

## NEWS RELEASE

January 7, 2015

Kobelco Construction Machinery Co., Ltd.

### Factory Construction in North America

Kobelco Construction Machinery Co., Ltd. (President: Jun Fujioka. Tokyo Headquarters in Shinagawa-ku, Tokyo, Japan; Hiroshima Headquarters in Saeki-ku, Hiroshima-shi, Hiroshima, Japan) has decided to construct a hydraulic excavator production factory in South Carolina, United States. The new factory will be incorporated into its North American subsidiary, Kobelco Construction Machinery U.S.A. Inc. ("KCMU") (President: Katsuhiko Morita. Katy, Texas, U.S.A.) which already operates in North America. With this factory construction, KCMU will be reorganized into a company with integrated production and sales.

After concluding an official purchase agreement for the planned construction site, we will begin site preparation from April this year, construct a building, install machines and equipment, and complete the construction in December, then commence mass production of 20t model from January, 2016. The site area will be approximately 340,000m<sup>2</sup> (85 acres). We will start with an annual production capacity of 1,800 units but plan to sequentially increase the menu and production in accordance with market development.

The target share in North America under the current medium-term management plan whose final year is the fiscal year 2015 is 7% or higher. However, by taking advantage of the local production, we will enhance service functions further, reinforce foundation in North American market by improving after-sales activities including parts sales, continue increasing the presence of Kobelco's hydraulic excavators, and put a group-wide effort into regaining a 10% share in North America that we had had before we formed an alliance with CNH.

Having a production site in North America will allow us not only to reduce the production lead-time of machineries for North American customers and improve capability for meeting the market needs, but also reduce operational burden on the Hiroshima Itsukaichi Factory and build an optimal group-wide production system.

#### [Background and Purpose]

- Kobelco Construction Machinery reentered the US market in 2013. KCMU aggressively put effort into rebuilding a distribution network, and as of December, 2014, they have concluded a dealer agreement with a total of 62 companies, 52 in North America and 10 in South America and been smoothly recovering sales and share.
- The entire volume was being shipped from the Hiroshima Itsukaichi Factory in Japan at the beginning of the reentry. However, market development has been proceeding at a faster rate than expected and the Itsukaichi Factory keeps its fullest production capacity and has no further available capacity. We have decided to manufacture standard hydraulic excavators for the US in North America because

capacity shortage is expected sooner or later due to the market development speed. The Hiroshima Itsukaichi Factory has been operating at a production level of 10,500 units which significantly exceeds the current production capacity of 8,500 units. However, further production increase is limited, and prevention of opportunity loss was a major issue. Even after the production of the standard models for the US is transferred to KCMU, the Hiroshima Itsukaichi Factory is expected to maintain a full production to accommodate the expansion of newly developed areas centering on Europe and the Middle and Near East.

- As for the production menu, standard models of heavy excavators for North America have been planned. Special machines and mini excavators will continue to be supplied from Japan.

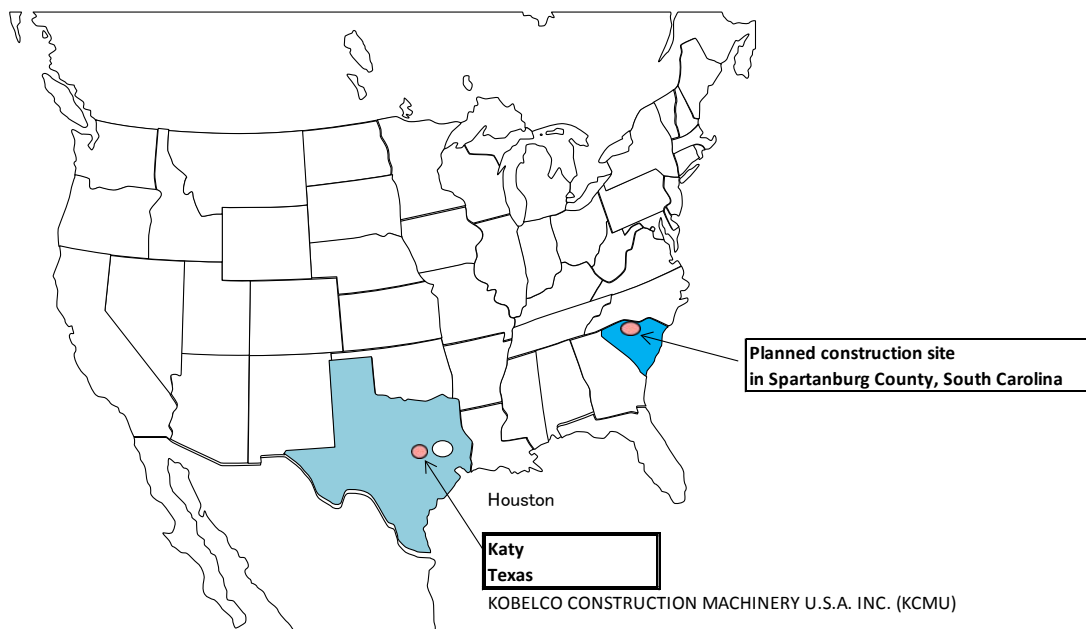
[About the Site]

The planned construction site is located near major highways (I-26 and I-85) and has excellent access to Charleston Harbor which is a major domestic and North American harbor as well as to Savannah Harbor in Georgia, a neighboring state. Moreover, there is a strong manufacturing industry in the area with automobile manufacturers and aviation industry manufacturers and there are many overseas companies as well.

[New Factory Overview]

Planned construction site	Spartanburg, South Carolina, USA
Site area	Approximately 340,000m <sup>2</sup> (85 acres) (Factory building, outside of the office building, machinery parking, car parking, testing area, production capacity expansion space)
Building area	Factory building 14,560 m <sup>2</sup> Office building 1,600 m <sup>2</sup>
Production capacity	1,800 units/year (initial plan)
Investment amount	About 5 billion yen

Reference Map



- Regarding this matter, please contact: Nakata or Takamatsu

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