



**IR Small Meeting**

**KOBELCO Group  
Initiatives on Construction  
Machinery Business**

June 27, 2022

Kobe Steel, Ltd.

Kobelco Construction Machinery Co., Ltd.

**01. Introduction**

02. Medium- to Long-Term  
Goals and Initiatives

03. Vision for FY2025

## KOBELCO Group Status of Profitability (ROIC)

Target under the Medium-Term Management Plan

### Vision of KOBELCO

Solving social issues and creating economic value through business activities



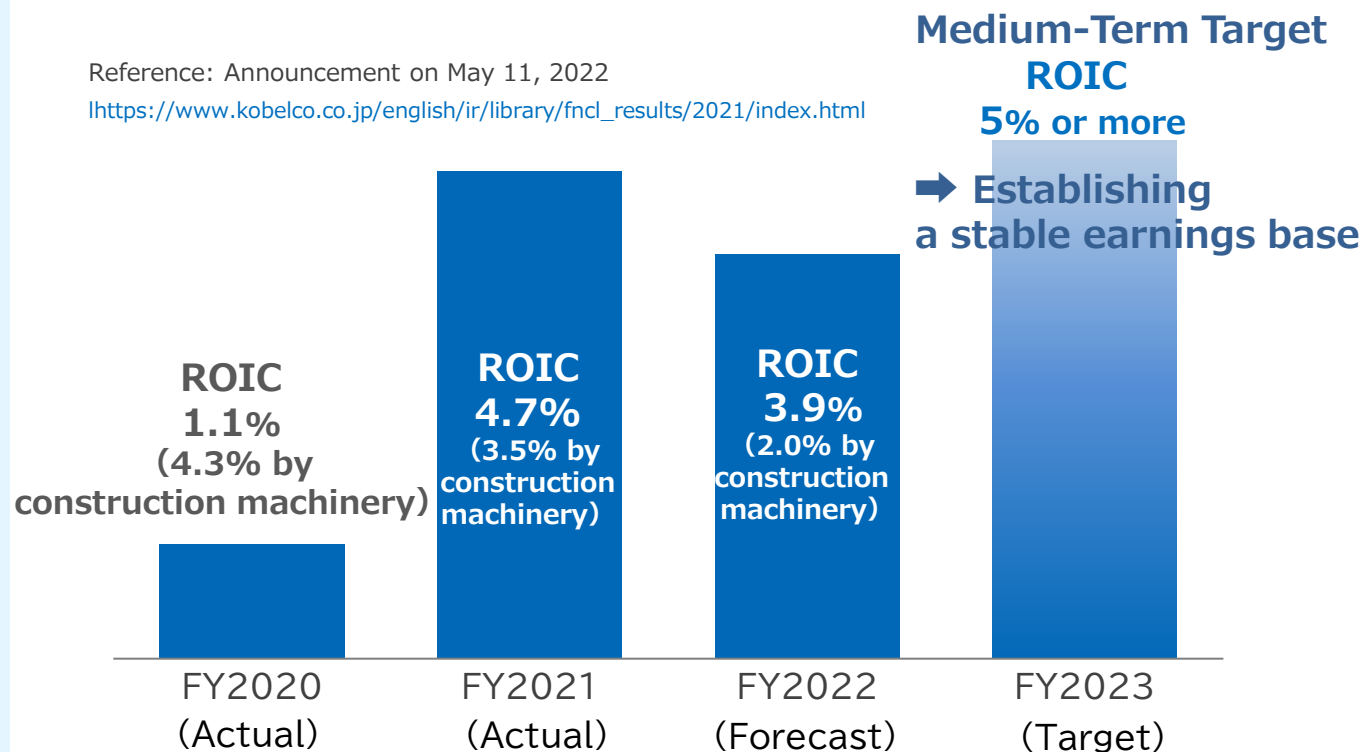
Toward KOBELCO that stably achieves

**ROIC of 8% or more**  
and grows sustainably

- **FY2021 actual results:** ROIC 4.7%, consolidated ordinary income 93.2 billion yen → **ROIC 3.5%, 12.0 billion yen achieved by the construction machinery business**
- **FY2022 forecast:** ROIC 3.9%, consolidated ordinary income 80 billion yen → **ROIC 2.0%, 6.0 billion yen anticipated to be achieved by the construction machinery business**

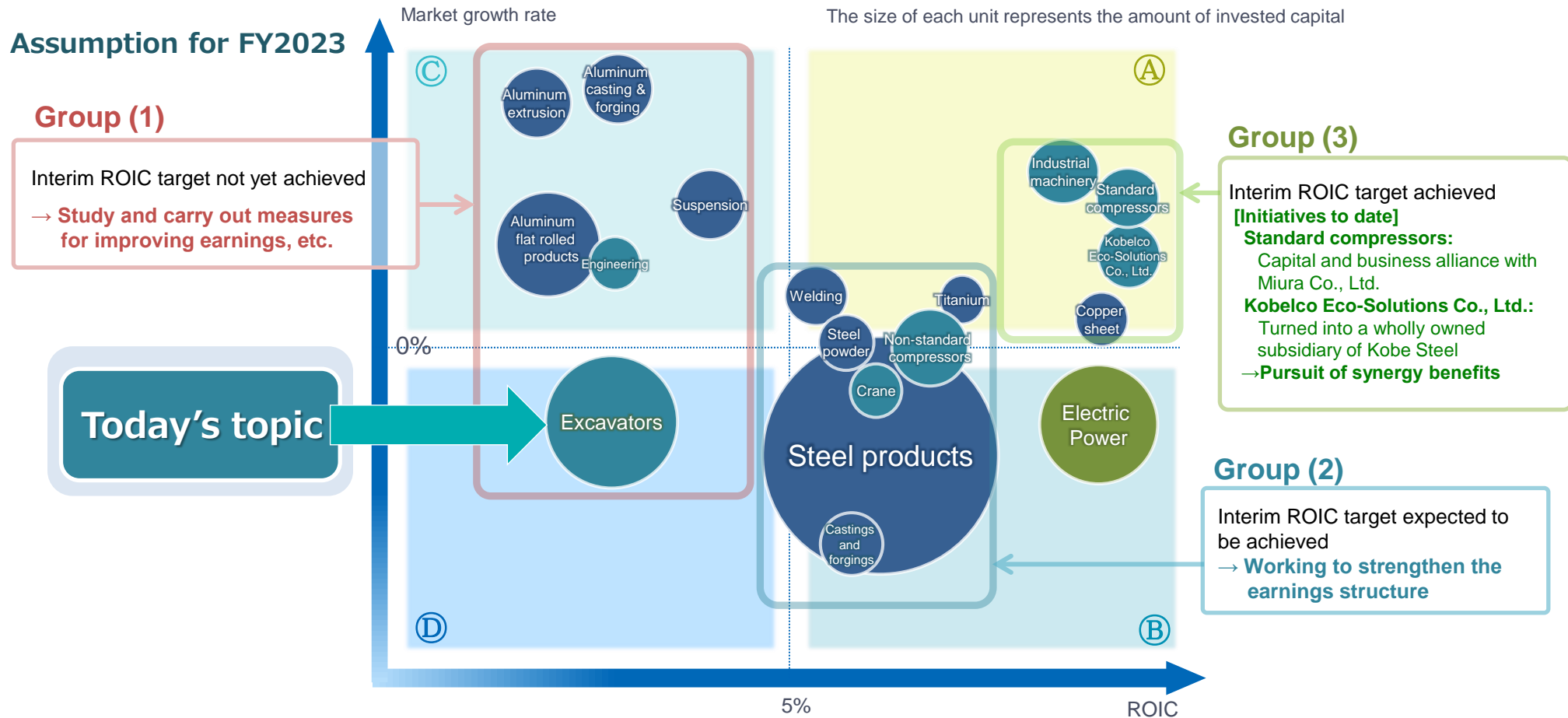
Reference: Announcement on May 11, 2022

[https://www.kobelco.co.jp/english/ir/library/fnci\\_results/2021/index.html](https://www.kobelco.co.jp/english/ir/library/fnci_results/2021/index.html)



## Excavator Business—Positioning in the Business Portfolio

- The KOBELCO Group has positioned the excavator business as one of its core businesses and is promoting business strategies aimed at improving profitability.
- By building a stable earnings structure, we aim to achieve a ROIC of 5% or more as early as possible and maintain it stably while striving for even higher levels.

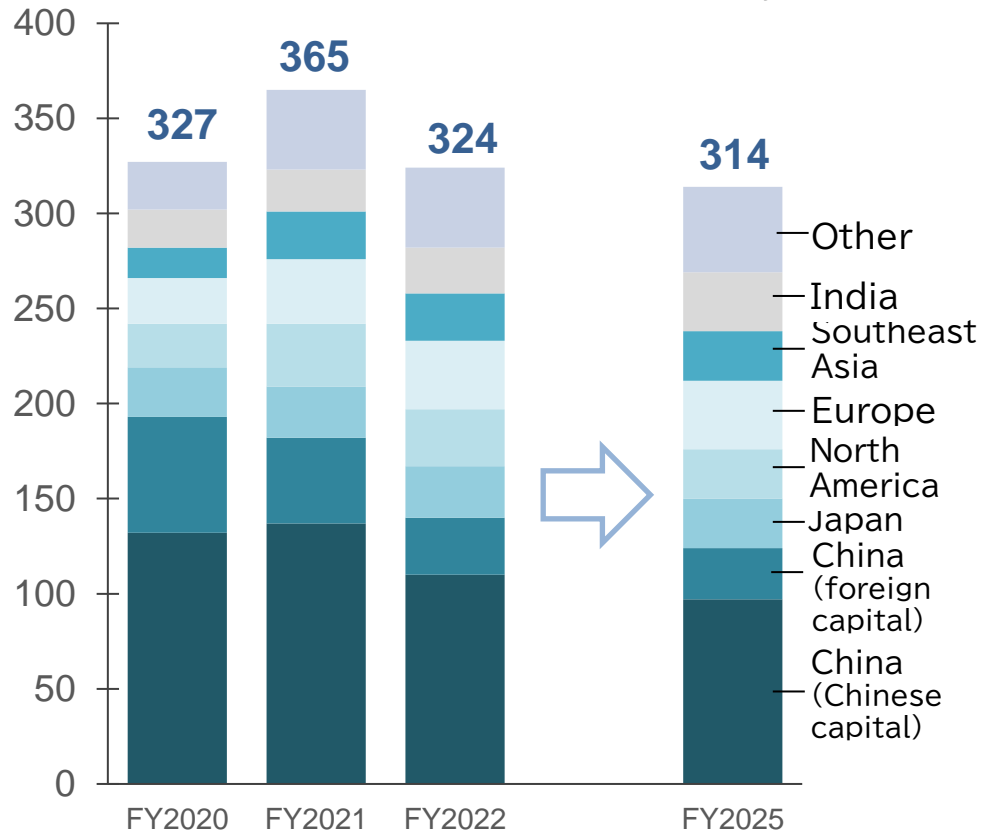


## Excavator Business: Business Climate

### Business Climate —Demand for Heavy-Duty Excavator—

(Unit: thousand)

Forecast by Kobe Steel



### Medium- to long-term structural changes

#### Global Market Trends

- Demand environments in developed countries generally remain stable.
- Continued stable growth is expected in emerging countries.
- India is increasing presence as the world's second-largest market.
- The Chinese market is on a declining trend. As Chinese manufactures are becoming more competitive, the ratio of foreign manufactures dropped to about 20%.
- With the rise of Chinese manufactures mainly in emerging countries (with improved quality of products), commoditization and price competition have been accelerating.
- Pricing and required functions are diversified due to changes in the environment and society and different needs in each area.
- Global move to carbon neutrality is accelerating.

### Short-term changes

#### Impact of COVID-19

- Market downturn is on the recovery trend.
- Due to the lockdown and logistics disruptions, the supply of production parts and materials is unstable. Securing ships is also difficult.

## Excavator Business—Medium- to Long-Term Goals and Initiatives

Medium-  
to Long-  
Term  
Goals



Initiatives

1. Departure from dependence on the Chinese market
2. Turning profits from solution business through provision of solutions for innovations such as workstyle reforms in the construction industry, etc.
3. Commercialization of peripheral businesses through provision of know-how on the installation of new systems, etc.

Existing businesses

- ✓ Strengthen area strategy
- ✓ Restructure global production system

New Businesses

- ✓ K-DIVE CONCEPT, etc.
- ✓ BIM software development, IoT solution, etc.

**Building a stable  
earnings structure**

“We aim to achieve a ROIC of 5% or more as early as possible and maintain it stably while striving for even higher levels.”

# Medium- to Long-Term Goals and Initiatives

## 1 Overview: Strengthening Area Strategy and Restructuring of Global Production System

### Europe

Offense

- Strengthen head office functions and sales/service capabilities
- Improve merchantability (high performance model/custom-made)
- Enhance the rollout of environmental recycling machinery

### China

Defense

- Introduce area strategy models
- Strengthen stock business and reorganize distribution
- ✓ **Consolidation (optimization) of production sites**

“Restructuring of Global Production System” announced on June 24, 2022

[Restructuring of Global Production System | News | Kobelco Construction Machinery Global Website \(kobelcocm-global.com\)](#)

### North America

Offense

- Increase merchantability of suspended models and resume sales
- Cooperate with distributors and expand sales channels

- ✓ **Plant transfer & starting the sale of imported machinery from Japan, etc.**

“Transfer of the North American Hydraulic Excavator Plant” announced on February 25, 2022  
[Transfer of the North American Hydraulic Excavator Plant | News | Kobelco Construction Machinery Global Website \(kobelcocm-global.com\)](#)

### India

Offense

- Introduce area strategy models
- Strengthening profitability by expanding exports
- ✓ **Enhancing production capacity → Become a global supply base of fabricated products**

“Restructuring of Global Production System” announced on June 24, 2022  
[Restructuring of Global Production System | News | Kobelco Construction Machinery Global Website \(kobelcocm-global.com\)](#)

### Southeast Asia

Defense

- Introduce area strategy models
- Strengthen stock business and distribution network

### Japan

Defense

- Make a full-scale entry into the solution/peripheral businesses
- ✓ **Expand production capacity of the Ogaki Plant → Build a complementary production system with Itsukaichi factory**

“Production Capacity Expansion of the Ogaki Plant” announced on April 28, 2022  
[Production Capacity Expansion of the Ogaki Plant | News | Kobelco Construction Machinery Global Website \(kobelcocm-global.com\)](#)

# Medium- to Long-Term Goals and Initiatives

## 1. Overview: Strengthening Area Strategy and Restructuring of Global Production System

### Changes in global production (assembly capacity)

**Total: 39,000 units (incl. 30,500 units of excavators)**

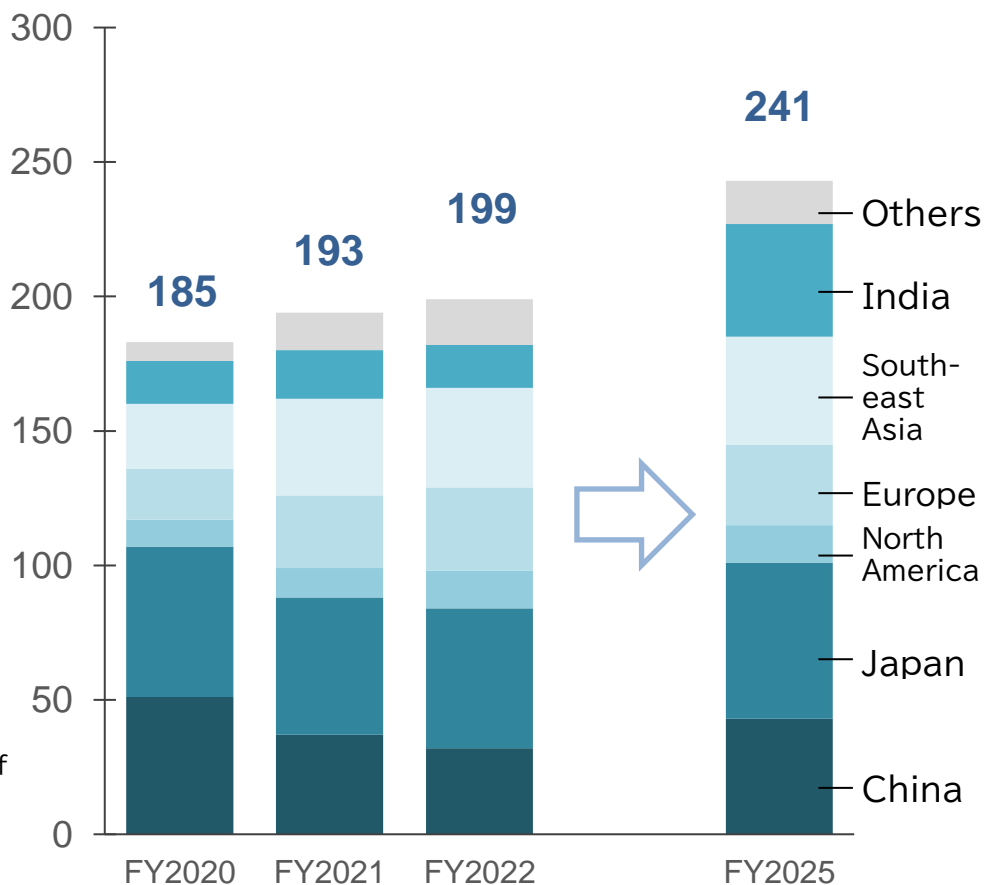
Japan (Itsukaichi)	10,500 units
(Ogaki)	8,500 units*
China (Chengdu)	5,500 units
(Hangzhou)	5,000 units (to Chengdu)
India	3,000 units
Thailand	4,700 units
North America	1,800 units (transferred)

**Total: 35,200 units (Incl. 26,700 units of excavators)**

Japan (Itsukaichi)	10,500 units	
(Ogaki)	11,500 units*	Expanded
China (Chengdu)	5,500 units	
India	3,000 units	Expanding production of fabricated products
Thailand	4,700 units	

### Estimated unit sales of heavy-duty excavators

(Unit: hundred)



\*Ogaki's production capacity includes the production capacity of 8,500 mini excavators.

(The above is the nominal assembly capacity and will increase or decrease with personnel changes or system changes.)



# Medium- to Long-Term Goals and Initiatives

## 1 Overview: Strengthening of Area Strategy and Restructuring of Global Production System

### China—Consolidation of production sites

DF

Assembly capacity:

10,500 unit/year → 5,500 units/year

- ✓ Consolidate production in Chengdu. Reduce fixed costs by reviewing the production scale to suit the business environment.
- ✓ Compete against Chinese manufacturers with area strategy models.



### India—Enhancement of production capability of fabricated products

OF

Production of fabricated products:

3,000 units/year → 4,700 units/year

- ✓ Shift the supply base of fabricated products from China to India to improve cost competitiveness and achieve stable profits.
- ✓ Strengthen sales for new users/fields by introducing area strategy models that meet the new gas emission regulations as a start.
- ✓ Secure profits by expanding exports of finished machines.



### North America

#### —Transfer of the North American plant

OF

- ✓ Withdrew from local production to eliminate the impact of suspended operations due to engine certification problems and strengthen cost competitiveness. Strengthen profitability by switching to the sale of imported machinery from Japan.
- ✓ Started selling machinery with alternative engines with improved merchantability as planned.
- ✓ With priority on early market share recovery, increase the share of products in the sales by agents and expand sales channels for wide-area rental companies.



### Europe—Establishment of a stable position

OF

- ✓ Strengthen presence/brand power by enhancing sales/service functions of the head office of the European subsidiary.
  - ✓ Promote the rollout of high-performance models and strengthen capability to respond to a variety of user needs.
  - ✓ Make a full-scale entry into the European market in the fields of building demolition and automobile recycling.
  - ✓ Strengthen the functions of business bases for major markets and expand sales channels through agencies in low market share areas.
- ⇒ Increase sales and competitiveness in the European market

## 1. Overview: Strengthening of Area Strategy and Restructuring of Global Production System

### Japan (Ogaki)—Enhancement of production capacity

Assembly capacity: 8,500 units/year → 11,500 units/year

- ✓ The new assembly line of 3,000 units/year will enable the production of 7 ton-class hydraulic excavators, which is one of the main items produced at the Itsukaichi plant. Through this, a complementary production system will be established between Ogaki and Itsukaichi with increased capability of responding flexibly to changes in the number of units produced.
- ✓ In addition, the supply capacity of fabricated products will be enhanced to increase profitability.



Itsukaichi plant

7 ton-class hydraulic excavators



Ogaki plant

- ✓ Turning profits from solution/peripheral businesses

⇒To be explained in the following pages

DF

### Global—Enhancement of stock business

Example: Enhancement of the global parts supply system (Tojo Parts Logistics Center has started operation)

⇒By introducing state-of-the-art equipment and systems, the global parts supply base has greatly improved its efficiency and promptness in delivery.

#### Targets

(Aimed at achieving in stages by FY2025)

Domestic parts shipping capacity: Up to 45% increase

Number of days for shipping overseas (to the loading port): Shortened up to 1/5

Instant delivery rate: 98% in Japan and 90% overseas

Kit parts shipping capacity: Up to 60% increase



Tojo Parts Logistics Center (Approx. 20,000 m<sup>2</sup>)

# Medium- to Long-Term Goals and Initiatives

## 2.

### Turning Profits from Solution Business: "K-DIVE CONCEPT"

#### Three merits offered by K-DIVE CONCEPT Services

Remote control of heavy equipment and data utilization applications continuously support transformation to a workplace where anyone can work

Essential  
safety

Improved  
on-site  
productivity

Organizational  
revitalization




Demonstration test at Kakogawa Works

✓ Feasibility verification is proceeding at actual sites of various companies including Kakogawa Works → Plan to gradually launch (commercialize) services from FY2022.




**Phase 1**

Work in a designated yard



**Phase 2**

Work at general civil engineering site



**Phase 3**

Matching service



## 3. Commercialization of peripheral businesses

### Software for planning construction with crawler cranes (K-D2 Planner)

Value

Making construction more manageable with IoT that improves productivity and safety at construction sites

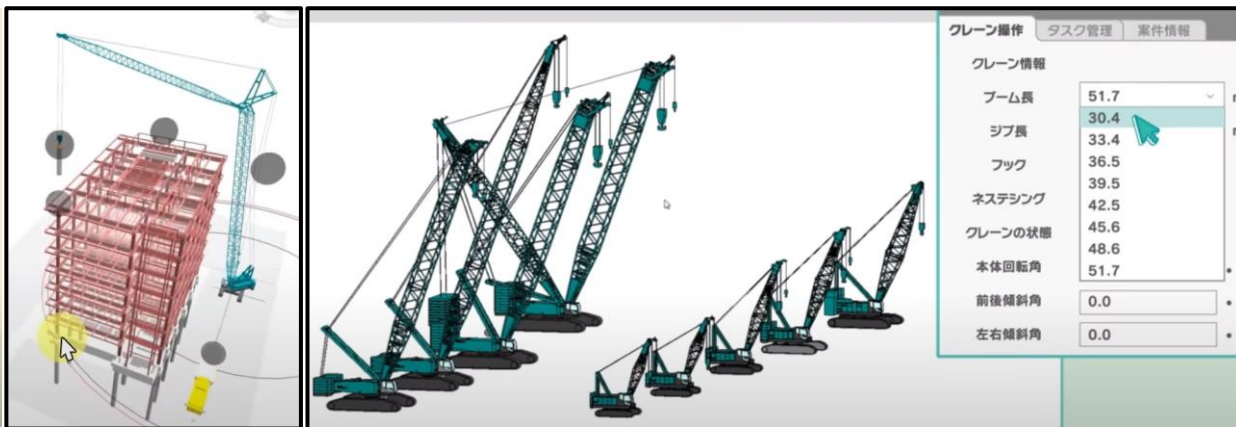
Features

- ✓ Simulation software that allows easy creation of a construction plan.
- ✓ Accessible to wide-ranging, construction-related crane information that can be offered by only construction machinery manufacturers.
- ✓ User-friendly software under development with construction companies.

Existing BIM software



Add-on (enhancement) tool for BIM\* software



Database of abundant crawler crane information

**Development is in the final stage. The prototype is being used on a trial basis, aiming for commercialization by the end of 2022.**

\* BIM stands for Building Information Modeling. Utilization of the 3D digital model (BIM model) of a building on PCs increases efficiency in planning, design, construction, and management of buildings and infrastructure.

## 3. Commercialization of peripheral businesses

### IoT Solution Development

- ✓ We are developing new IoT solutions for construction to provide comprehensive value both for goods and services, beyond the boundaries of in-house technologies/products, in order to respond to customer requirements related to excavators.

### Example of Initiative (Underground exploration solution)

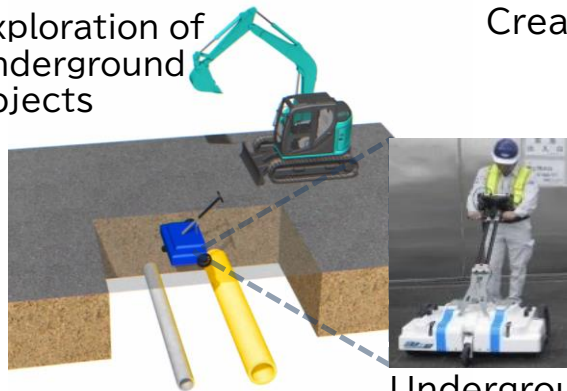
Issue

- ✓ In the construction in urban areas (especially on roads), we don't know exactly what is buried in the ground and we can only guess from the drawings at hand. In this situation, workers carry out construction with concerns about the breakage of underground objects such as water/gas pipes that may cause trouble to the infrastructure.

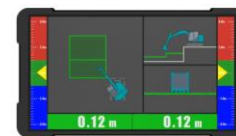
Feature

- ✓ The underground exploration solution aims to improve safety and security at construction sites by accurately locating the position of underground objects before starting work and sending the information to the ICT construction machinery during actual work.

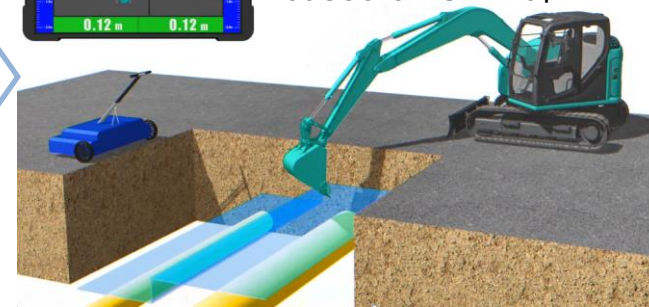
Exploration of underground objects



Creating 3D map of objects buried underground



Construction with ICT construction machinery based on 3D map

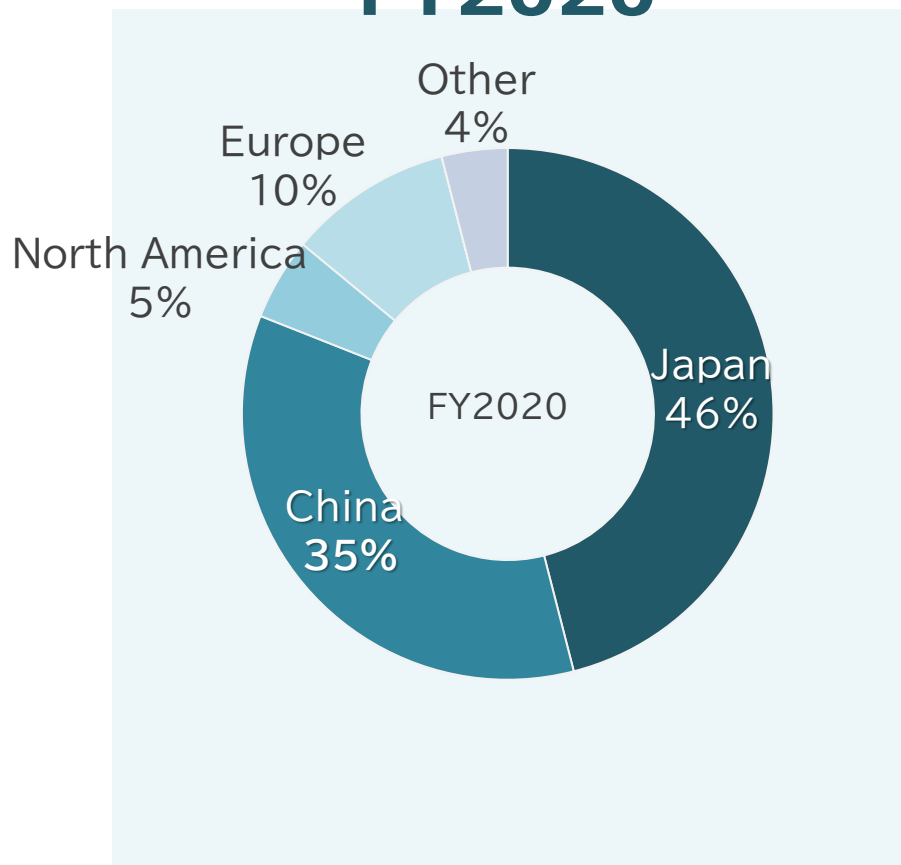


Underground probe

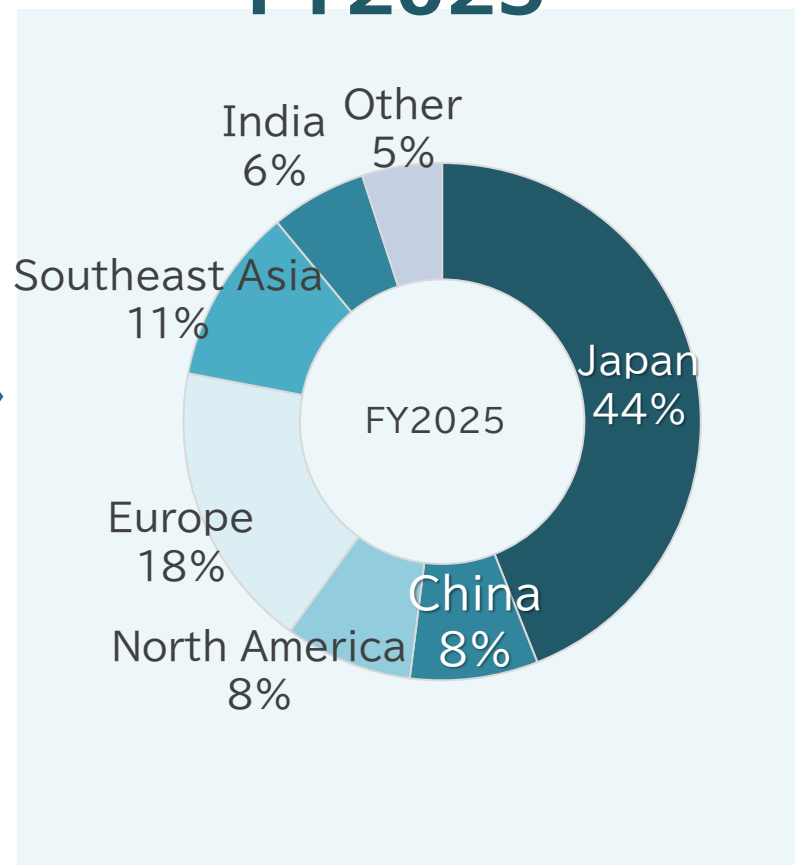
**In June 2021, Kobelco Construction Machinery established the ICT Solutions Dept., a specialized development and sales organization to accelerate the initiatives.**

## Changes in Earnings Composition by Area

### FY2020

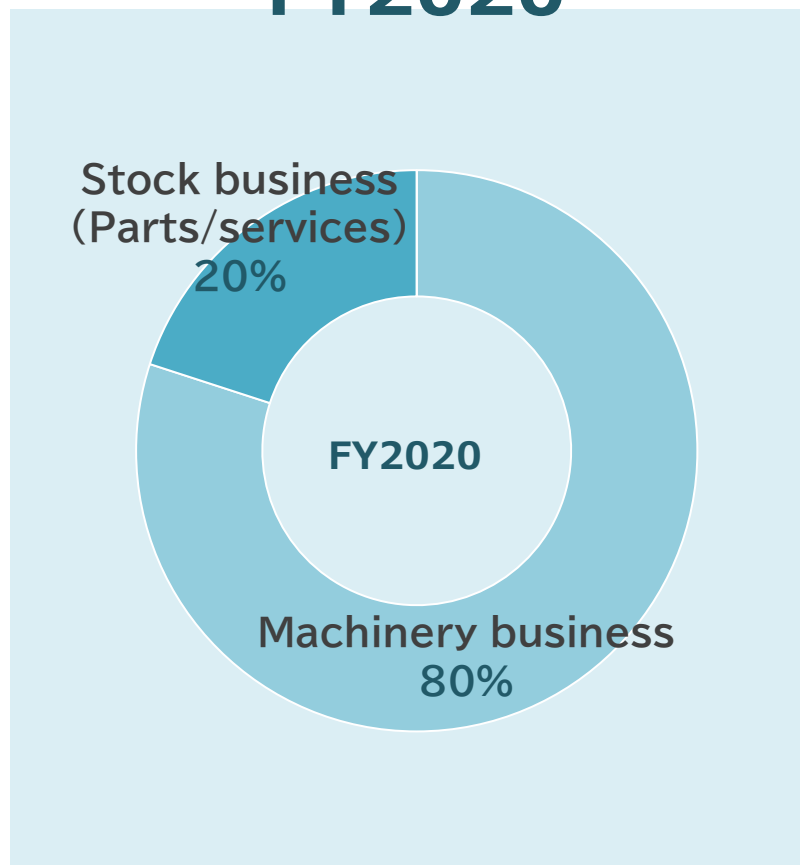


### FY2025

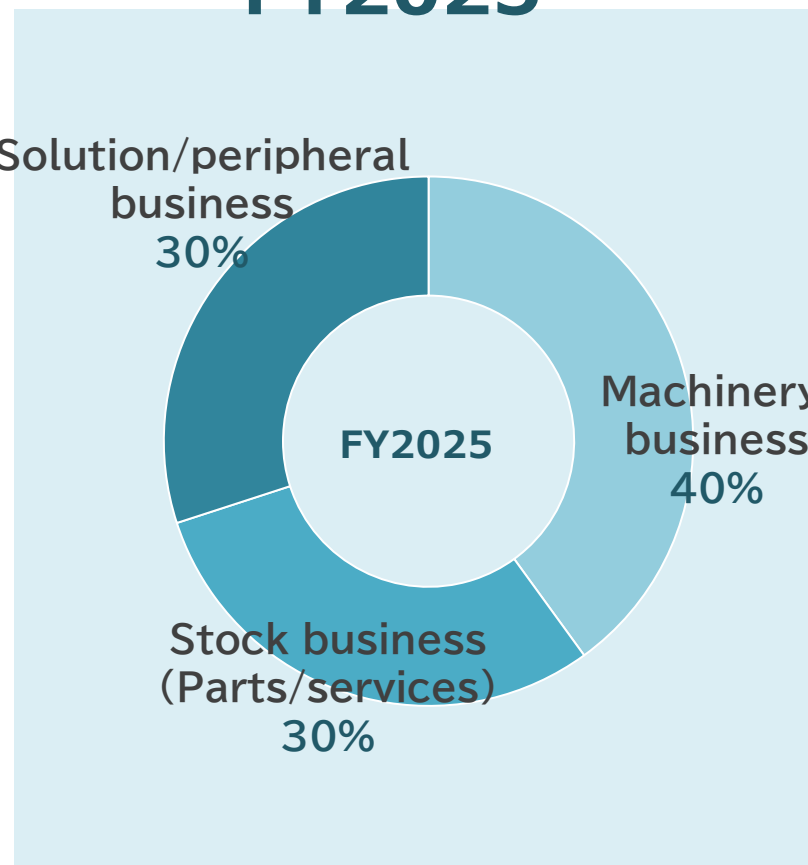


# Changes in Earnings Composition by Business

**FY2020**

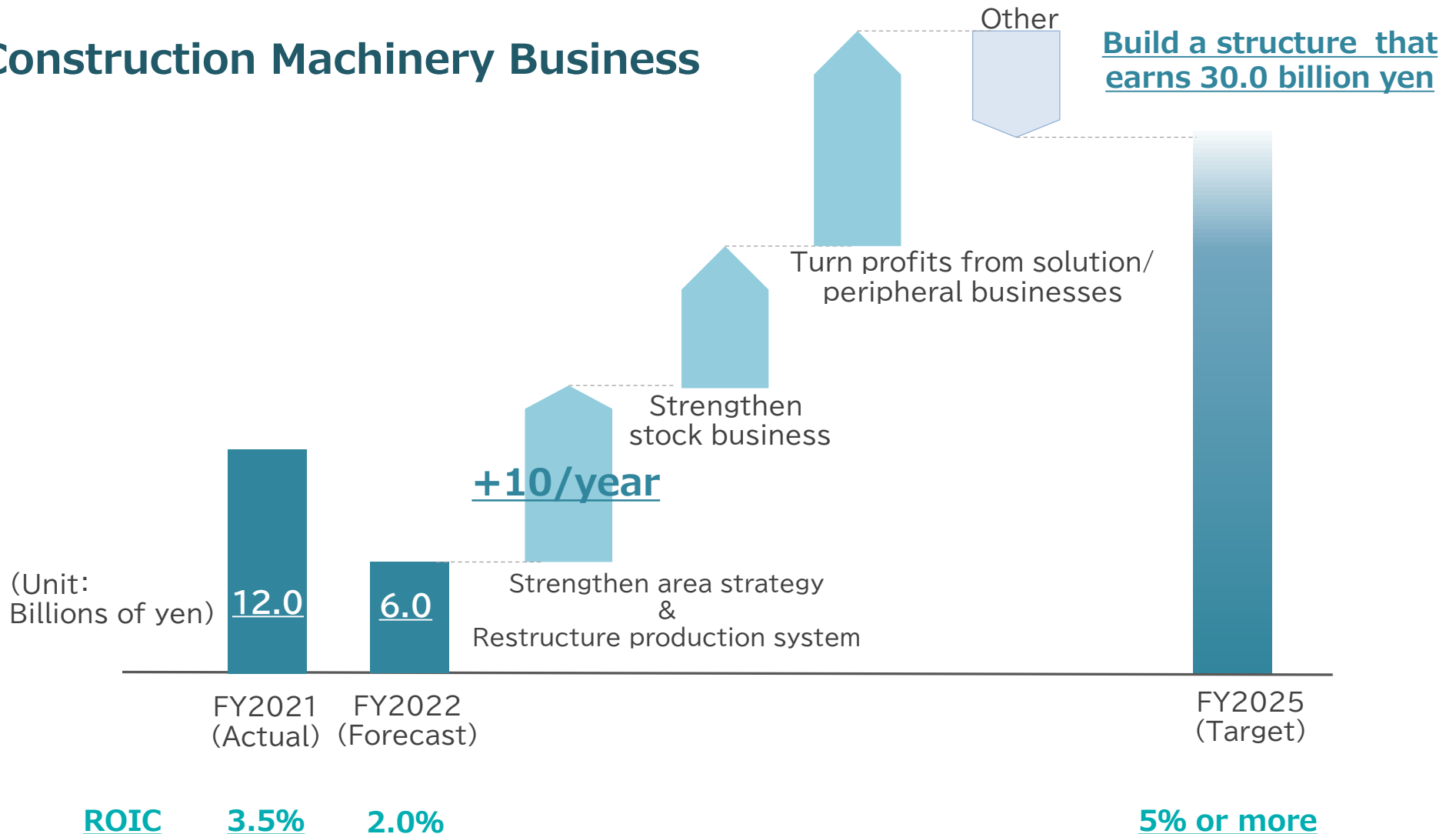


**FY2025**



## Building a Stable Earnings Structure

### Construction Machinery Business





# Efforts Toward Carbon Neutrality

1999

2022

2025

2030

Under the slogan of "Fuel Efficient Kobelco," KMC's products offer the world's highest level of fuel efficiency.

## Hybrid excavator

- ✓ Basic research started in 1999 as a commissioned research project of NEDO.
- ✓ Developed the world's first hybrid excavator in 2006 (commercialized in 2010).
- ✓ Launched the world's first lithium-ion battery powered hybrid excavator in 2016.



World's first hybrid excavator

## Electric excavator

### Battery-type

- ✓ R&D for commercialization (in-house development + collaboration)
- ✓ Aim to commercialize mini excavators in 2023 or later
- ✓ Expand the lineup and apply to heavy-duty machinery

### Power cable-type

- ✓ Maintain the product lineup of electric excavators (with power supplied from the external power source via electrical cable)



Electric excavator

## Fuel cell excavator

- ✓ In 2021, "R&D and verification of hydraulic excavators equipped with fuel cell systems" was adopted as a NEDO\* grant project. R&D for practical application has started.

\*NEDO=New Energy and Industrial Technology Development Organization

# Group Corporate Philosophy

<p><b>KOBELCO's View of the Future</b></p>	<p>The society and future aimed for through realization of KOBELCO's Mission</p> <p>We envision a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.</p>								
<p><b>KOBELCO's Mission</b></p>	<p>The KOBELCO Group awareness of its significance to society and mission to be fulfilled</p> <p>Our mission is to provide solutions to the needs of society, by making the best use of the talents of our employees and our technologies.</p>								
<p><b>Core Values of KOBELCO</b></p>	<p>The commitment of the KOBELCO GROUP to society and values common to the Group</p> <ol style="list-style-type: none"> <li>1. Providing trusted products and services</li> <li>2. Drawing on the individual strengths of each employee while valuing Group harmony</li> <li>3. Creating new value through continuous innovation</li> </ol>								
<p><b>Six Pledges of KOBELCO</b></p>	<p>The Quality Charter as well as the Standards of Conduct to be observed by all employees to meet "KOBELCO's Three Promises"</p> <table border="0"> <tr> <td data-bbox="638 1125 1073 1189">1. Uphold the highest sense of ethics and professionalism</td> <td data-bbox="1228 1125 1850 1150">3. Establish a favorable working environment</td> </tr> <tr> <td data-bbox="638 1200 1073 1289">2. Contribute to society by providing superior products and services</td> <td data-bbox="1228 1162 1808 1188">4. Live in harmony with local communities</td> </tr> <tr> <td></td> <td data-bbox="1228 1199 1815 1225">5. Contribute to a sustainable environment</td> </tr> <tr> <td></td> <td data-bbox="1228 1236 1632 1262">6. Respect each stakeholder</td> </tr> </table> <p style="text-align: center;"><b>Quality Charter</b></p>	1. Uphold the highest sense of ethics and professionalism	3. Establish a favorable working environment	2. Contribute to society by providing superior products and services	4. Live in harmony with local communities		5. Contribute to a sustainable environment		6. Respect each stakeholder
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## ■ Cautionary Statement

- Certain statements in this presentation contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents of this presentation.
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  - Changes in economic outlook, demand and market conditions
  - Political situation and trade and other regulations
  - Changes in currency exchange rates
  - Availability and market conditions of raw materials
  - Products and services of competing companies, pricing policy, alliances, and business development including M&As
  - Strategy changes of alliance partners

**KOBELCO**