance through cost reduction, product quality improvement, and technological advancement.
- ◎ Prepare for the future.  
Commencement of a feasibility study for production in North America and shift to mass production of in-house manufactured core parts.

<Outlook for Fiscal 2014>

Decline due to the accelerated demand in the previous fiscal year is expected in Japan, and there are still uncertainties in China and Southeast Asia. However, sales and marketing activities will shift into full gear in North America and Europe where the group has newly entered. Therefore, overall demand is anticipated to show steady growth, and full production is forecast to continue at the Itsukaichi Factory and the Ogaki Factory, which manufacture heavy and mini excavators respectively. Based on this information, the outlook for fiscal 2014 is as follows.

{Unit: in millions of yen. ( ) indicates a year on year rate.}

	Net Sales	Operating Income	Ordinary Income	Net Income
Fiscal 2014 Consolidated Outlook	340,000 (+6.8%)	30,000 (+22.1%)	22,000 (+45.5%)	15,000 (-4.5%)
Fiscal 2013 Consolidated Results	318,217	24,561	15,119	15,699

(Exchange rate assumptions for fiscal 2014: 1 US Dollar = 103 Yen, 1 Euro = 140 Yen)

\* The forecast above is based on the information available at the time of this announcement.

Actual results may differ significantly due to various factors in the future.

Financial Results for Fiscal Year 2013 (April 1, 2013 – March 31, 2014)

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 Parent companies: Kobe Steel, Ltd. (Holds 96% of the company's shares)  
 Shinsho Corporation (Holds 4 % of the company's shares)

1. Consolidated Financial Results for Fiscal Year 2013  
 (April 1, 2013 – March 31, 2014)

## (1) Consolidated Business Results

(% indicates year on year rate of increase/decrease)								
	Net Sales		Operating Income		Ordinary Income		Net Income	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Fiscal 2013	318,217	18.8	24,561	93.8	15,119	120.6	15,699	490.8
Fiscal 2012	267,821	-12.8	12,675	-45.4	6,852	-70.0	2,657	-40.8

	Net Income per Share
	(yen)
Fiscal 2013	49.06
Fiscal 2012	8.30

## (2) Consolidated Financial Position

	Total Assets	Net Assets	Capital Ratio
	(million yen)	(million yen)	(%)
Fiscal 2013	443,124	104,039	16.9
Fiscal 2012	403,469	70,626	12.8

2. Projected Consolidated Financial Results for Fiscal Year 2014  
 (April 1, 2014 – March 31, 2015)

(% indicates year on year rate of increase/decrease)								
	Net Sales		Operating Income		Ordinary Income		Net Income	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Fiscal 2014 Consolidated	340,000	6.8	30,000	22.1	22,000	45.5	15,000	-4.5

## Notes:

The forecast above is based on information currently available and certain presumptions deemed reasonable. Actual results may differ significantly due to various factors.