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NEWS RELEASE

November 12, 2014
Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Semiannual Results for Fiscal Year 2014 (April 1, 2014 – September 30, 2014)

Results and General Conditions of Business Environment

In the domestic hydraulic excavator market, a significant decline had been expected initially in response to the impact of last-minute demand in the previous fiscal year. However, the decline was milder than initially expected owing to strong domestic demand. As a result, the total domestic demand for hydraulic excavators in the first half decreased by slightly over 10% year-on-year for heavy excavators. On the other hand, it increased by slightly over 10% for mini excavators year-on-year as they were not affected by the decline caused by the emission control.

Except for developed countries and regions such as Europe, the overseas construction machinery market (in the January—June period) generally remained low in emerging countries.

The Chinese market, the largest hydraulic excavator market in the world, remained stagnant after the Chinese New Year despite the expectation that the recovery trend in the latter half of last year would continue. There was no positive sign for demand in mining regions, and the market was generally sluggish due to various factors including suppression of real estate investment and stagnation in large-scale public construction projects. As a result, demand for heavy excavators decreased by slightly over 10% and that of mini excavators slightly decreased year-on-year. The total demand for heavy and mini excavators together decreased by 10% year-on-year.

Looking at markets other than China, markets in developed countries and regions such as North America, Europe, and Australia maintained steady demand. In the North American market, demand increased by slightly over 10% for heavy excavators and nearly 20% for mini excavators. In Europe, which saw steady recovery from last year's financial crisis, demand increased nearly 20% for heavy excavators and slightly over 20% for mini excavators. In Southeast Asia and India, demand for hydraulic excavators was sluggish due to a significant decline in the resource industry, including stagnation in mine development, in addition to political turmoil. As a result, demand for heavy excavators in Southeast Asia decreased nearly 20% and that of in India decreased by slightly over 10% year-on-year. The world aggregate demand for heavy excavators slightly decreased and that of mini excavators increased by slightly over 10% year-on-year.

Reaching the middle year of the medium-term management plan launched in fiscal year 2013, the entire Kobelco Construction Machinery Group has been promoting the basic strategies of the plan while aiming to achieve sustainable and stable growth in the business.

The Itsukaichi Factory, where heavy excavators are manufactured, smoothly ramped up production and has been in continuous full production at a high level, exceeding its production capacity since it went on line in May 2012. The Ogaki Factory, where mini excavators are manufactured, has also been in continuous full production, supported by strong demand. KCM will put effort into establishing a supply system capable of strengthening the product lineup and timely responding to customers' needs to meet growing demand mainly in developed countries, despite the continuing adverse market conditions in China and developing countries.

As a result of the conditions in each geographic area described from the next page on, the financial results for the first half of fiscal 2014 (April, 2014 to September, 2014) were as follows.

<Financial Results for the First Half of FY2014>

｛Unit: million yen. ( ) is the rate over the same period of FY2013｝

		Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated	FY2014 First half	169,712 (+4.1%)	18,920 (+46.3%)	16,163 (+59.0%)	11,873 (+87.3%)
	FY2013 First Half	162,997	12,933	10,164	6,338

(Amounts under 1 million yen have been omitted.)

Consolidated net domestic sales were 58 billion yen (-10.4% over the same period of FY2013), overseas sales were 111.7 billion yen (+13.7% over the same period of FY2013), and overall sales were 169.7 billion yen (+4.1% over the same period of FY2013). The ratio of overseas sales to consolidated net sales was 65.8%, increasing from that of the same period of FY2013 (60.2%).

First Half of FY2014: Review by Geographic Area

■ **Japan**

In Japan, demand decreased year-on-year in response to the last-minute demand last fiscal year. Although a round of replacement demand in the rental industry has settled and domestic aggregate demand for heavy machinery decreased year-on-year, domestic demand remained relatively steady owing to actual demand such as public investment, private capital investment, and response to natural disasters that required construction work. Demand for mini excavators, not affected by the last-minute demand, remained steady. Furthermore, demand for building demolition has been growing as the number of urban renovation projects in large city areas increases in conjunction with the Tokyo Olympics.

To accommodate a high level of domestic demand that exceeded expectations, KCM responded with full production at the Itsukaichi Factory, a heavy excavator factory, and the Ogaki Factory, a mini excavator factory. Additionally, KCM has commenced the capacity expansion of large machines to increase the production capacity of large excavators used in demolition projects, which will increase further in the future. As a result, the domestic sales volume of heavy excavators decreased by nearly 20%, but that of mini excavators increased by 10% year-on-year. We will continue seeing the domestic market as an important market and will establish a system capable of timely responding to customers' needs.

The Global Engineering Center ("GEC") for the optimization of production and development of the entire Group has also been implementing full-scale operations. KCM has been enhancing its cost competitiveness by thoroughly implementing productivity improvement and cost reduction (VE) at domestic production sites. At the same time, KCM has been putting effort into shortening delivery periods by reducing the total lead time. Furthermore, in terms of development, KCM achieved a better fuel efficiency of as high as 36% by completely renewing the 2.8 – 4.5 ton class ultra-short rear tail swing mini excavators, and improved the low-noise performance and maintainability further by equipping all models with KCM's unique "iNDR (engine cooling system)" technology which has earned a good reputation in heavy excavators. KCM will continue pursuing differentiated technologies.

■ **Europe and the U.S.**

In North America and Europe, where KCM re-entered last year for the first time in 10 years, establishment of a sales network steadily proceeded. A North American subsidiary KCMU (Kobelco Construction Machinery U.S.A. Inc.) has concluded contracts with over 60 distributors as of the end of September, covering almost the entire North American market except for some areas including Alaska and has been expanding the sales network to South America as well. Moreover, the establishment and expansion of a sales network in Europe also has been going smoothly while concluding distributor contracts with 26 companies as of the end of September, up 60% year-on-year. Expectations for the high-efficiency KOBELCO brand are high both in the Americas and Europe and the sales volume in these areas have been steadily growing. Compared with last year's annual sales volume, that of the current year is forecast to be 2.5 times in the Americas and 3.5 times in Europe. Also, KCM's market share is expected to be 5% in the Americas and approximately

3.5% in Europe. KCM is making steady progress in sales, working to achieve the goals of the medium-term management plan.

■ China

In China, positive results were expected, based on the level of aggregate demand in the January-March period, when the Chinese New Year takes place—the time of the year with the largest demand. However since April, market conditions have been severe, continuing to fall below last year's results. Demand generally remained stagnant as there were various factors including the delay in the execution of approved public projects in different areas, in addition to sluggish mining demand in the northeastern region. Under the continuing harsh market trend, the KCM Group carefully carried out its business operations by continuing to provide meticulous services, keeping a certain distance from an easy price policy, and putting effort into mini excavators focused on urban construction projects. As a result, in this first half (Jan.-Jun.), the sales volume of heavy excavators slightly increased and that of mini excavators increased by 40% year-on-year. The total sales volume of heavy and mini excavators together in China in this first half increased by slightly over 10% year-on-year.

Nevertheless, the sales volumes from Chinese New Year to present have continued to fall below those of the same periods last year, and there is a severe situation where there is no sign that the stagnant demand will take a favorable turn.

■ Overseas (APAC and Other Areas)

Demand in the APAC region transitioned on a low note. The construction machinery market continued to suffer from the severe environment due to changes in administrations in India and Indonesia, political change in Thailand, and economic stagnation from currency depreciation affected by the United States' diminished monetary easing. As a result, in this first half (Jan.-Jun.), aggregate demand for heavy excavators in the entire Southeast Asia decreased nearly 20% and KCM's sales decreased by nearly 30% year-on-year. In India, aggregate demand decreased by slightly over 10%. However, the decline in KCM's sales was minimal as there is an underlying strong demand for high-performance machines in the high-end market.

We are facing an unpredictable situation because not only has the economic foundation in Asia including India been becoming more unstable, butd it is extremely unclear as to how the world's investment will move, and another recession is expected as well.

Key Issues in the Future and Outlook for Fiscal 2014

The Japanese market is expected to remain strong due to the Japanese governement's Fundamental Plan for National Resilience as well as expectations for investments in the Tokyo Olympics. However, looking at the world economy, there has been continuing uncertainty over China and developing countries while the outlook is relatively favorable for developed countries. However, it is not the case that the developed countries are on a track of soaring recovery, and full-fledged recovery is expected to take a little longer throughout the world. Therefore, under these uncertain situations around the world, we cannot be optimistic about the future of the market conditions that surrounds the KCM Group.

Considering these difficult conditions, the KCM Group will have to put effort into strengthening its management structure. KCM launched a medium-term management plan last year. The objectives are to: 1) create a business entity with a strength capable of dealing with any changes in the business environment, 2) maximize the value of the KOBELCO brand throughout the world by re-entering Europe and the U.S., and 3) Push forward the improvement of the business foundation by increasing productivity, discovering differentiated technologies including fuel efficiency, and expanding the parts business. A specific task of KCM is to raise the level of the entire Group by steadily implementing these policies set forth in the medium-term management plan, successfully improving its management structure, and sharing the outcome with overseas sites. KCM will make preparations for an upward phase to come while addressing these issues.

Taking into account these conditions, the outlook for FY2014 is expected to be as follows:

<Forecast for FY2014>

｛Unit: million yen. ( ) is the rate over the same period of FY2013｝

	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated Forecast for FY2014	325,000 (+2.1%)	30,000 (+22.1%)	22,000 (+45.5%)	17,000 (+8.3%)
Consolidated Results of FY2013	318,217	24,561	15,119	15,699

(Projected exchange rate in FY2014 second half: 1 US Dollar = 103 Yen, 1 Euro = 140 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.