

# Construction Machinery Segment

In fiscal 2003, the Japanese construction machinery market, appearing to have finally bottomed out, enjoyed its first turnaround in seven years. Despite the contraction in public works spending, exports of used machinery helped reduce stock, generating replacement demand. Compliance with new emission regulations also stimulated purchases. Overseas markets generally recorded healthy growth with continued expansion in China; recovery in Europe, the United States, Southeast Asia and Oceania; and growth in the Middle East and Russia.

Responding to these changes, the Kobe Steel Group focused on building the foundations for greater earnings and for global growth. Specifically, we stepped up operations in the rising Chinese market, formed a company specializing in used machinery to strengthen our Japanese and overseas stock business, reinforced our sales and service structure in the promising Southeast Asian region, and signed a mutual OEM supply agreement for a crane lineup with the Manitowoc Company, based in the United States.

This reciprocal OEM supply agreement with Manitowoc has bolstered our crane business. We also made plans to launch a new company called Kobelco Cranes Co., Ltd.

These strategies produced positive effects. Our Construction Machinery segment posted substantial increases in both sales and income, with segment sales rising 16.9%, to ¥184.0 billion, while operating income jumped 98.3%, to ¥8.1 billion.



The SK 1600D can demolish buildings over 50 meters tall. The ultra long boom gives this machine one of the highest reaches in its class.



The SK135SR is one in a series of excavators with zero tail swing. We pioneered this space-saving feature now found in both mini excavators and excavators.

## Hydraulic excavator business

The Chinese market for the construction of infrastructure is growing rapidly and urban development in China is intensifying. We have consequently positioned China as a top priority area, and we have taken the following steps to strengthen our business in this market in collaboration with our joint venture partners.

We launched a second joint venture company, Hangzhou Kobelco Construction Machinery Co., Ltd., in the city of Hangzhou, Zhejiang Province. Work is underway

on a plant that will commence operations in January 2005.

To meet growing demand, we are also expanding the production capacity of Chengdu Kobelco Construction Machinery Co., Ltd., our production joint venture in Chengdu City, Sichuan Province.

In Chendu Kobelco Construction Machinery Group Co., Ltd., we increased our stake through which we will be able to build a strong system that combines production and sales.

With Toyota Tsusho Corporation we launched a joint venture called Kobelco Toyota Tsusho Construction Machinery Holding Asia Co., Ltd. Through the venture, we will cooperate with Toyota Tsusho in production, marketing, services, procurement and distribution.

We bolstered our network of sales agencies and contractors, which now blanket China.

As a result of these moves, which will strengthen our production, marketing and service networks, the number of new hydraulic excavators sold in China was twice that of the previous fiscal year. As a consequence, we were able to gain a bigger share of this market.

In the ASEAN region, we focused on improving distribution. In Indonesia, a market witnessing a resurgence in demand, we expanded our sales bases in an attempt to achieve a substantial increase in market share. In Vietnam, we set up an office in Hanoi, the second office in the country following our office in Ho Chi Minh City.

Our joint ventures with CNH Global N.V. in Europe and North America continued to move forward. We made steady progress with the technical transfer to the Italy-based manufacturing and marketing venture, Fiat Kobelco Construction Machinery S.p.A., and we widened the lineup of locally manufactured products. Through initiatives to increase OEM supply in CNH channels centered on the European and North American markets, including the launch of five mini excavators, we improved our earnings base.

In Japan, we introduced original high value-added products to the market in response to rising demand for machinery meeting higher environmental standards. With the help of growing domestic demand for new machinery, we attained a 15% share of the hydraulic excavator market. We also set up a new company specializing in used construction machinery. This company, Kobelco Construction Machinery International Trading Co., Ltd., increased our ability to generate earnings in the used machinery business. Our overseas network handled an increased quantity of used machinery and we were able to increase used machinery prices.



KOBELCO crawler cranes can handle just about any lifting job, ranging from 35 to 800 tons. Our highly versatile 35 to 100 ton class cranes are ideal for lifting materials on construction sites and for general civil engineering work.

## Crane business

Our crane business benefited from healthy sales of large cranes for construction projects in China and to South Korean shipbuilders. To help strengthen our crawler crane sales organization in Europe and North America, we launched sales firms dedicated to handling cranes in both markets. We also prepared to set up a sales office in the Middle East. We expect these initiatives will improve our distribution network.

In addition, we concluded a reciprocal OEM supply agreement for cranes with Manitowoc Company, a leading U.S. manufacturer of cranes. This agreement gives us greater cost competitiveness and a stronger foundation for our crane business.

## Future development

To enable more responsive management and to achieve further growth, we separated our crane business from our excavator business in April 2004. Kobelco Construction Machinery Co., Ltd. and the recently established Kobelco Cranes Co., Ltd. will independently pursue higher profits and greater corporate value.



The first Fiat-Kobelco excavator E215 rolls off the production line at Fiat Kobelco Construction Machinery S.p.A, Italy, a joint venture with CNH Global. A series of excavators features the diversified expertise of Kobelco Construction Machinery.