

June 24, 2022
Kobe Steel, Ltd.
Kobelco Construction Machinery Co., Ltd.

Restructuring of Global Production System

Integration of Production Facilities in China and Enhancement of Production Capacity in India

Kobelco Construction Machinery Co., Ltd. (or KCM), headquartered in Tokyo and a wholly owned subsidiary of Kobe Steel, Ltd., has decided to integrate its Chinese production subsidiary Hangzhou Kobelco Construction Machinery Co., Ltd. (or HKCM) into its manufacturing and sales subsidiary Kobelco Construction Machinery (China) Co., Ltd. (or KCMC).

KCM has also decided to enhance the production capacity for fabricated products at the plant of Kobelco Construction Equipment India Pvt. Ltd. (or KCEI) in India.

Implementation of the above decisions will mark the completion of a series of measures undertaken to reorganize and enhance the KCM's global production system of excavators, which includes the "Transfer of the North American Hydraulic Excavator Plant"*1 and "Production Capacity Expansion of the Ogaki Plant: Efforts toward Global Strategy Enhancement,"*2 as previously announced in the news releases.

1. Current business environment

In terms of worldwide demand for hydraulic excavators, demand in developed countries has generally remained stable despite a decline due to the COVID-19 pandemic, and demand in developing countries excluding China is expected to grow steadily although there are highs and lows depending on the area. KCM plans to steadily increase sales of its hydraulic excavators in terms of number of units by strengthening its local sales networks and expanding product models and specifications to meet market needs.

China, on the other hand, presents a different picture. The Chinese market of hydraulic excavators, which in recent years has accounted for approximately 50% of worldwide demand, has been on a declining trend, and competition from Chinese domestic manufacturers is becoming fiercer. The current market share of foreign-capital manufacturers has fallen to some 20 % (it was roughly 50 % in 2018). In addition, sales prices have fallen sharply, which will inevitably have a negative impact on the KOBELCO Group's construction machinery business that relies on China as a major source of earnings.

2. Outline of restructuring of the production and supply system and capital investments

The aim of the measures to restructure KCM's worldwide production and supply system is to stabilize earnings and lower production costs by optimizing the supply system from a global perspective in light of changes in the market environment in China.

(1) Integration of production facilities in China into KCMC

The production of KCM hydraulic excavators for the Chinese market, which has currently been taking place at two locations, HKCM and KCMC, will be integrated and fall under the operation of KCMC. As part of this move, production (assembly) capacity in China will be reduced from 10,500 units/year to 5,500 units/year. In addition, part of HKCM's supply capacity for fabricated products will also be shifted to KCMC, with much of the remainder being shifted to the plant in India as described below. These transfers are being made in stages and are expected to be completed in or around January 2023. KCM aims to stabilize earnings by adjusting production capacity in China to a scale suitable for the business environment and cutting fixed costs.

(2) Enhancement of production capacity at KCEI

KCM will expand its production capacity for fabricated products from 3,000 units/year to 4,700 units/year by making Kobelco Construction Equipment India Pvt. Ltd. (or KCEI), which enjoys strong cost competitiveness, a supply base of fabricated products mainly for Kobelco Construction Machinery Southeast Asia Co., Ltd. located in Thailand.

(3) Transfer of KCMU plant in North America

The North American plant of Kobelco Construction Machinery U.S.A. Inc. (or KCMU), a KCM's North American subsidiary, suspended its operations in May 2021 due to engine certification problems. The plant was transferred to Takeuchi Mfg. Co., Ltd., at a price of about 3.95 billion yen, and the production of hydraulic excavators at the North American plant will be transferred to KCM's Itsukaichi Factory to increase competitiveness.

(4) Enhancement of production capacity at KCM's Ogaki Plant

Construction of a new assembly line for hydraulic excavators at KCM's operations in Ogaki will add production capacity of 3,000 units/year, increasing total production capacity from the current 8,500 units/year to 11,500 units/year. The new assembly line will be dedicated to the assembly of two types of hydraulic excavators—the 7-ton class, which has been produced at the Itsukaichi Factory in Hiroshima and the 5-ton class, which has been produced on the existing lines in Ogaki. Building of an enhanced production system in which the new assembly line and the Itsukaichi Factory complement each other will enable flexible production management in response to changes in the number of units. Together with the installation of the new assembly line, the Ogaki plant will expand its supply capacity for fabricated products as well.

3. Related expenses and schedule for completion

Business measures	Related expenses		Completion date (Start of regular operations)
(1) Integration of production facilities into KCMC	Costs related to the integration	About 6.0 billion yen*	January 2023 (planned)
(2) Production capacity enhancement at KCEI	Capital expenditure	About 1.2 billion yen	April 2024 (planned)
(3) Transfer of KCMU's North American Plant	Transfer price	(About 4.0 billion yen)	April 15, 2022 (transfer completed)
(4) Production Capacity expansion of the Ogaki Plant	Capital expenditure	About 3.4 billion yen	August 2023 (planned)

*Most of the costs related to the integration of production facilities into KCMC that amount to about 6.0 billion yen will be the disposal costs of equipment at HKCM

4. Expected effects of the restructuring of the global production system

Through the implementation of the series of measures aimed at steadily optimizing the business operations in China, enhancing production capacity in areas of high demand, and strengthening the earnings structure of business operations in India, KCM anticipates the company's annual earnings to be around 10.0 billion yen (in fiscal 2024 and beyond, after all related investments are completed).

Under the corporate philosophy of "user hands-on approach", KCM will continue to strive toward further development of technologies, toward provision of products with better value, and toward an improvement of the quality and stability of its business operations in which its manufacture and sales sectors coordinate seamlessly. As members of the KOBELCO Group, we will continue to provide solutions to the needs of society by making the best use of the talents of our employees and our technologies in order to realize a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.

*1. February 25, 2022, news release titled "Transfer of the North American Hydraulic Excavator Plant":
<https://www.kobelcocm-global.com/news/2022/220225.html>.

*2. April 28, 2022, news release titled "Production Capacity Expansion of the Ogaki Plant: Efforts toward Global Strategy Enhancement": <https://www.kobelcocm-global.com/news/2022/220428.html>.

*The information contained herein is as of the date this announcement, and it may be changed without prior notice.