

## NEWS RELEASE

November 15, 2013  
Kobelco Construction Machinery Co., Ltd.

### **Kobelco Construction Machinery's Semiannual Results for Fiscal Year 2013 (April 1, 2013 – September 30, 2013)**

#### **Results and General Conditions of the Business Environment**

In the domestic construction machinery market, public investment increased throughout the nation due to the effect of the implementation of the large-scale supplementary budget, and the market grew centered on the rental business. As a result, the total domestic demand for hydraulic excavators in the first half of fiscal 2013 increased by slightly less than 40% for heavy excavators and over 10% for mini excavators compared with the same period last year.

The overseas construction machinery market (in the January-June period) remained low in general except for North America. The Chinese market, the largest hydraulic excavator market in the world, remained stagnant due to reasons including the delay in mine development, lower real estate investment, and the decreasing number of major public works. However, there was steady demand for water supply construction in farming communities as well as for construction related to daily living in cities.

As a result, demand for heavy excavators went down by slightly over 10% and that for mini excavators slightly increased over the same period last year. The total demand for heavy and mini excavators together decreased by 10% in comparison to the same period last year since the economy stayed stagnant and the results right after the Chinese New Year, which is the time of the year with the largest demand, were sluggish.

Looking at other markets other than China, the recovery trend in the United States has slowed down and the increase in demand was slight for both heavy and mini excavators in comparison to the same period last year. In Europe, where the anxiety over the debt crisis has temporarily ceased, the decline in demand has come to a halt, although demand has remained stagnant. In Southeast Asia and India, demand for hydraulic excavators remained stagnant as well because there was a major decrease in the resource field including the slump in mine development.

As a result, the demand for heavy excavators in Southeast Asia decreased by slightly less than 30% and that of in India decreased by slightly over 20% compared with the same period last year. The world gross demand for heavy excavators decreased by slightly over 10% and demand for mini excavators slightly decreased compared with the same period last year.

Kobelco Construction Machinery has launched a new medium-term business plan in fiscal year 2013. The slogan of the business plan is "True Blue KOBELCO Evolution." It implies the global evolution and development of a reliable and honest company. The entire Kobelco Construction Machinery Group is promoting this basic strategy, aiming for sustainable and stable growth of the business.

The Itsukaichi Factory started up in May last year. Ramp up progressed smoothly and the facility is in full production. Also at the Ogaki Factory, where mini excavators are manufactured, we were able to maintain full operation while working to improve productivity. Kobelco is putting effort into establishing a supply system capable of timely and more efficiently responding to customers' needs by further improving productivity and pursuing improvements in product quality from the customers' perspective. Furthermore, Kobelco will pursue uniform product quality under "Made by Kobelco" throughout the world.

As a result of the conditions in each geographic area described in the following pages, the financial results for the first half of fiscal 2013 (April to September 2013) were as follows.

## <Financial Results for the First Half of Fiscal 2013>

{Unit: million yen. ( ) is the rate over the same period of FY2012}

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	FY2013 First half	162,997 (+8.4%)	12,933 (+51.9%)	10,164 (+80.9%)	6,338 (+302.6%)
	FY2012 First Half	150,374	8,511	5,619	1,574

(Sums of less than 1 million yen have been omitted.)

Consolidated net domestic sales were 64.8 billion yen (+29.4% compared with the same period in FY2012), overseas sales were 98.1 billion yen (-2.1% compared with the same period in FY2012), and total sales were 162.9 billion yen (+8.4% compared with the same period in FY2012). The ratio of overseas sales to consolidated net sales was 60.2%, a decrease compared with the 66.7% in the same period in FY2012.

### First Half of Fiscal 2013: Review by Geographic Area

#### ■ Japan

In Japan, demand increased throughout the country due to the rise in public investment on the back of the large-scale supplementary budget. A willingness to make capital investments was enhanced as actual construction projects became apparent, and demand increased in all areas including Hokkaido, Tohoku, Kanto, Chubu, West Japan, Shikoku, and Kyushu centered on machines for the rental industry. Although reconstruction demand from the Great East Japan Earthquake began slowing down in some areas, it remained at a high level.

To accommodate strong domestic demand, the Itsukaichi Factory, which began commercial operation in May last year, and the Ogaki Factory, where production efficiency improvement has been promoted, went into full production. Additionally, we integrated manufacturing and sales to deal with respective issues, including efforts to improve parts sales and bolster service locations. As a result, the domestic sales volume of heavy excavators increased by slightly over 30% and that of mini excavators increased by 5% over the same period last year.

We will continue seeing Japan as an important market and will establish a system capable of responding timely to customers' needs.

Moreover, the Global Engineering Center (or GEC), established to optimize production and development in the Kobelco Construction Machinery Group, has gone into full-scale operation. Kobelco has been enhancing its cost competitiveness by thoroughly implementing production improvement and cost reduction (VE) at domestic production sites. The results and know-how of manufacturing acquired through these activities will be shared with the overseas production sites via the GEC.

#### ■ China

In China, gross demand drastically decreased in the period from January to March—when demand is highest after the Chinese New Year—due to the slowing economy. Decline in heavy excavators was especially large, and gross demand decreased by slightly less than 40% compared with the same period last year. Although demand had increased since April compared with the same period last year and the downward trend seemed to stop, it was not enough to resolve the decrease in the period from January to March. In the continuing harsh market, the Kobelco Construction Machinery Group carefully carried out business operations, keeping a certain distance from an easy price policy while continuing to provide meticulous services. However, the sales volume of heavy excavators decreased by slightly less than 20% and that of mini excavators slightly decreased in the first half (January - June) of the year, compared with the same period last year, due to stagnant demand. The total sales volume of heavy excavators and mini excavators together in China in this term decreased by slightly over 10% compared compared with the same period last year.

Even after the second half (July-December) began, demand has been continuing to exceed that of the same period last year. Although a favorable turn in demand has not been so drastic, it has been gradually recovering.

## ■ Europe and the United States

In North America and Europe where Kobelco has re-entered for the first time in 10 years, Kobelco worked on establishing sales networks in the two regions. In the North American market, Kobelco established its North American subsidiary Kobelco Construction Machinery U.S.A. Inc. (or KCMU) in Houston, Texas. As of the end of September, KCMU concluded contracts with over 50 distributors, and its coverage in the North American market has exceeded 90%. Moreover, the establishment of a sales network in Europe also went smoothly. Kobelco has formed distributor contracts with 16 companies as of the end of September. Kobelco intends to increase the number to 20 or more by the end of the year. Considering these conditions, Kobelco established its European subsidiary Kobelco Construction Machinery Europe B.V. in June, which was earlier than initially planned, and has been promoting the establishment of a sales network while using previous Kobelco dealers as its core.

Expectations for the KOBELCO brand are high both in North America and Europe. The sales volume in these markets have been steadily increasing, and the results for this fiscal year are expected to exceed the initial targets. The early launch of the business in Europe and the United States has been showing steady progress, and further growth in the next fiscal year is expected.

## ■ Overseas (APAC and Other Areas)

The demand in the Asia-Pacific (APAC) region transitioned on a low note. Thailand and Singapore, with low ratios in mining, showed underlying strength, but demand remained stagnant in Indonesia, a country with the largest demand, centered on mining. As a result, the gross demand for heavy excavators in the entire Southeast Asia in the first half (January-June) of the year decreased by slightly less than 30% compared with the same period last year, and our sales also decreased by slightly less than 10%. Demand has been declining because the currencies of Asian countries including India have been weakening and because the economy has been stagnant due to currency protection as well as higher interest rates to control inflation. We are facing an unpredictable situation because the movement of world investment, which has been flowing to emerging countries, is extremely unclear. Another recession may be expected as well.

## Key Issues in the Future and Outlook for Fiscal 2013

The Japanese market is expected to transition on a good note due to the National Resilience Plan as well as expectations for investments in the 2020 Tokyo Olympics. The world economy has been on a recovery trend in developed countries while it seems to have begun slowing down in emerging countries that had been showing steady and continuous growth for the past few years. Additionally, depending on how the quantitative easing of money in the United States, not only emerging countries but also developed countries may be affected. Although the downward trend in China seems to have slowed down, it has not yet been enough for a full economic recovery and the situation is unclear. Therefore, we cannot be optimistic about the future of the market conditions that surround the Kobelco Construction Machinery Group.

Considering these difficult conditions, the Kobelco Construction Machinery Group faces the issue of strengthening its management capabilities. Kobelco has launched a new medium-term business plan in April this year. The objectives of this plan are to: 1) create a business entity with the strength to deal with changes in the business environment, 2) maximize the value of the KOBELCO brand throughout the world by re-entering Europe and the United States, and 3) push forward to improve its business foundation by improving productivity, improving fuel efficiency and other differentiated technologies, and expanding the parts business.

A specific task of Kobelco is to raise the basic level of the entire Group by steadily implementing each policy set forth in the medium-term business plan, successfully improving its capacity, and sharing the outcome with overseas sites. Kobelco will make preparations for an upward phase to come while addressing these issues.

Taking into account these conditions, the outlook for fiscal 2013 is anticipated as follows:

**<Forecast for FY2013>**

{Unit: million yen. ( ) is the rate over the same period in FY2012}

	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated Forecast for FY2013	325,000 (+21.3%)	24,500 (+93.3%)	17,000 (+148.1%)	13,000 (+389.3%)
Consolidated Result of FY2012	267,821	12,675	6,852	2,657

(Based on the exchange rate in FY2013 second half: 1 US Dollar = 100 Yen, 1 Euro = 125 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.