

NEWS RELEASE

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Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Semiannual Results for Financial Year 2011 (April 1, 2011 – September 30, 2011)

General Market Conditions

The domestic construction machinery market expanded significantly, most notably in the rental industry, due to the restoration demand and the demand for moving up full-scale reconstruction which arose from the Great East Japan Earthquake in addition to increasing demand for renewal which has been continuing from the previous year. The total domestic demand for hydraulic excavators in the first half of this fiscal year has increased by more than 40% for both heavy and mini excavators over the same period of the previous year.

The overseas construction machinery market (in the January-June period) saw a steady transition in general, with nearly a 30% increase for heavy excavators and a 40% increase for mini excavators over the same period of the previous year. Although the demand in China, with the largest hydraulic excavator market in the world, has been low due to the impact of financial restraints, it increased by 30% over the same period of the previous year with a steady expansion after the Chinese New Year until April. The demand for heavy excavators in Southeast Asia, whose market has grown larger than the markets in Japan, the U.S., and Europe, also increased by nearly 30% over the same period of the previous year. The demand in the U.S. and European market has not yet to reach the level of full-scale recovery; however, similar to other areas, it increased and showed a recovery trend.

The KCM group was forced to temporarily stop production due to a shortage in parts supply, which had already been limited since the previous year, caused by the Great East Japan Earthquake. The parts supply recovered in the late June, and the domestic sales increased for both heavy and mini excavators over the same period of the previous year as a result of the group's effort to secure production volume. The overseas sales also increased over the same period of the previous year. The group will improve its framework further in order to resolve the backlog of orders accumulated due to insufficient production.

The KCM group has come to the halfway point of its 3-year mid-term management plan started in FY 2010. Fortunately, hydraulic excavators, our leading product, are popular with our customers for its fuel-efficiency and energy-savings. In addition, the group has been putting efforts in the enhancement of parts service and in the expansion of a close and meticulous service network. Further, in the preparation of its global framework, the group has been making steady strategic moves to carry out "further growth in China Business", "establishment of the foundation for the India Business", and "profit expansion in Southeast Asia" which are the policies of the mid-term management plan.

The new factory in Itsukaichi-shi (in Hiroshima prefecture) is scheduled to commence operations in next May, and a groundbreaking ceremony was held in June this year. Manufacturing and sales departments together are proceeding with preparation for the factory to function as the general "control tower" of development, production, and procurement for the whole group for global business operations.

The financial results for the first half of FY2011 (April, 2011 to September, 2011) were as follows.

<Financial Results for First Half of FY2011>

{Unit: million yen. () is the rate over the same period of FY2010}

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	FY2011 First Half	180,181 (+2.6%)	19,812 (-1.0%)	18,552 (-1.5%)	4,684 (-21.5%)
	FY2010 First Half	175,614	20,008	18,837	5,968

(Truncate after the decimal point)

Consolidated net domestic sales were 41.4 billion yen (+3.2% over the same period of FY2010), overseas sales were 138.7 billion yen (+2.4% over the same period of FY2010), and overall sales were 180.1 billion yen (+2.6% over the same period of FY2010). The ratio of the overseas in the consolidated net sales was 77.0%, and was almost the same as that of the same period of the previous year (77.1%).

First Half of FY2011: Review by Geographic Area

■ Japan

Although public investments continued to be slow, demand grew centered on the rental industry due to the demand for new vehicles in the restoration/reconstruction business from the earthquake. The demand for both heavy and mini excavators increased by more than 40% over the same period of the previous year.

The KCM group did not suffer any direct damage from the earthquake; however, the parts supply chain suffered greatly, negatively influencing not only the domestic market but also production activities overseas. Although the situation, where the production was unable to keep up with increasing demand continued, the group established a framework to increase production from July, and put efforts into the reinforcement of service posts in order to handle the increase in the number of machineries which were being used in the restoration/reconstruction business. As a result, the sales volume increased by approximately 20% for both heavy and mini excavators over the same period of the previous year. The group will focus on the domestic market as an important market, and will work to further improve the framework so that it will be capable of providing timely service for the demand caused by the earthquake recovery construction.

With regard to the new Itsukaichi factory (in Hiroshima prefecture), a groundbreaking ceremony was held in this June as scheduled, and construction has been proceeding smoothly toward completion in May of next year. Also, the group has been proceeding with the establishment of the Global Engineering Center (hereinafter "GEC"), which aims to optimize production and development throughout the group, as scheduled. The group will improve the cost competitiveness by promoting cost reduction (VE) activities and thorough activities to improve production in domestic production sites, and will utilize the results achieved in Japan to the overseas production sites through the GEC.

China

In China, demand dropped rapidly after May due to governmental financial restraints; however, the demand for the first half (January to June) increased by about 30% over the same period of the previous year since it transitioned positively before and after the Chinese New Year. The KCM group was unable to effectively take in the rapidly increasing demand in the first half due to the parts shortage which continued since the previous year, and the sales increased only slightly, under 10% over the same period of the previous year. The sales of mini excavators steadily increased compared to that of heavy excavators, whose parts supply was limited.

Demand for hydraulic excavators is low at the moment; however, it is expected to grow in the mid-to-long-term due to the continuation of infrastructure development, such as the 10-year

extension on major development in the western area and the water business plan. The KCM group has put efforts to enhance the main service centers operated directly by the manufacturers and in the training/formulation of the 4S (Sales/Spare parts/Service/Survey) distributors.

Overseas (excluding China)

In overseas business other than China, the KCM group engaged in business operations centering on APAC, where the group is in charge, in accordance with the CNH global alliance.

The excavator market in the APAC area grew relatively steadily along with economic growth. The overall demand in Southeast Asia increased by about 30% over the same period of the previous year. In Indonesia, which is the largest market in Southeast Asia, the group continued to work on the expansion of sales posts, enhancement and organization of service network/personnel, and improvement of parts warehouses. In Thailand, the group conducted a preparation for a production increase and for a formulation of a global production framework. Furthermore, in India, where full-scale production has been initiated, the group is gradually increasing production and at the same time conducting quality checks on the local parts to enhance the ratio of local procurement.

The sales volume of heavy excavators in the overseas exceeded that of the same period of the previous year by slightly under 10%, and that of mini excavators increased by more than 20% since parts procurement recovered relatively early.

Composition of the Global Market

The composition ratios of net sales by area for the first half of FY2011 were as follows: China was 55.2% (same period of FY2010: 58.1%); developed countries, such as Japan, the U.S., and Europe were 28.6% (same period of FY2010: 25.3%); other developing countries, such as Southeast Asia, Australia, etc. were 16.2% (same period of FY2010: 16.6%). Under the trend of worldwide globalization, we will actively continue to enter growing markets.

Key Issues in the Future and Outlook for FY2011

It is expected that there will be no rapid changes since we are supported by domestic demand from the earthquake restoration/reconstruction and steady demand centering in Southeast Asia, and additionally Europe and the U.S. markets are showing a moderate recovery despite the continuing adjustments in China, which has become the world's largest market. In the mid-to-long term, we are assuming that the developing countries with huge populations and resources will lead the increases in demand.

The KCM group will continue with business activities focusing on the APAC areas, such as China, Southeast Asia, and India, which have been showing significant growth. Moreover, strive to resolve the domestic order backlog accumulated due to the earthquake and to deliver the products to the customers as soon as possible.

In the uncertain business environment and rapid transitions, we will continue to promote the enhancement of our competitiveness by carrying out the mid-term management plan started in 2010 for sustainable business development, strengthening technological development capability to create differentiated products, pursuing further improvement as "fuel-efficient Kobelco", implementing cost reduction, logistics renovation, and improving our presence in expanding markets of developing countries, and will work on the creation of a global network through the improvement of the parts service, sales posts, and procurement.

To be specific, our immediate challenges will be a smooth relocation to the new Itsukaichi factory scheduled to be completed in May next year as a part of the global production framework, and the foundation of the GEC to establish an "optimized production framework" in the production posts throughout the world. Furthermore, we will continue to move towards self-

manufacturing of parts as a part of the corporate strengthening.

<Forecast for FY2011>

{Unit: million yen. () is the rate over the same period of FY2010}

	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated Forecast for FY2011	315,000 (+0.6%)	24,000 (-14.9%)	23,000 (-12.6%)	5,000 (-27.7%)
Consolidated Forecast for FY2010	313,143	28,186	26,303	6,920

(Based on the exchange rate in FY2011 second half: 1 US Dollar = 80 Yen, 1 Euro = 115 Yen)

*The forecast above was prepared based on the information available as of the release of this document.

The actual result may vary significantly depending on various factors in the future.