

NEWS RELEASE

May 17, 2016
Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Annual Results for Fiscal Year 2015 (Excavator Business) (April 1, 2015 – March 31, 2016)

General Market Conditions and Financial Results for Fiscal 2015

In the domestic hydraulic excavator market (in the fiscal year), demand for excavators from general users increased slightly year-on-year, but demand centering mainly on major rental users continued declining from the previous fiscal year. As a result, in fiscal 2015, aggregate demand for heavy excavators decreased by slightly over 20% year-on-year. Meanwhile for mini excavators, there was last-minute demand in the first half of the fiscal year before stricter emission standards went into effect, but demand declined year-on-year in the second half, ending up with a slight year-on-year increase.

In the overseas hydraulic excavator market (in the calendar year), demand in developed markets such as North America and Europe generally remained low. In North America, there were some bright signs in housing construction and other areas, but signs of decline began to show in capital expenditures and other areas due to the sluggish growth of shale oil as well as the stagnant economy in developing countries. As a result, aggregate demand for heavy excavators decreased by slightly less than 10% year-on-year and that of mini excavators increased by slightly less than 10% year-on-year. Europe lacked vigor in general, and demand for heavy excavators decreased by slightly less than 20% year-on-year and that of mini excavators also decreased by over 10%, remaining stagnant in general for a developed market.

In China, the largest hydraulic excavator market in the world, the government implemented economic stimulus measures. However, they did not have an impact on the demand for hydraulic excavators. As a result the year-on-year demand for hydraulic excavators faced a significant decline with a slightly over 40% decline in heavy excavators and a slightly less than 20% decline in mini excavators, and aggregate demand for heavy and mini excavators together in China decreased by slightly less than 40%.

Among the developing countries, India enjoyed strong demand with a slightly over 10% increase in the aggregate demand. In Southeast Asia, Thailand and the Philippines, demand remained steady but Indonesia, with the highest demand, remained stagnant. 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 20% year-on-year with 159,000 units and that of mini excavators decreased slightly year-on-year with 141,000 units.

In fiscal 2015, we faced a very harsh market environment for hydraulic excavators. The Kobelco Construction Machinery Group set aside on allowance for doubtful accounts in China, Indonesia, and other countries where the market environment significantly worsened, posted an impairment loss on equity-valued affiliates companies in China, and completed inventory adjustment by radically adjusting production in China where demand steeply declined. Meanwhile, the Group put effort into expanding into the markets of the Americas and Europe to which it had re-entered in 2013 as well as developing new markets such as the Middle East and Africa. In Japan, despite the huge decline in demand for excavators from major rental

users, the Group minimized the impact of the stagnant demand by putting effort into attracting general users through various measures including sales promotion for building demolition machinery.

Under the rapidly-changing market and business environment that surrounded the company, the financial results for fiscal 2015 (April, 2015 – March, 2016) were as follows.

<Financial Results for Fiscal 2015>

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

		Net Sales	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Consolidated	Fiscal 2015 (year-on-year rate)	271,775 (-12.6%)	-7,160 (-124.8%)	-14,495 (-169.0%)	-39,830 (-306.3%)
	Fiscal 2014	311,008	28,903	21,012	19,310

Consolidated net domestic sales were 117.6 billion yen (-3.5% year-on-year) and overseas sales were 154.2 billion yen (-18.5% year-on-year), and the ratio of overseas sales to consolidated net sales decreased year-on-year to 56.7%. (Ratios of overseas sales in the last three years: 60.0% in 2012, 56.6% in 2013, and 60.8% in 2014).

Fiscal 2015: Kobelco Construction Machinery's Business Conditions (for Excavators) by Geographic Area

■ Japan

In Japan, sales continued to be affected by the backlash in last-minute demand from the previous fiscal year, and particularly the demand for excavators for rental users declined significantly as the renewal demand had already been satisfied. Meanwhile, the Group minimized the impact of stagnant demand by putting effort into expanding sales to relatively steady general users and by steadily working to meet the demand for building demolition machinery, which showed an upward trend. As a result, domestic heavy excavator unit sales decreased by 20% year-on-year, although the Group's market share improved slightly. Unit sales of mini excavators increased slightly.

Domestic production levels remained slightly under the production capacity both at the Itsukaichi Factory and Ogaki Factory due to factors such as the decreased demand in Japan and Southeast Asia. In the meantime, to respond to increasing activity in building demolition work such as for building reconstruction, the Group expanded its plant capacity for large construction machinery and commencing full-scale operation in May last year, which was followed by continued full production.

The Group will proceed to build global development and production systems by further expanding the operations of the Global Engineering Center (GEC), which has been leading production innovation, while also continuing with efforts to enable the two factories in Japan to achieve the world's highest levels of productivity and cost competitiveness.

■ Europe and America

Along with expanding its sales network, U.S. subsidiary KCMU (Kobelco Construction Machinery U.S.A. Inc.) was proceeded with the construction of a plant in South Carolina, U.S.A and has commenced trial production in anticipation of full-scale operation. An opening ceremony has been scheduled for June. The establishment of a sales network progressed steadily in Europe as well.

As unit sales in Europe and the Americas increase, issues to improve customer service have started to appear. For further growth, the Group will continue putting effort into the penetration of these markets because the Group believes that improving its presence in these stable markets will lead to the achievement of a 10% share in the global heavy excavator market and to becoming a truly global company.

■ China

In China, judging that the business environment will remain harsh amid aggregate demand declining by half, the Group operated its business as carefully as possible by implementing various measures such as a large adjustment in production, impairment loss on equity-valued affiliates in China, and setting aside allowance for doubtful accounts. As a result, unit sales in calendar year 2015 (Jan. – Dec.) decreased mostly in conjunction with aggregate demand, with an year-on-year decrease of slightly less than 50% in heavy excavator sales, but the market share of 12 overseas companies increased. The mini excavator unit sales decreased by slightly over 30%. As a result, the total unit sales for heavy and mini excavators together in China during this term decreased by slightly less than 50% year-on-year.

For now, demand has continued to cool down and it is unclear as to how much the government's economic stimulus measures will succeed in expanding demand. Therefore, it is expected that it will take some time for demand to make a favorable turn.

■ Overseas (APAC Region, etc.)

The overall demand in the APAC region remained stagnant due to common factors such as a decline in currency values and constant inflation in addition to the impact of the stagnant economy in China. The Group operates its business carefully while placing importance on processing account receivables centered on Indonesia. As a result, heavy excavator unit sales in Southeast Asia in calendar year 2015 (Jan. – Dec.) decreased by slightly over 10% in conjunction with aggregate demand.

While markets continued suffering from stagnant demand throughout the world, demand in India expanded steadily due to increasing numbers of infrastructure development projects such as road construction, as well as the expansion of demand in quarrying and sand mining. The Group has been targeting high-end machinery customers and ensure to accommodate their demand. As a result, heavy excavator unit sales exceeded growth in demand and increased by slightly over 20% year-on-year.

For now, the APAC region is still suffering from stagnation, but some areas are beginning to show recovery. Therefore, it is expected that the region will be on track toward recovery as each country's currency and economic base gain stability.

Kobelco Cranes' Annual Results for Fiscal Year 2015 **(April 1, 2015 – March 31, 2016)**

General Market Conditions and Financial Results for Fiscal 2015

Demand in the domestic crawler crane market increased by about 10% year-on-year with approximately 560 units (all numbers of units hereinafter are estimates by Kobelco Cranes) as demand remained strong centering on the Kanto region due to factors such as Tokyo Olympics-related facilities and urban redevelopment projects.

In overseas markets, demand varied by region but overall demand decreased by about 10% year-on-year to 2,100 units. As for market trends by region, demand in North America, which accounts for about 20% of aggregate world demand, increased by slightly over 10% while the center of demand shifted from shale oil-related projects to plant and infrastructure construction-related projects. Demand in Europe increased by slightly over 30% centered on the U.K. which enjoyed an expansion in domestic demand. Meanwhile, demand in APAC, which accounts for about 20% of aggregate world demand, decreased by slightly over 10% year-on-year with significant decline in demand centered on Southeast Asia and Korea due to factors such as the decline in crude oil prices and the stagnant Chinese economy. Moreover, China, which accounts for about 30% of aggregate world demand, is still struggling and India has yet to reach a full recovery.

Under this changing market environment, Kobelco Cranes put effort into maximizing sales and orders from customers by responding to the changes flexibly through cooperation between the production and sales teams. However, the company posted a loss on the business of subsidiaries and associates (extraordinary loss) for its Chinese companies with no sign of improvement in the business environment. Furthermore, profitability in Southeast Asia worsened and costs for product quality maintenance and improvement increased. As a result, business results for fiscal 2015 were as follows.

<Financial Results for Fiscal 2015>

{Unit: in millions of yen}

		Net Sales	Operating Income/Loss	Ordinary Income/Loss	Net Income/Loss
Consolidated	Fiscal 2015 (year-on-year)	72,799 (+2.4%)	3,430 (-33.5%)	2,446 (-52.7%)	-1,890 (-149.2%)
	Fiscal 2014	71,120	5,157	5,168	3,841

Crane Business

As for domestic sales, unit sales increased by slightly less than 10% year-on-year against the background of vigorous demand, enabling us to achieve the highest crawler crane unit sales again this year, following on from last year, ever since the company's foundation. The company has been maintaining strong sales by introducing new products tailored to clients' needs such as the MK 650 for harbors and the BM1500G for foundation and civil engineering work.

As for overseas sales, the sales of machinery for Europe and North America remained strong, but the sales of machinery for Southeast Asia and East Asia declined significantly with the decline in demand. As a result, overseas unit sales decreased by about 5% year-on-year. For Europe and North America, the company has been gradually introducing new models that are compliant with Tier 4 emission standards since November, 2015.

As for production, the company succeeded in reducing the lead time of overseas models by employing an assemble-to-order production method under the "Cross Magma Project," a manufacturing innovation project. The company will continue putting effort into reducing the lead time of models for domestic clients.

In India, although demand for crawler cranes remained stagnant, the company worked to meet demand under a direct sales and services system. Additionally, contract manufacturing from Japan, which commenced in May, is growing steadily centering on Southeast Asia, establishing a production and sales base for machinery exports to Asian countries.

In China, demand for crawler cranes remained stagnant due to the economic downturn, with no sign of recovery.

Key Tasks and Outlook for Fiscal 2016

<Key Tasks in Fiscal 2016>

This April, Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes, Co., Ltd. merged and became a new company that operates both the excavator and crane businesses. The largest tasks will be the generation of synergy by leveraging both companies' strengths. Additionally, a new Medium-Term Management Plan that will take the company to 2020 has been launched. There are various tasks that need to be addressed, including: dealing with the stagnation in China and developing countries; the smooth launch of the U.S. plant, which will commence operation soon; the formulation of a concrete strategy to promote the large crane

business; and in Japan the development of ICT technologies that Kobelco aims to achieve. The company will strive to address each specific measure under the new Medium-Term Management Plan that continues until 2020.

<Fiscal 2016: Aggregate Demand Forecast (Excavators)>

Demand in Japan is expected to continue declining year-on-year and remain stagnant since renewal demand has already been satisfied. In China, expansion in infrastructure investment is expected, but the number of non-operating machines in the market is high, and it will take some time for demand for new machinery to take a favorable turn. Therefore, aggregate demand is expected to remain rather weak year-on-year. In Southeast Asia, against the background of low resource prices and other factors, demand for hydraulic excavators is expected to recover gradually as country risks decline and as each country's economic environment improves. Therefore, overall demand in Southeast Asia is expected to increase slightly year-on-year.

In the U.S, demand is expected to decline year-on-year due to factors such as stagnation in shale oil-related projects and sluggish capital expenditures against the backdrop of the strong dollar. In Europe as well, demand is expected to decline slightly year-on-year without a favorable turn in the economy due to concern over deflation.

Based on these conditions, it is expected that world demand for heavy excavators will be 154,000 units and that of mini excavators will be 133,000 units.

<Fiscal 2016: Business Forecast (Excavators)>

The market environment in fiscal 2016 is expected to remain at the same level as fiscal 2015. Although the market environment will not make a favorable turn, fiscal 2016 financial results are expected to go into the black due to the effects of various measures. Examples include an impairment accounting has already been performed on equity-valued affiliates in China and consolidated profits from 2016 will not be affected; sufficient allowance for doubtful accounts have been set for China and Indonesia where markets experienced a steep decline; inventory adjustment in China has already been completed and the production system for 2016 has been adjust to market sales. Furthermore increase in sales are expected in Europe and the Americas.

<Fiscal 2016: Aggregate Demand Forecast (Cranes)>

In the domestic crawler crane market, there have been delays in construction projects in some regions due to the sharp rise in construction material prices and labor shortages, as well as a slight deceleration trend. However, overall domestic demand is expected to remain at a high level centering on the Kanto region due to factors such as full-scale construction work of Olympics-related projects.

In the U.S., demand for crawler cranes is expected to increase as there are stable numbers of plant and infrastructure development projects. Meanwhile, Southeast Asia and East Asia are expected to grow on a medium- to long-term basis, but it is also expected to take time for recovery. Therefore, demand in those regions in fiscal 2016 is expected to fall below the previous year. Also, China is expected to face a further decline and India is expected to make a gradual shift to recovery. Overall overseas demand is expected to decrease by about 10% year-on-year.

<Fiscal 2016: Business Forecast (Cranes)>

In the domestic crawler crane market, there have been delays in construction projects in some regions due to the sharp rise in construction material prices and labor shortages, as well as a slight deceleration trend. However, overall domestic demand is expected to remain at a high level centering on the Kanto region.

As for overseas markets, demand is expected to increase in North America and India but that of Southeast Asia and East Asia is expected to remain stagnant. Overall demand is expected to decrease by about 10% year-on-year.

In response to the changing market trends, the company will enhance its corporate capabilities for business stabilization through the minimization of opportunity loss and the establishment of

a production system capable of changing flexibly based on the number of orders, by transferring the production capacity for overseas to the domestic market, for example.

Based on these conditions, the outlook for fiscal 2016 is as follows.

{Unit: in millions of yen}

	Net Sales	Operating Income	Ordinary Income	Net Income
Fiscal 2016 Consolidated Outlook	335,000	13,000	8,000	4,000

(Exchange rate assumptions for fiscal 2016: 1 US Dollar = 115 Yen, 1 Euro = 130 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 2015 (April 1, 2015 - March 31, 2016)

Company: Kobelco Construction Machinery Co., Ltd.
Phone number: 03 (5789) 2111
Representative: Kazuhide Naraki (President, CEO and Representative Director)
In charge of inquiries: Hiroyuki Hosomi (General Manager, Corporate Planning & Administration Dept.)
Parent company: Kobe Steel, Ltd. (Holds 100% of the company's share)

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

(1) Consolidated Business Results (Former Kobelco Construction Machinery)

(% indicates year-on-year rate of increase/decrease for the quarter)

	Net Sales		Operating Income/Loss		Ordinary Income/Loss		Net income/loss attributable to owners of parent	
	(million yen)	%	(million yen)	%	(million yen)	%	(million yen)	%
Fiscal 2015	271,775	-12.6	-7,160	-124.8	-14,495	-169.0	-39,830	-306.3
Fiscal 2014	311,008	-2.3	28,903	17.7	21,012	39.0	19,310	23.0

	Net Income/Loss per Share
	(yen)
Fiscal 2015	-124.46
Fiscal 2014	60.34

(2) Consolidated Financial Position (Former Kobelco Construction Machinery)

	Total Assets	Net Assets	Capital Ratio
	(million yen)	(million yen)	(%)
Fiscal 2015	372,130	71,153	14.2
Fiscal 2014	455,401	136,327	22.6

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

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Fiscal 2016 Consolidated	335,000	-	13,000	-	8,000	-	4,000	-

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

*Figures for the crane business have been incorporated into the forecast above.

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

(1) Consolidated Business Results (Former Kobelco Cranes)

(% indicates year-on-year rate of increase/decrease)

	Net Sales		Operating		Ordinary Income/Loss		Net income/Loss attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal 2015	72,799	2.4	3,430	-33.5	2,446	-52.7	-1,890	-149.2
Fiscal 2014	71,120	25.6	5,157	53.4	5,168	61.5	3,841	8.8

	Net Income/Loss per Share
	(yen)
Fiscal 2015	-18,211.18
Fiscal 2014	37,007.49

(2) Consolidated Financial Position (Former Kobelco Cranes)

	Total Assets	Net Assets	Capital Ratio
	(million yen)	(million yen)	(%)
Fiscal 2015	67,109	27,850	40.2
Fiscal 2014	66,459	31,682	46.0