

NEWS RELEASE

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Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Semiannual Results for Fiscal Year 2012 (April 1, 2012 – September 30, 2012)

General Market Conditions

The domestic construction machinery market expanded mainly in the rental industry thanks to steady demand for reconstruction from the Great East Japan Earthquake. The total domestic demand for hydraulic excavators in the first half of fiscal 2012 increased over 40% for hydraulic excavators and 30% for mini excavators compared to the same period last year.

The overseas construction machinery market in the January-June period continued to be strong in general except for China. In China, the largest hydraulic excavator market in the world, the economy slowed down due to financial restraints, and demand for hydraulic excavators and mini excavators went down by 40% and 30% respectively in comparison to the same period last year. The U.S. market, which had been stagnant for a while, began to proceed steadily on a recovery track, with an approximately 50% increase in demand for both hydraulic excavators and mini excavators in comparison to the same period last year. Despite the prolonged debt crisis in Europe and the sluggish economy in India, demand in these areas slightly increased compared to the same period of the previous year. The demand for excavators in Southeast Asia, where the market has become as strong as those of Japan, the U.S., and Europe, also increased over 30% compared to the same period of the previous year.

Total world demand was affected by the sluggishness in China, the largest market, where demand decreased over 10% for hydraulic excavators and slightly increased for mini excavators, compared to the same period of the previous year.

Last year, production was temporarily affected both domestically and abroad by the Great East Japan Earthquake. KCM took all possible measures to ensure parts procurement and to maintain production volume in collaboration with all group companies. KCM also relocated production to a new factory in Itsukaichi as planned, while continuing to increase production. As a result, in terms of the domestic sales volume, KCM achieved over an 80% increase for hydraulic excavators and a 90% increase for mini excavators compared to the same period of the previous year. These percentage rates were higher than the market's rate of increase.

KCM is at the final year of a three-year, medium-term management plan started in fiscal 2010. Hydraulic excavators, its leading products, are favored by customers as fuel-efficient and energy-saving products. Furthermore, KCM has been working to improve parts services and expand its service network both in Japan and abroad. While steadily building its global business, KCM began full-scale operation of the Global Engineering Center (GEC), which functions as the "control tower" for development, production, and procurement in the entire group.

At its state-of-the-art Itsukaichi Factory, KCM will pursue quality improvements from a customer-oriented perspective while boosting productivity and engaging in creating a supply system that is capable of satisfying customers' needs more efficiently.

The financial results for the first half of fiscal 2012 (April, 2012 to September, 2012) were as follows:

Financial Results for the First Half of FY2012

{Unit: million yen. () is the percentage of change over the same period of FY2011}

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	FY2012 First Half	150,374 (-16.5%)	8,511 (-57.0%)	5,619 (-69.7%)	1,574 (-66.4%)
	FY2011 First Half	180,181	19,812	18,552	4,684

(Smaller sums have been deleted.)

Consolidated domestic sales were 50.1 billion yen (+20.9% over the same period of FY2011) and overseas sales were 100.2 billion yen (-27.7% over the same period of FY2011). Consolidated net sales totaled 150.3 billion yen (-16.5% over the same period of FY2011). Overseas sales made up 66.7% of consolidated net sales, decreasing from the same period of FY2011 (77.0%).

First Half of Fiscal 2012: Review by Geographic Area

■ Japan

In Japan, the demand for excavators significantly expanded mainly in the rental industry because of the increase in reconstruction demand from the Great East Japan Earthquake, as well as in the disaster recovery from the torrential rain in the Kyushu and Kii Peninsula areas, in addition to renewal demand due to stock adjustment. KCM's manufacturing and sales force worked together on each issue in order to increase the production system to meet strong domestic demand and to strengthen service locations to deal with the increased number of machines under operation in the reconstruction. KCM employed sales strategies that met trends at major rental companies as well as for local rental companies in each area. Sales volume significantly increased as a result. KCM will continue regarding Japan as an important market and developing a system that is capable of satisfying customers' needs in a timely manner.

With regard to the new Itsukaichi Factory in Hiroshima prefecture, the relocation of production equipment has been underway since May, and the facility is scheduled to be completed in January next year.

In addition, the full-scale operation of the GEC has commenced, aiming at optimization of production and development in the entire group. KCM will strengthen its cost competitiveness by thoroughly implementing productivity improvement activities at domestic production sites and promoting cost reduction (VE) activities. The GEC will transfer the results and manufacturing know-how obtained through these activities to overseas production bases.

■ China

In China, the economy began slowing down, triggered by the government's financial restraint policies implemented from last year, and demand has declined every month. The gross demand in this first half (January-June) for hydraulic excavators and mini excavators decreased over 40% and 30% respectively compared to the same period of the previous year. Under the continued harsh market conditions, KCM has been maintaining its services, keeping a certain distance from cheap pricing policies, and conducting its business activities carefully. Although KCM's drop in the sales volume of excavators was smaller among other Japanese manufacturers, it decreased over 50% compared to the same period of the previous year. The sales volume of mini excavators, on the other hand, decreased only about 10% compared to the same period of the previous year. Looking at the current conditions, the economic downturn, compared to the same period of the previous year, is still continuing in the second half (July-December). A rapid recovery is unlikely because there is no clear indication of recovery in demand and the economy continues to decline.

Currently, the anti-Japanese movement triggered by territorial issues has not had much of an impact on KCM. KCM will continue to monitor future trends and deal with them carefully. KCM is concerned about what kind of economic measures the new administration is going to implement. In the medium to long term, demand is expected to continue growing in the future due to the 10-year extension of the Great Western Development, progress in water-use projects, resumption of the railway infrastructure development project, and other factors. The Kobelco Construction Machinery Group will strive to improve its main directly managed service centers as well as educate and create 4S dealers* to get the next growth opportunity.

*4S dealers: A collective term which refers to dealers who focus mainly on the following four elements: sales, spare parts, service, and survey.

■ Overseas (excluding China)

In overseas markets other than China, the Kobelco Construction Machinery Group is engaged in expanding its business expansion mainly in the APAC region, of which the group is mainly in charge. Demand in the palm tree market and for general civil engineering was steady in Indonesia, where demand is the highest in the APAC region. The excavator market was also relatively steady thanks to the reconstruction demand from the flooding disaster and stable economic growth in Thailand. As a result, gross demand for the whole Southeast Asia increased over 30% compared to the same period of the previous year. Production capacity of the Thai factory was increased from 3,600 units per year to 5,500 units per year in order to satisfy the steadily expanding demand in Southeast Asia. As a result, the sales volume of the Group increased over 50%, exceeding the growth rate of the market.

In the meantime, there is a possibility that the declining demand in the mining industry may affect the general civil engineering market in Indonesia, a country with the largest demand in the Southeast Asian market. KCM will therefore continue to monitor the situation carefully.

Key Issues in the Future and Outlook for Fiscal 2012

The world economy is currently facing an economic downturn. The economy is supported in some limited areas such as Japan and Thailand where there is demand for reconstruction from earthquake and flooding disasters. There has also been indication of gradual recovery in the U.S. market. However, the economic stagnation in Europe due to the debt crisis is slowing down the economy in China. The impact of the economic slowdown in China has been spreading to resource countries and emerging countries.

In Indonesia, the largest market in Southeast Asia, there has been a trend of intensifying competition in the general civil engineering field due to stagnation in mine development. India, a country expected to be the China, has also been experiencing a slowdown in growth. Thus, there has been uncertainty with respect to economic trends in emerging countries, which had been leading the world. The Kobelco Construction Machinery Group cannot have an optimistic outlook for the future of the market environment that surrounds the group.

Under these harsh situations, the major task of the Kobelco Construction Machinery Group in the immediate future will be the strengthening of its management. To begin with, it is essential for the GEC to demonstrate its primary function early as the control tower for optimization of the entire group. In addition, at the new Itsukaichi Factory, KCM has been proceeding with improvement of corporate strength in various aspects by engaging in customer-oriented product quality improvement as well as in further improvement of productivity in order to maintain the business in Japan even under an extremely strong yen.

Specific tasks of KCM are to improve corporate strength, and furthermore, to raise the basic level of the entire group by extending such results to overseas locations. KCM intends to prepare for an upturn in the future while engaging in these tasks.

Taking into account these conditions, the outlook for fiscal 2012 is forecast as follows:

Forecast for FY2012

{Unit: million yen. () is the percentage of change over the same period of FY2011}

	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated Forecast for FY2012	285,000 (-7.2%)	13,000 (-44.0%)	6,000 (-73.8%)	300 (-93.3%)
Consolidated Result of FY2011	307,159	23,200	22,865	4,488

(Based on the exchange rate in FY2012 second half: 1 US Dollar = 78 Yen, 1 Euro = 100 Yen)

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

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