

Construction Machinery



In the domestic market, despite a continued low level of expenditures for public works, sales of construction machinery were firm, on the back of replacement demand. Overseas, although the Chinese government's policy of restraining investment led to reduced demand for excavators there, solid growth in sales was achieved in Europe, North America, Southeast Asia and the Middle East.

In this business environment, the Company has set its sights on strengthening the operating base of this business in order to expand globally and build profitability.

As a result of this development and solid growth in crane sales, sales in this segment jumped 12.3% year-on-year to ¥206.6 billion. Despite this, operating income in the segment was ¥7.2 billion for the term, a drop of ¥0.9 billion, due to sluggish sales in the Chinese market, the surging cost of materials and other factors.

■ Hydraulic Excavator Business

Taking advantage of thriving worldwide construction machinery demand, the Construction Machinery segment steadily increased sales. We have also taken steps to minimize the impact of a sharp rise in the cost of materials, which include adjusting our sales prices, strengthening our procurement capabilities, and taking cost-cutting measures.

For sales within Japan, we have introduced a full model change to the Beetle mini-excavator series, excavators with GPS capability as standard, and other high added value products. Our proactive sales and servicing activities have succeeded, and we have been able to increase sales steadily.

Also, in January 2005 the End-of-Life Vehicle Recycling Law came into force. Due to growing environmental needs, we continued to enjoy strong sales of excavator-application equipment, including used-car dismantling equipment, large

building demolition equipment, and other environmental recycling equipment, which are a strong point of the Company.

Abroad, based upon the global alliance with CNH Global N.V., we continued our business expansion in the Asia-Pacific region, and in Europe and America we further strengthened our joint ventures with CNH Global.

In addition, in response to the sudden fall in demand in the Chinese market, we have reduced production and strengthened our accounts receivable. In order to prepare ourselves for medium and long-term expansion of that market, we have moved ahead with efforts to strengthen our production, sales and service systems.

Contributing to disaster relief is viewed as part of our mission as a construction machinery maker. The Kobe Steel Group contributed construction machinery to help in the relief efforts in the aftermath of the Niigata earthquake, and together with our worldwide alliance partner CNH Global, we provided



■ The Kobelco Construction Machinery Group and CNH Global jointly pledged ¥100 million worth of aid, including construction equipment at no cost and relief goods, to help countries affected by the Asian tsunami disaster.



■ 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.



■ 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.

machinery and relief goods in support of the assistance efforts on behalf of the victims of the earthquakes that occurred off Sumatra.

■ Crane Business

To take full advantage of opportunities in response to expanding global demand, in April 2004, we established Kobelco Cranes Co., Ltd. as an independent entity, separating it from Kobelco Construction Machinery Co., Ltd. The new company, which specializes in the production and sale of cranes, substantially increased sales, and took the steps outlined below to build an operational base for a leap forward in sales expansion and profitable growth in global markets.

- 1) In North America, started to supply crawler cranes to Manitowoc Company as OEM
- 2) Concluded an OEM supply agreement for crawler cranes with Manitowoc Company for the European market
- 3) Strengthened our distribution system and expanded sales of large crawler cranes in China
- 4) Promoted sales to rapidly expanding emerging countries and countries with natural resources
- 5) Introduced all terrain cranes into Japan from Grove of Germany as OEM
- 6) Implemented sales price adjustments and cost cutting to minimize the effect of rising material costs
- 7) Improved production efficiency and enlarged facilities

As a result of these measures, the number of new cranes sold increased by about 30% year-on-year. In particular, a large number of cranes were sold in North America, Europe, China, and Southeast Asia, making a significant contribution to earnings. As a result of our promotion of global expansion in crawler cranes, the ratio of number of new cranes sales sold outside Japan has increased from about 50% to about 70%. As a result, Kobelco Cranes has been able to achieve a profit from its first year of operation.

■ Future Tasks

With prices of materials, including steel, expected to soar even higher, the Company must make every effort to improve its sales prices. Also, to further strengthen our construction machinery business, we must enhance our range of excavator and crane models to meet the special requirements of each industry. We also intend to globally expand operations in close cooperation with our business partners.



■ A Kobelco mini excavator is used to help rebuild water supplies after the Niigata Chuetsu earthquake.



■ We introduced in Japan a highly reliable all-terrain crane made by Grove of Germany. This variety of machine, customized to Japanese specifications, strengthened our lineup of wheel cranes.