

NEWS RELEASE

May 13, 2015
Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Annual Results for Fiscal Year 2014 (April 1, 2014 – March 31, 2015)

General Market Conditions and Financial Results for Fiscal 2014

In the domestic construction machinery market, there was steady demand for work on deteriorated infrastructure; construction related to the Tokyo Olympics; urban renovation investments such as the rebuilding of buildings; and Great East Japan Earthquake reconstruction projects. However, demand for hydraulic excavators mainly from major rental users had been satisfied and there was a strong reaction in fiscal year 2014 following the last-minute demand that occurred in fiscal 2013. As a result, aggregate demand for heavy hydraulic excavators in fiscal year 2014 decreased by slightly over 20% year on year. Demand for mini excavators on the other hand increased by 10% year on year owing to the smaller impact from emission regulations as well as steady demand from construction projects related to daily living in urban areas.

In the overseas construction machinery market (in the calendar year), demand in developed markets such as North America and Europe remained relatively steady. However, demand in China and emerging countries significantly declined.

In North America, housing construction and infrastructure development gradually recovered. Aggregate demand for heavy excavators increased year on year and that of mini excavators increased by 20%. In Europe, demand began to recover after bottoming out, despite weakness in some areas. As a result, demand for heavy excavators slightly increased year on year and that of mini excavators increased by slightly over 10%.

In China, the largest hydraulic excavator market in the world, demand for heavy excavators decreased by 20% and that of mini excavators decreased by slightly over 10% as demand from resource-related projects such as mines remained stagnant and the number of major public construction projects was small. The aggregate demand in China for heavy and mini hydraulic excavators together decreased by slightly less than 20%.

In Southeast Asian countries, countries such as Myanmar and the Philippines enjoyed higher aggregate demand. However, overall demand in the region remained sluggish, characterized by stagnation in Indonesia due to negative factors such as stagnant resource-related demand, concern over inflation due to the drop in currency value, and political turmoil. As a result, the aggregate demand for hydraulic excavators in Southeast Asia decreased by slightly less than 20% year on year.

In terms of aggregate world demand, demand for heavy excavators decreased by slightly over 10% year on year at 206,000 units and that of mini excavators slightly increased year on year at 140,000 units.

Fiscal year 2014 was the middle year of the Kobelco Construction Machinery Group's Medium-Term Business Plan (fiscal years 2013 – 2015). While there were some worries including the recovery of replacement demand in Japan; weak demand in China, Southeast Asia and other emerging countries; and other factors, the Group has steadily made progress in market development in Europe and North America, to which the Group has reentered. Both the Itsukaichi Factory and Ogaki Factory continued full production, exceeding their production capacities. Also, this January, the Group decided to build a production factory in North America one year ahead of the initial plan. The Group will continue providing meticulous service while

maximizing Kobelco's brand value throughout the world.

The market environment and business environment that surrounded the Kobelco Construction Machinery Group changed drastically in fiscal year 2014. However, through unified effort, the Group achieved the following financial results for fiscal year 2014 (April, 2014 – March, 2015).

<Financial Results for Fiscal Year 2014>

{Unit: in millions of yen. () indicates year-on-year ratio.}

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	Current Term (Fiscal 2014)	311,008 (-2.3%)	28,903 (+17.7%)	21,012 (+39.0%)	19,310 (+23.0%)
	Previous Term (Fiscal 2013)	318,217	24,561	15,119	15,699

Consolidated net domestic sales were 121.8 billion yen (-11.9% year on year) and overseas sales were 189.2 billion yen (+5.2% year on year). The ratio of overseas sales to consolidated net sales increased year on year and was 60.8%. (Ratios of overseas sales in the last three years: 67.7% in 2011, 60.0% in 2012, and 56.6% in 2013).

Fiscal Year 2014: Kobelco Construction Machinery's Situation by Geographic Area

■ Japan

Replacement demand from the rental industry had been satisfied due to factors such as the reaction to the last-minute demand in the previous year, but the Kobelco Construction Machinery Group minimized the impact of the downturn in demand by putting effort into the sales of products for general users as well. As a result, unit sales of hydraulic excavators decreased by 20% year on year for heavy excavators and increased by slightly less than 10% for mini excavators.

The used equipment market remained stagnant due to a decline in the supply of quality used machines as well as to stagnation in major export destinations such as China and Southeast Asia.

As for production, despite a decrease in domestic demand and stagnation in China and Southeast Asia, the Itsukaichi Factory, where heavy excavators are produced, and the Ogaki Factory, where mini excavators are produced, maintained full production, owing to the increased number of orders from Europe and North America, to which the Group reentered in 2013. Moreover, there has been an increasing number of urban renovation projects for the rebuilding of buildings. Therefore, the Group is increasing the production capacity for large excavators for demolition work, and full-scale implementation will commence from this May. The Group will continue establishing global development and production systems by further expanding the operations of the Global Engineering Center (GEC), which has been leading production reform, while also continuing with efforts to enable the two factories in Japan to achieve the world's highest level of productivity and cost competitiveness.

■ Europe and America

The Kobelco Construction Machinery Group made steady progress in establishing sales networks in the Americas and Europe to which the group reentered in 2013 for the first time in 10 years. At the end of last September, local subsidiary KCMU (KOBELCO CONSTRUCTION MACHINERY U.S.A. INC.) relocated its headquarters to a new location with a larger parts warehouse in order to accommodate the increasing need for service parts that have been arising with the expansion of the sales networks. Additionally, this January, the company decided to build a North American factory in South Carolina in the U.S. and is planning to commence operation from January next year. With the new production base in the U.S., the Group will put effort into penetrating the market while further incorporating the needs of North American users. The Group will continue supplying heavy excavators to Europe from the Itsukaichi Factory in Japan as there will be some capacity to spare due to the construction of the North American factory.

Unit sales have been steadily increasing and the market share for heavy excavators has been steadily improving throughout the year, with both the Americas and Europe having strong expectations for the KOBELCO brand. The Group will continue putting effort into penetrating these markets, because the Group believes that improving its presence in these stable markets will lead to the achievement of a 10% global market share, turning it into a truly global company.

■ China

Demand in China remained stagnant in general as demand from the mining sector continued to be sluggish, and there were delays in implementing public projects around the country that had already been approved. Under these harsh market trends, the Kobelco Construction Machinery Group did not resort to easy pricing policies and carefully operated the business while paying attention to credit management and other matters.

Kobelco focused on, among other items in its menu, mini excavators mainly for daily-living-related projects in urban areas. As a result, the unit sales in calendar-year 2014 decreased by slightly over 10% for heavy excavators year on year, but increased by slightly over 30% for mini excavators. The total unit sales for heavy and mini excavators together in the year decreased by slightly less than 10% year-on-year.

Aggregate demand has been declining substantially, but the Group minimized the extent of the decline and improved its market share. Demand has now cooled even further and the situation is harsh with no signs of a favorable turn.

■ Overseas (APAC Region, etc.)

The overall demand in the APAC region remained stagnant. In addition to the impact of the sluggish economy in China, the region has been suffering from common root causes of economic slump such as a decline in currency values and a consistent trend of inflation. As a result, the business environment for the construction machinery market was also harsh. The aggregate demand for heavy excavators in Southeast Asia for the term (Jan. – Dec. 2014) decreased by slightly less than 20% year-on-year, and Kobelco Construction Machinery's sales decreased by 30%. In India, aggregate demand decreased by slightly less than 10%, but Kobelco Construction Machinery's sales increased by slightly over 10% as there was a steady market for high-performance machines.

For now, the APAC region will continue experiencing stagnation and the uncertain situation is expected to continue. The situation is unpredictable as the region has a weak economic base.

Key Tasks and Outlook for Fiscal 2015

<Projected Aggregate Demand for Fiscal 2015>

Demand in Japan is expected to continue declining year on year since replacement demand has already been satisfied.

Demand in China is expected to continue declining further year on year because users have low motivation for capital investment due to continuing delays in the progress of major infrastructure investment projects. As for Southeast Asia, recovery in demand in Indonesia, a country with the largest demand in the region, will be the key. Although there are expectations for infrastructure investment, more intense competition with other companies is expected due to the significant decline in demand from the mining industry as well as to the continuing anxiety over the weak currency and inflation. Thailand is expected to show a gradual recovery since the political turmoil has ended. Taking into account these conditions, the overall demand in Southeast Asia is forecast to be at the same level as in the previous year.

In the U.S., the overall growth seems to have paused. While housing construction starts continue to be steady, there have been signs of decline in the shale oil and shale gas development projects due to the impact of low crude oil prices, and related demand has been sluggish. Therefore, demand in the U.S. is expected to be at the same level as the previous

year. In Europe, there has been a gradual recovery trend mainly in major countries but there is stagnation in Southern Europe. Therefore, demand in the construction machinery market in Europe is forecast to be slightly lower than the previous year.

<Key Tasks in Fiscal 2015>

Fiscal year 2015 will be the final year of the Medium-Term Business Plan, and the Kobelco Construction Machinery Group will promote the improvement of corporate performance to build a strong business entity by increasing sensitivity to changes in the business environment and steadily carrying out key tasks over the medium term. Specifically, the Group will promote IT strategies, improve the parts business, promote the restructuring of the Numata Factory, improve production capacity to produce large machines, and meet the demand for demolition machines, smoothly launch the North American factory.

The Kobelco Construction Machinery Group believes that it is important to position itself as a challenger and further differentiate itself from competitors in order to establish a stronger presence in the market. The Group will formulate the next medium-term business plan within this fiscal year by identifying and reviewing business issues one by one.

<Outlook for Fiscal 2015>

While marketing in North America and Europe to which the Kobelco Construction Machinery Group has newly entered will shift into full gear, the impact of the last-minute demand in Japan is expected to continue into this year and the stagnation in China and Southeast Asia will continue. Therefore, overall demand is expected to remain at a low level. Although production in China, Thailand, and other countries will be sluggish due to the stagnation in emerging countries, the Itsukaichi Factory, where heavy excavators are produced, and the Ogaki Factory, where mini excavators are produced, are expected to remain in full production. Based on these conditions, the outlook for fiscal 2015 is as follows.

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

	Net Sales	Operating Income	Ordinary Income	Net Income
Fiscal 2015 Consolidated Outlook	315,000 (+1.3%)	27,000 (-6.6%)	20,000 (-4.8%)	13,500 (-30.1%)
Fiscal 2014 Consolidated Results	311,008	28,903	21,012	19,310

(Exchange rate assumptions for fiscal 2015: 1 US Dollar = 120 Yen, 1 Euro = 135 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.

KOBELCO CONSTRUCTION MACHINERY CO., LTD.

Financial Results for Fiscal Year 2014 (April 1, 2014 – March 31, 2015)

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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 2014
 (April 1, 2014 – March 31, 2015)

(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 2014	311,008	-2.3	28,903	17.7	21,012	39.0	19,310	23.0
Fiscal 2013	318,217	18.8	24,561	93.8	15,119	120.6	15,699	490.8

	Net Income per Share
	(yen)
Fiscal 2014	60.34
Fiscal 2013	49.06

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital Ratio
	(million yen)	(million yen)	(%)
Fiscal 2014	455,401	136,327	22.6
Fiscal 2013	443,124	104,039	16.9

2. Projected Consolidated Financial Results for Fiscal Year 2015
 (April 1, 2015 – March 31, 2016)

% 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 2015 Consolidated	315,000	1.3	27,000	-6.6	20,000	-4.8	13,500	-30.1

Notes:

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