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NEWS RELEASE

November 10, 2015
Kobelco Construction Machinery Co., Ltd.

Kobelco Construction Machinery's Semiannual Results for Fiscal Year 2015 (April 1, 2015 – September 30, 2015)

Results and General Conditions of Business Environment

In the domestic construction machinery market, aggregate domestic demand for heavy excavators in the first half decreased by slightly less than 30% as the demand from general users slightly increased year-on-year but demand from major rental users has settled. On the other hand, aggregate demand for mini excavators remained strong and increased by slightly less than 20% year-on-year due to factors such as a gradual recovery in the number of housing starts as well as the last-minute demand before stricter emission regulations go into effect.

In the overseas construction machinery markets (January-June period), demand generally remained stagnant despite the recovery trend in some countries. This was because demand in China declined significantly, that of emerging countries centering on resource countries remained stagnant, and the level of demand in advanced countries including Europe and the U.S. lacked strength.

In the Chinese market, the continuing adverse condition from the year before last worsened further during this period. In terms of demand for excavators (only those of overseas corporations), that of heavy excavators decreased by slightly over 50% and that of mini excavators decreased by slightly less than 30%.

Demand in the markets of advanced countries including North America and Europe also remained stagnant. In North America, aggregate demand for heavy excavators slightly decreased due to the stagnation in oil-related demand despite the recovery in the number of housing starts. Demand for mini excavators increased by 10% due to the strong housing-related demand. In Europe, demand for heavy excavators decreased by slightly less than 10% and that of mini excavators increased by 10%.

In emerging countries, there was a recovery trend in some countries such as India, Thailand, and Vietnam, but the overall demand remained stagnant. Demand in Southeast Asia remained stagnant as the demand in Indonesia, the largest market in that region, decreased by slightly over 30%. As a result, in terms of demand for heavy excavators, it decreased by slightly less than 20% year-on-year in Southeast Asia. Aggregate world demand for heavy excavators decreased by 20% and that of mini excavators increased slightly year-on-year.

Details of the conditions in each geographic area are described from the next page on, but the sales volume decreased due to a sharp decline in the demand centering on emerging countries. We made production adjustments for the inventory to reach a proper level and implemented measures against the risks in the emerging countries where recovery is unlikely for the time being. As a result, the financial results for the first half of FY2015 (April, 2015 to September, 2015) were in the red as follows.

<Financial Results for the First Half of FY2015>

{Unit: million yen. ( ) is the rate over the same period of FY2014}

		Net Sales	Operating Income	Ordinary Income/Loss	Net Income/Loss
Consolidated	FY2015 First half	147,029 (- 13.4%)	3,866 (- 79.6%)	- 489 (- 103.0%)	- 2,202 (- 118.6%)
	FY2014 First half	169,712	18,920	16,163	11,873

(Truncate after the decimal point)

Consolidated domestic sales were 57.7 billion yen (-0.5% over the same period of FY2014), overseas sales were 89.3 billion yen (-20.1% over the same period of FY2014), and overall sales were 147.0 billion yen (-13.4% over the same period of FY2014). The ratio of overseas sales to consolidated net sales was 60.7%, decreasing from that of the same period of FY2014 (65.8%).

First Half of FY2015: Review by Geographic Area

■ **Japan**

In Japan, aggregate demand for heavy excavators decreased by slightly less than 30% year-on-year as the renewal demand in the rental industry had settled and the demand decreased by slightly less than 50% year-on-year while the demand from general users showed a slight increase year-on-year. While the demand remained stagnant, KCM put effort into searching for new general users, where demand was relatively strong and decline was small. KCM also focused on capturing the demand in building demolition and expanding into the forestry industry. Furthermore, in May, KCM completed the expansion of the large machinery assembly line, which had been a bottleneck for manufacturing, and commenced its operation without delay. As a result, KCM was able to keep the decline in the domestic sales volume at slightly over 20%.

Sales of mini excavators remained strong for both rental and general users due to the gradual increase in the number of housing starts and to the last-minute demand before stricter emission regulations go into effect. However, sales made only a slight increase year-on-year as KCM was unable to fully capture the growth in demand.

The Global Engineering Center (“GEC”) for the optimization of production and development of the entire group continued with the implementation of productivity improvement, cost competitiveness improvement, a shift to the in-house production of parts, and a pursuit of differentiation technologies. KCM has also been working on the next generation of advanced technologies through various measures such as the co-establishment of a joint research course with Hiroshima University this June for improved comfort.

■ **Europe and the U.S.**

In North America and Europe, where KCM re-entered in the year before last for the first time in 10 years, KCM addressed the issues in each region. In North America, there is a slight sign of recovery in housing starts, but there are negative factors such as economic stagnation in South America and shale oil-related uncertainties, and KCM has been putting effort into developing and improving the sales network. Furthermore, North American subsidiary KCMU (Kobelco Construction Machinery U.S.A. Inc.) commenced the construction of a hydraulic excavator factory this May in Spartanburg County, South Carolina. The factory is expected to begin operation from spring next year.

In Europe, where there are many countries, it took more time in establishing a sales network compared to the time required in the Americas. However, KCM steadily proceeded with the development of its sales network, resulting in the sales volume increasing by 30% year-on-year. Business has been proceeding as planned and the annual market shares in North America and Europe are expected to be approximately 4.8% and 4.5% respectively.

■ **China**

The government has been successively implementing economic stimulus measures in addition to monetary relaxation, but demand has continued to decrease on a year-on-year basis with tough conditions showing no signs of recovery from the stagnation of demand.

In this first half (January-June period), KCM's sales volume of heavy excavators decreased by 50% year-on-year and that of mini excavators decreased by 20%. As a result, aggregate sales volume in China in this first half, including those of heavy and mini excavators, decreased by slightly over 40% year-on-year.

■ **Overseas (APAC and Other Areas)**

The demand in the APAC area remained stagnant mainly in resource countries despite the recovery trend in some emerging countries including Thailand, Philippines, and Myanmar. Especially in Indonesia where there is the largest demand, the demand for heavy and mini excavators together decreased by slightly over 30% year-on-year due to the impact of the economic stagnation in China and the decline in the currency exchange rate, as well as to severe stagnation in economic activities. As a result, in this first half (January-June period), aggregate demand for heavy excavators in the entire Southeast Asia region decreased by slightly over 15% year-on-year and KCM's sales experienced the same level of decline as well.

In India, aggregate demand increased slightly. There was a strong demand particularly for high-performance machinery in the high-end market and KCM's sales increased by slightly less than 10% year-on-year as well.

We are facing an unpredictable situation because not only has the economic foundation in emerging countries including the Asia region been deteriorating and there is a concern for further financial outflow, but another recession is expected as well.

Key Issues in the Future and Outlook for FY2015

In the Japanese market, there are regions that have been maintaining a high workload due to the Basic Act for National Resilience and investments related to the Tokyo Olympics. However, there is concern about the number of public construction projects, which have been gradually declining.

When we put the world economy in perspective, it is extremely unclear as to when the Chinese economy will get back on a recovery track and the stagnation is expected to continue. Furthermore, stagnation is expected to continue also in the emerging countries that rely on resources. We cannot entirely say that the developed countries, with relatively stable and promising demand, are on a track of soaring recovery, and it is expected to take a little longer for full-fledged recovery throughout the world.

Under these continuingly uncertain economic situations around the world, we cannot be optimistic about the future of the market conditions that surrounds the KCM group. Taking into account these difficult conditions, the outlook for FY2015 is expected to be as follows.

<Forecast for FY2015> {Unit: million yen. ( ) is the rate over the same period of FY2014}

	Net Sales	Ordinary Income
Consolidated Forecast for FY2015	282,200 (- 9.3%)	1,000 (- 95.2%)
Consolidated Result of FY2014	311,008	21,012

(Based on the exchange rate in FY2015 second half: 1 US Dollar = 120 Yen, 1 Euro = 135 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.

This year is the final year of the Kobelco Construction Machinery Group's current medium-term management plan (FY2013 – 2015). KCM will continue putting effort into the following policies set forth in the medium-term management plan and implement wrap-up activities.

1) Creation of a business entity with a strength capable of dealing with any changes in the business environment.
2) Maximizing the value of the KOBELCO brand throughout the world by carrying out re-entry to Europe and the U.S.
3) Promotion of the strengthening of the business foundation by improving productivity, discovering technologies for differentiation including fuel efficiency, and expanding the parts business.

Additionally, in formulating the new medium-term 5-year management plan starting next year, we will see ourselves as a challenger in the construction machinery industry and will carry out tasks in order to successfully implement both an "aggressive strategy" in the fields of potential growth for the next generation and a "defensive strategy" to ensure stable earnings. The new medium-term management plan is to be announced at an appropriate time in the future.

■ Company Outline

Name	Kobelco Construction Machinery Co., Ltd.
Founded	October 1, 1999
Tokyo headquarters	5-15, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo (Phone: 03-5789-2111)
Capitalization	16,000 million yen Kobe Steel, Ltd. 100%
President & CEO	Jun Fujioka
Business operations	Manufacture, sale, and service of construction and transport machinery
Website	http://www.kobelco-kenki.co.jp

KOBELCO CONSTRUCTION MACHINERY CO., LTD.

November 10, 2015

Financial Results for the First Half of Fiscal Year 2015

Company: **Kobelco Construction Machinery Co., Ltd.**
Phone number: 03 (5789) 2111
Representative: Jun Fujioka (President and CEO)
In charge of inquiries: Hiroyuki Hosomi (Manager of the Corporate Planning & Administration Dept.)
Parent Company: Kobe Steel, Ltd. (Holds 100% of the company's share)

1. Consolidated Financial Results for the First Half of Fiscal Year 2015
(April 1, 2015 - September 30, 2015)

(1) Consolidated Business Results

(% indicates year-on-year rate of increase/decrease)

	Net Sales		Operating Income		Ordinary Income/Loss		Net Income/Loss	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Fiscal 2015 first half	147,029	-13.4	3,866	-79.6	-489	-103.0	-2,202	-118.6
Fiscal 2014 first half	169,712	4.1	18,920	46.3	16,163	59.0	11,873	87.3

	Net Income/Loss per Share
	(yen)
Fiscal 2015 first half	-6.90
Fiscal 2014 first half	37.10

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital Ratio
	(million yen)	(million yen)	(%)
Fiscal 2015 first half	441,991	123,495	21.8
Fiscal 2014	455,401	136,327	22.6