Hitachi Construction Machinery Co., Ltd.

Financial Results for the Third Quarter
Ended December 31, 2016

(English translation of "KESSAN TANSHIN" originally issued in Japanese language.)

Consolidated Financial Results for the Third Quarter Ended December 31, 2016 (IFRS)

January 30, 2017

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
Stock exchange: Tokyo (first section) Code number: 6305
URL https://www.hitachicm.com/global/
Representative: Yuichi Tsujimoto, President and Chief Executive Officer
Scheduled date for submission of the Quarterly Securities Report: February 9, 2017
Scheduled date of commencement of payment of dividends: -
Supplementary materials to the financial statements have been prepared: Yes
Presentation will be held to explain the financial statements: Yes (for institutional investors, analysts and journalists)

1. Consolidated results for the third quarter ended December 2016 (April 1, 2016 to December 31, 2016)

(1) Consolidated results

(Rounded off to the nearest million)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2016	507,006	(7.7)	11,013	(27.7)	9,407	107.9	4,850	498.8	2,528	―	1,343	―
December 31, 2015	549,142	(5.3)	15,235	(72.4)	4,525	(89.1)	810	(96.6)	(37)	―	13,883	―

The company presented "Adjusted operating income", Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring, in the column of "Operating income" from the first quarter of fiscal year 2016. Above year-on-year comparison is also for the "Adjusted operating income". "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Operating income" for the third quarter ended December 2016 is as below.

December 31, 2016 ¥8,167 million YoY-33.5%

December 31, 2015 ¥12,274 million YoY-72.4%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
December 31, 2016	11.89	11.89
December 31, 2015	(0.17)	(0.17)

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio
	Millions of yen	Millions of yen	Millions of yen	%
December 31, 2016	932,563	448,877	392,875	42.1
March 31, 2016	926,628	456,816	395,963	42.7

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2016	―	30.00	―	10.00	40.00
March 31, 2017	―	4.00	―		
March 31, 2017 (Projection)				―	―

Year-end dividends for the fiscal year ending March 2017 are to be determined.
Note: Changes involving the dividend states for the fiscal year ending March 2017: None

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3. Projected consolidated results for the fiscal year ending March 2017 (April 1, 2016 to March 31, 2017)

	Revenue		Operating income		Income before income taxes		Net income attributable to owners of the parent		Net income attributable to owners of the parent per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
March 31, 2017	700,000	(7.7)	28,000	19.8	15,000	(38.8)	5,000	(43.2)	23.51

Notes: 1) The percentages indicated show changes from the same period of the previous fiscal year.
2) Changes in consolidated earnings forecast: None

The company presented "Adjusted operating income", Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring, in the column of "Operating income" for the projected consolidated results ending March 2017. Above year-on-year comparison is also for the "Adjusted operating income". "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. Cumulated "Operating income" for projected consolidated result ending March 2017 is as below.

March 31, 2017 ¥22,000 million YoY-35.4%

*Notes

(1) Important changes in the scope of the consolidation during period(changes involving specific subsidiaries accompanying changes in the scope of consolidation): None

(2) Changes in accounting policies; changes in accounting estimates
[1] Changes in accounting policies required by IFRS None
[2] Changes in accounting policies other than those in [1] None
[3] Changes in accounting estimates Yes

(3) Number of outstanding shares (common shares)
[1] Number of outstanding shares at fiscal year-end (including treasury shares)
December 2016: 215,115,038 March 2016: 215,115,038
[2] Number of treasury shares at fiscal year-end
December 2016: 2,453,759 March 2016: 2,451,828
[3] Average number of common shares outstanding during the fiscal year (shares)
December 2016: 212,662,367 December 2015: 212,601,818

Indication of audit procedure implementation status

This earnings report is exempt from audit procedure based upon the Financial Instruments and Exchange Act. It is under the audit procedure process at the time of disclosure of this report.

Explanation on the appropriate use of results forecasts and other important items

Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially. Please refer to ''1. Management Performance and Financial Conditions, (3) Explanation of Future Forecast Information concerning Consolidated Earnings Forecasts' of the attachment for conditions serving as assumptions for results forecasts.

Index of the Attachment

1. Management Performance and Financial Conditions

(1) Management Results

[1] Overview of Business Results

HCM Group is working on the establishment of a global management support scheme, expansion of its market share, cost reduction to secure profit, and business/structural reform to enhance business efficiency and solid business infrastructure. In addition, we are making efforts towards structuring the global research/develop framework and strengthening the development marketing function to provide appropriate products by region and solutions for customers' life-cycle cost reduction.

With respect to construction machinery, while demand is sluggish, we have been enhancing our parts and service business through a globally launched service menu called "ConSite," as well as expansion of the parts supply network. Additionally, HCM integrated our wheel loader business into KCM, a company consolidated by HCM in October 2015, in April 2016 to reinforce the wheel loader business by increasing efficiency in production and the R&D process and by expansion of the global sales network. For i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, we are working to promote ICT hydraulic excavators and smart construction solutions to the domestic market. As for the crawler crane business, HCM agreed to transfer a portion of its Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC) stock to Sumitomo Heavy Industries, Ltd. (SHI) as of March 31, 2017 as announced on December 27, 2016 to accelerate the reinforcement of global competitiveness by utilization of management resources of HSC. HSC is to be an equity-method affiliate of HCM from the present consolidated subsidiary by this stock transfer.

As for mining machinery, we are focusing on expanding sales of the well-accepted AC-3 series rigid dump trucks especially the one for trolley use or high-altitude use equipped with an advanced vehicle body stability-assist function. Moreover, we are bringing Hitachi Group's strengths to the substantially advanced customer support system to optimize mine operation by offering a fleet management system for mining machinery and the development of an autonomous haulage system. Furthermore, HCM announced the acquisition of H-E Parts on December 21, 2016 for enhancement of our value chain through the expansion of access to mining companies, the aftermarket services, remanufacturing components, and non-genuine parts markets to strengthen the parts and service business

Consequently, consolidated revenue for this term (April 1, 2016 to December 31, 2016) was ¥507,006 million, down 7.7% year on year due to appreciation of the yen in addition to weak demand in Japan, Middle East and The Americas. Adjusted operating income decreased by 27.7% year on year to 11,013 million affected by the exchange rate, and operating income decreased by 33.5% year on year to ¥8,167 million due to booking of the restructuring cost. Income before income taxes increased by 107% year on year to ¥9,407 million affected by foreign exchange profit, and net income attributable to owners of the parent increased to ¥2,528 million (¥-37 million in the third quarter ended December 2015).

The following table summarizes the consolidated results for this term ended December 2016.

	December 2016 (A)	December 2015 (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	507,006	549,142	(42,136)	(7.7)
Adjusted operating income*	11,013	15,235	(4,222)	(27.7)
Operating income	8,167	12,274	(4,107)	(33.5)
Income before income taxes	9,407	4,525	4,882	107.9
Net income attributable to owners of the parent	2,528	(37)	2,565	-

(Rounded off to the nearest million)

* "Adjusted operating income" is the Hitachi Group's common profit index, calculated by excluding "Other income" and "Other expenses" from "Operating income.

[1] Overview of Consolidated Revenue by Region

[Japan]

In Japan, demand for construction machinery decreased year on year, due to a reaction to the last-minute demand before the implementation of new emissions regulations sequentially applied from 2013 onward.
Under such circumstances, Hitachi Construction Machinery Japan Co., Ltd. pursued increase of customer satisfaction and sales with further enhancement of organization for RSS (rental, sales, and service integrated division) to offer the best solutions to customers by strengthening sales activities for large infrastructure-related projects and integration of the used machinery business. For i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, we started offering ICT hydraulic excavators to promote smart construction by establishment of its demonstration site in Hitachinaka-City, Ibaraki Prefecture.
However, consolidated revenue decreased by 5.3% year on year to ¥ 158,779 million due to a decline in new machinery demand.

[The Americas]

In North America, demand for mini and small-sized hydraulic excavators increased year on year because housing starts were generally steady despite the slower growth from middle of a fiscal year. However, total demand for hydraulic excavators decreased due to decline in middle and large-sized excavators affected by slow energy-related investment.
In Central and South America, construction machinery demand has decreased year on year, mainly due to slow infrastructure-related investment.
Mining machinery demand remained sluggish across the Americas despite recovery of resource prices.
Under such circumstances, we strove to expand sales of machinery that comply with the local regulations of each country, in collaboration with Deere & Company.
Consequently, consolidated revenue decreased by 22.3% year on year to ¥ 58,012 million resulting from the demand decrease and the appreciation of the yen.

[Europe]

In Europe, demand for construction machinery increased year on year. While demand in UK remained decreased, we have seen demand recovery in mainly Germany, France and Italy.
Under these circumstances, HCM Group enhanced support services to our dealers in each country and launched new models of hydraulic excavators and wheel loaders to which the latest emission regulations (Stage IV) apply.
However, consolidated revenue decreased by 6.1% year on year to ¥ 58,570 million affected by the appreciation of the yen.

[Russia-CIS, Africa, and the Middle East]

In Russia, sluggish demand for construction machinery continued. We are striving to increase sales of construction and mining machinery by offering continuous support to sales and service mainly for national projects through Hitachi Construction Machinery Eurasia Sales LLC.

In Southern Africa, we reinforced sales and service mainly for mining machinery. In Northwest Africa, we strengthened sales and service of construction machinery for infrastructure-related industry together with dealers.

In the Middle East, remarkable demand decrease could be seen mainly in the Gulf countries. We focused on sales for infrastructure-related projects, and appointed a new dealer for market development.

Consolidated revenue decreased by 14.4% year on year to ¥ 52,438 million due to the depreciation of local currencies in Africa and demand decrease in the Gulf countries.

[Asia and Oceania]

In Indonesia and Australia, which are both resource-rich countries, demand for mining machinery remained weak while some previously idle equipment has resumed operation in some mines.

Demand for construction machinery continued to recover and increased year on year, mainly in Indonesia, Thailand, and Malaysia. In India, demand has significantly increased year on year resulting from continuous increase in infrastructure-related demand such as road and railway construction.

Under such conditions, we are striving to enhance the dealers' marketing capabilities by fully utilizing the sales support system to expand sales in Asia and Oceania. In addition, we enhanced sales of parts and service for mining machinery using the system to predict the timing of parts & components replacement. Furthermore, Tata Hitachi Construction Machinery Co., Ltd. focused on cost reduction and enhancement of production quality, as well as sales promotion of new models and large-sized machines in India.

Consequently, while revenue in India increased year on year, consolidated revenue decreased by 5.3% year on year to ¥ 139,697 million due to a decline in revenue from the mining business and the depreciation of local currencies.

[China]

In China, demand for construction machinery increased year on year. The demand is supported by governmental investment for fixed assets and infrastructure, while the pace of growth of investment for fixed assets from the private sector has slowed.

Under such circumstances, HCM Group promoted sales activities for both machinery and parts targeting regions and customers with a high operating rate, by utilizing the sales support system, service and parts sales management system, and the "Global e-Service" system. Additionally, we strove to expand sales of the ZX-5A series, a new model to which the latest emissions regulations that commenced in April 2016 apply.

Consolidated revenue increased by 10.6% year on year to ¥ 39,510 million.

The following table summarizes consolidated net revenue by geographic area:

		Current consolidated cumulative Third quarter (April 1,2016- December 31, 2016)		Previous consolidated cumulative Third quarter (April 1,2015- December 31, 2015)		Increase (Decrease)	
		Revenue (Millions of yen) (A)	Proportion (%)	Revenue (Millions of yen) (B)	Proportion (%)	Amount of change (A)−(B)	% Change (A)/(B)-1
	North America	54,639	10.8	69,470	12.7	(14,831)	(21.3)
	Central and South America	3,373	0.7	5,231	1.0	(1,858)	(35.5)
The Americas		58,012	11.4	74,701	13.6	(16,689)	(22.3)
Europe		58,570	11.6	62,384	11.4	(3,814)	(6.1)
	Russia-CIS	13,434	2.6	13,367	2.4	67	0.5
	Africa	24,374	4.8	27,193	5.0	(2,819)	(10.4)
	Middle East	14,630	2.9	20,706	3.8	(6,076)	(29.3)
Russia-CIS, Africa and the Middle East		52,438	10.3	61,266	11.2	(8,828)	(14.4)
	Asia	42,330	8.3	49,406	9.0	(7,076)	(14.3)
	India	33,928	6.7	28,683	5.2	5,245	18.3
	Oceania	63,439	12.5	69,351	12.6	(5,912)	(8.5)
Asia and Oceania		139,697	27.6	147,440	26.8	(7,743)	(5.3)
China		39,510	7.8	35,738	6.5	3,772	10.6
Sub-total		348,227	68.7	381,529	69.5	(33,302)	(8.7)
Japan		158,779	31.3	167,613	30.5	(8,834)	(5.3)
Total		507,006	100.0	549,142	100.0	(42,136)	(7.7)

(Rounded off to the nearest million)

(2) Analysis of the Financial Condition

[1] Status of Assets, Liabilities, and Net Assets

(a) Assets

Current assets at the end of the third quarter amounted to ¥548,898 million, a decrease of 0.1%, or ¥319 million, from the previous fiscal year-end. This was mainly due to an increase of ¥11,304 million in other current assets, ¥19,097 million in assets held for sale, and a decrease of ¥37,556 million in trade receivable.

Non-current assets amounted to ¥383,665 million, an increase of 1.7%, or ¥6,254 million, from the previous fiscal year-end. This was mainly due to an increase of ¥14,425 million in goodwill and a decrease of ¥10,279 million in property, plants, and equipment.

As a result, total assets increased by 0.6% or ¥5,935 million from the previous fiscal year-end to ¥932,563 million.

(b) Liabilities

Current liabilities amounted to ¥355,112 million, an increase of 13.7%, or ¥42,701 million, from the previous fiscal year-end. This was primarily due to an increase of ¥4,674 million in trade and other payables, ¥20,071 million in bonds and borrowings, and ¥10,785 in liabilities related to assets held for sale.

Non-current liabilities decreased by 18.3%, or ¥28,827 million, from the previous fiscal year-end to ¥128,574 million. This was mainly due to a decrease of ¥27,079 million in bonds and borrowings.

As a result, total liabilities increased by 3.0% or ¥13,874 million from the previous fiscal year-end to ¥483,686 million.

(c) Equity

Total equity decreased by 1.7% or ¥7,939 million from the previous fiscal year-end to ¥448,877 million.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the third quarter totaled ¥81,382 million, an increase of ¥2,272 million from the beginning of the fiscal year. Statements and factors relating to each cash flow category are as follows.

(Net cash provided by operating activities)

Net income at the end of the third quarter was ¥4,850 million. Factors that increased cash in the third quarter included ¥22,862 million in depreciation, a ¥31,465 million decrease in trade receivables, a ¥1,240 million decrease in lease receivables, a ¥20,384 million increase in trade payables, and an increase of ¥3,512 million in inventories. As a result, net cash provided by operating activities during the third quarter totaled ¥64,852 million, a decrease of ¥29,278 million year on year.

(Net cash used in investing activities)

Net cash used in investing activities in the third quarter amounted to ¥31,560 million, an increase of ¥22,506 million year on year. This is mainly due to an outlay of ¥11,035 million for capital expenditure and a ¥19,306 million for acquisition of investments in securities and other financial assets (including investments in associates).

As a result, free cash flows, the sum of net cash provided by operating activities and net cash provided by investing activities, amounted to an inflow of ¥33,292 million.

(Net cash used in financing activities)

Net cash used in financing activities in the third quarter totaled ¥30,987 million, a decrease of ¥28,012 million year on year. This was mainly due to an increase of ¥8,656 million in short-term debt, net, and a decrease of ¥22,861 million in long-term debt and bonds, and ¥10,863 million in dividends paid (including dividends paid to non-controlling interests).

(3) Explanation of Future Forecast Information Concerning Consolidated Earnings Forecasts

During the fiscal year ending March 31, 2017, the business environment has continuously deteriorated in some regions, however, a recovery trend can be seen overall. Consequently, we revised the demand outlook for hydraulic excavators to 159,000 units, an increase of 8,000 units compared to previous 151,000 units announced on October 27, or 3% higher than previous year, because of the continuous recovery in demand expected in Western Europe, China and Asian countries.

With regards to the mining machinery market, mining companies continued to restrain capital expenditure despite the uptrend in resources prices. Demand for Ultra-Large Hydraulic Excavators is expected to be the same year on year resulting from the steady demand of small models. Demand for dump trucks is expected to decrease 20% year on year.

The assumed foreign exchange rate applied to the fourth quarter remains ¥100 for one US dollar, ¥110 for one euro, and ¥15.0 for one Chinese yuan.

HCM Group makes no change in its consolidated earnings forecast for the full year ending March 31, 2017 (from April 1, 2016 to March 31, 2017) announced on July 27 because the increase in revenue from China is expected to be offset by the decrease of Japan, Middle East, and the Americas.

2. Notes on Summary Information

(1) Important changes in the scope of consolidation during the period

On December 21, 2016, the company acquired all the shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC (collectively "H-E Parts"), which are headquartered in Delaware, United States. H-E Parts provides solution services to the mining, quarrying, construction machinery, and materials processing industries. Also, it develops, manufactures, sells and repairs aftermarket parts for among others, mining and construction machinery in Australia, the USA, and other markets. Following this transaction, H-E Parts became a consolidated subsidiary of HCM group from the third quarter ended December 31, 2016.

(2) Changes in accounting principles and accounting estimates

Important accounting principles applied in the consolidated financial statements for the period are the same as those applied in the consolidated financial statements for the previous fiscal year except for the following.

Income tax is calculated by multiplying income before income tax by the estimated effective tax rate. The estimated effective tax rate is reasonably estimated considering permanent differences, tax deductibles and valuation allowances on deferred tax asset. In addition, adjustments resulting from changes in decisions regarding recoverability of deferred tax asset derived from taxable income in future fiscal years are recognized during the period in which the changes in decision are made.

(Change in accounting estimate)

Although companies that apply the consolidated tax system in Japan used to apply the tax rate of each company as the estimated effective tax rate, they started to use the tax rate for the entire consolidated tax return group from this quarter onward after considering a more reasonable method. As a result of this change, income tax increased and both the net income and the net income attributable to owners of the parent decreased by 326 million yen compared to the previous calculation.

This change in accounting estimate has no impact on the net income for the fiscal year ending March 31, 2017, since this calculation of estimated effective tax rate is the special accounting practice for quarterly financial reports.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Third quarter As of Dec. 31, 2016 (A)	Previous fiscal year-end As of Mar. 31, 2016 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	81,382	79,110	2,272
Trade receivables	145,372	182,928	(37,556)
Inventories	252,384	248,564	3,820
Other financial assets	30,471	29,727	744
Other current assets	20,192	8,888	11,304
Subtotal	529,801	549,217	(19,416)
Assets held for sale	19,097	-	19,097
Total current assets	548,898	549,217	(319)
Non-current assets			
Property, plant and equipment	266,014	276,293	(10,279)
Intangible assets	11,049	9,611	1,438
Goodwill	23,119	8,694	14,425
Investments accounted for using the equity method	16,326	18,726	(2,400)
Trade receivables	26,246	23,125	3,121
Deferred tax asset	14,408	15,241	(833)
Other financial assets	18,102	15,668	2,434
Other non-current assets	8,401	10,053	(1,652)
Total non-current assets	383,665	377,411	6,254
Total assets	932,563	926,628	5,935
Liabilities			
Current liabilities			
Trade and other payables	187,322	182,648	4,674
Bonds and borrowings	131,959	111,888	20,071
Income tax payables	5,010	4,728	282
Other financial liabilities	13,593	8,936	4,657
Other current liabilities	6,443	4,211	2,232
Subtotal	344,327	312,411	31,916
Liabilities related to assets held for sale	10,785	-	10,785
Total current liabilities	355,112	312,411	42,701
Non-current liabilities			
Trade and other payables	21,795	23,224	(1,429)
Bonds and borrowings	78,928	106,007	(27,079)
Retirement and severance benefits	16,400	16,855	(455)
Deferred tax liability	6,615	6,057	558
Other financial liabilities	101	32	69
Other non-current liabilities	4,735	5,226	(491)
Total non-current liabilities	128,574	157,401	(28,827)
Total liabilities	483,686	469,812	13,874
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	83,275	84,095	(820)
Retained earnings	222,532	222,721	(189)
Accumulated other comprehensive income	8,546	10,621	(2,075)
Treasury stock, at cost	(3,055)	(3,051)	(4)
Total Equity attribute to owners of the parent	392,875	395,963	(3,088)
Non-controlling interests	56,002	60,853	(4,851)
Total equity	448,877	456,816	(7,939)
Total liabilities and equity	932,563	926,628	5,935

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2016 (A)	Third quarter Nine months ended Dec. 31, 2015 (B)	(A)/(B)×100 (%)
Revenue	507,006	549,142	92
Cost of sales	(390,704)	(415,665)	94
Gross profit	116,302	133,477	87
Selling, general and administrative expenses	(105,289)	(118,242)	89
Adjusted operating income	11,013	15,235	72
Other income	2,923	2,315	126
Other expenses	(5,769)	(5,276)	109
Operating income	8,167	12,274	67
Financial income	3,900	2,498	156
Financial expenses	(2,692)	(10,547)	26
Share of profits (losses) of investments accounted for using the equity method	32	300	11
Income before income taxes	9,407	4,525	208
Income taxes	(4,557)	(3,715)	123
Net income	4,850	810	599

Net income (loss) attributable to			
Owners of the parent	2,528	(37)	-
Non-controlling interests	2,322	847	274
Total net income	4,850	810	599

EPS attributable to owners of the parent			
Net income (loss) per share (Basic) (yen)	11.89	(0.17)	-
Net income (loss) per share (Diluted) (yen)	11.89	(0.17)	-

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2016 (A)	Third quarter Nine months ended Dec. 31, 2015 (B)	(A)/(B)×100 (%)
Net income	4,850	810	599
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	1,903	(1,142)	-
Remeasurements of defined benefit obligations	(13)	(1)	1,300
Other comprehensive income of equity method associates	1	(27)	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(2,900)	(12,044)	24
Cash flow hedges	(441)	244	-
Other comprehensive income of equity method associates	(2,057)	(1,723)	119
Other comprehensive income, net of taxes	(3,507)	(14,693)	24
Comprehensive income	1,343	(13,883)	-
Comprehensive income attributable to			
Owners of the parent	447	(12,323)	-
Non-controlling interests	896	(1,560)	-

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
Third quarter Nine months ended Dec. 31, 2016

(Millions of yen)

	Equity attributable to owners of the Parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	84,095	222,721	(4,000)	4,660	77
Net income			2,528			
Other comprehensive income				(12)	1,895	(441)
Comprehensive income	-	-	2,528	(12)	1,895	(441)
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(2,978)			
Gains/losses on change in equity		(553)				
Transfer to retained earnings			(6)		6	
Expiration of subscription rights		(267)	267			
Transaction with owners	-	(820)	(2,717)	-	6	-
Balance at end of period	81,577	83,275	222,532	(4,012)	6,561	(364)

(Millions of yen)

	Equity attributable to owners of the Parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	9,884	10,621	(3,051)	395,963	60,853	456,816
Net income (loss)		-		2,528	2,322	4,850
Other comprehensive income	(3,523)	(2,081)		(2,081)	(1,426)	(3,507)
Comprehensive income	(3,523)	(2,081)	-	447	896	1,343
Acquisition of treasury stock		-	(4)	(4)		(4)
Sale of treasury stock		-		-		-
Dividends to stockholders of the Company		-		(2,978)	(7,208)	(10,186)
Gains/losses on change in equity		-		(553)	1,461	908
Transfer to retained earnings		6		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	-	6	(4)	(3,535)	(5,747)	(9,282)
Balance at end of period	6,361	8,546	(3,055)	392,875	56,002	448,877

Third quarter Nine months ended Dec. 31, 2015

(Millions of yen)

	Equity attributable to owners of the Parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	84,315	226,332	185	7,490	(117)
Net income (loss)			(37)			
Other comprehensive income				(29)	(1,134)	243
Comprehensive income	-	-	(37)	(29)	(1,134)	243
Acquisition of treasury stock						
Sale of treasury stock		9				
Dividends to stockholders of the Company			(12,755)			
Gains/losses on change in equity		(233)				
Transfer to retained earnings			290		(290)	
Other increase/decrease						
Transaction with owners	-	(224)	(12,465)	-	(290)	-
Balance at end of period	81,577	84,091	213,830	156	6,066	126

(Millions of yen)

	Equity attributable to owners of the Parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	34,601	42,159	(3,156)	431,227	66,675	497,902
Net income (loss)		-		(37)	847	810
Other comprehensive income	(11,366)	(12,286)		(12,286)	(2,407)	(14,693)
Comprehensive income	(11,366)	(12,286)	-	(12,323)	(1,560)	(13,883)
Acquisition of treasury stock		-	(5)	(5)		(5)
Sale of treasury stock		-	40	49		49
Dividends to stockholders of the Company		-		(12,755)	(2,180)	(14,935)
Gains/losses on change in equity		-		(233)	233	-
Transfer to retained earnings		(290)		-		-
Other increase/decrease		-		-		-
Transaction with owners	-	(290)	35	(12,944)	(1,947)	(14,891)
Balance at end of period	23,235	29,583	(3,121)	405,960	63,168	469,128

(4) Consolidated Statements of Cash Flows
Consolidated cumulative quarter

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2016	Third quarter Nine months ended Dec. 31, 2015
Net income	4,850	810
Depreciation	22,862	24,051
Amortization of intangible asset	2,388	3,379
Impairment losses	3,126	133
Income tax expense	4,557	3,715
Equity in net earnings of associates	(32)	(300)
Gain (loss) on sales of property, plant and equipment	20	(116)
Financial income	(3,900)	(2,498)
Financial expense	2,692	10,547
(Increase) decrease in trade receivables	31,465	59,152
(Increase) decrease in lease receivables	1,240	13,414
(Increase) decrease in inventories	(3,512)	22,137
Increase (decrease) in trade payables	20,384	(5,506)
Increase (decrease) in provisions and retirement benefit obligations	(475)	2
Other	(9,183)	(17,306)
Subtotal	76,482	111,614
Interest received	1,957	1,937
Dividends received	549	444
Interest paid	(2,878)	(3,937)
Income tax paid	(11,258)	(15,928)
Net cash provided by operating activities	64,852	94,130
Capital expenditures	(11,035)	(12,780)
Proceeds from sale of property, plant and equipment	986	358
Acquisition of intangible assets	(2,416)	(1,598)
Acquisition of investments in securities and other financial assets (including investments in associates)	(19,306)	(4,013)
(Increase) decrease short-term loan receivables, net	(284)	(1,030)
Collection of long-term loan receivables	157	10,490
Payments for transfer of business	-	(1,810)
Other	338	1,329
Net cash provided by (used in) investing activities	(31,560)	(9,054)
Increase (decrease) in short-term debt, net	8,656	(16,200)
Proceeds from long-term debt and bond	14,664	18,232
Payments on long-term debt	(37,525)	(40,947)
Payments on lease payables	(4,343)	(3,240)
Dividends paid to owners of the parent	(2,999)	(12,741)
Dividends paid to non-controlling interests	(7,864)	(4,156)
Purchase of shares of consolidated subsidiaries from non -controlling interest	(1,572)	-
Other	(4)	53
Net cash used in financing activities	(30,987)	(58,999)
Effect of exchange rate changes on cash and cash equivalents	162	(4,491)
Net increase (decrease) in cash and cash equivalents	2,467	21,586
Cash and cash equivalents at beginning of period	79,110	51,433
Cash and cash equivalents resulting from transfer to assets held for sale	(195)	-
Cash and cash equivalents at end of period	81,382	73,019

(5) Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There is no relevant item.

(Business Combination)
The following significant business combination occurred during the third quarter ended December 31, 2016.

On December 21, 2016, the company acquired all the shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC (collectively “H-E Parts”), which are headquartered in Delaware, United States. H-E parts provides solution service to the mining, quarrying, construction machine, and materials processing. Also, it develops, manufactures, sells and repairs aftermarket parts for among others, mining and construction machines in Australia, the USA and other markets.

1. Purpose of business combination
   Faced with uncertain market conditions, the Company has promoted its “GROW TOGETHER 2016” Mid-term Management Plan and proactively sought to streamline management, including through establishing a global support framework, in order to flexibly adapt to changes in the operating environment. The Company aims to provide highly efficient solution services at low costs, enhance the Company’s value chain and improve business stability and profitability through the acquisition of H-E Parts. The Company also plans to expand its solution service business by leveraging the knowledge and expertise of H-E Parts.

2. Name of acquired company and its business
   (1) H-E Parts International LLC
   Name of the acquired company: H-E Parts International LLC
   Business contents of the acquired company: Provider of services related to mining and construction machines, manufacturing, development, and the sales of aftermarket parts.
   Acquired ratio of voting rights: 100%

   (2) H-E Parts Australian Holdings LLC (*)
   Name of the acquired company: H-E Parts Australian Holdings LLC
   Business contents of the acquired company: Shareholding of its subsidiaries
   Acquired ratio of voting rights: 100%

   Note* : H-E Parts Australian Holdings LLC established as a special purpose company to own units in HEP Australia Holdings Pty Ltd. and was merged into H-E Parts International LLC immediately after the acquisition.

   (Reference) Overview of company owned by H-E Parts Australian Holdings LLC
   Name of the company: HEP Australia Holdings Pty Ltd.
   Business contents of the company: Provider of services related to mining and construction machines, manufacturing, development, and the sales of aftermarket parts.

3. Consideration of the integration and fair value of assets acquired and liabilities assumed
Consideration of the share acquisition of H-E Parts and fair value of assets acquired and liabilities assumed are as follows (As allocation of the acquisition cost has not been completed, amounts are provisional based on information currently available.):

(Millions of Yen)

	H-E Parts International LLC	H-E Parts Australian Holdings LLC	Total amount
Cash and cash equivalents	217	289	506
Trade receivables	1,922	2,637	4,559
Inventories	5,151	4,092	9,243
Property, plant and equipment	597	804	1,401
Intangible assets	1,618	591	2,209
Goodwill	2,064	3,751	5,815
Other assets	621	626	1,247
Total assets	12,190	12,790	24,980
Trade and other payables	1,980	2,776	4,756
Bonds and borrowings	4,820	3,535	8,355
Other liabilities	345	363	708
Total liabilities	7,145	6,674	13,819
Consideration paid (Cash)			19,812
Goodwill (non-deductible for tax expense)			8,651

The goodwill consisted primarily of excess earnings and synergies with the existing operations.

4. Trade receivables acquired

(Millions of Yen)

	Carrying amount		Of which, the amount expected to be unrecoverable	
	H-E Parts International LLC	H-E Parts Australian Holdings LLC	H-E Parts International LLC	H-E Parts Australian Holdings LLC
Trade receivables	1,970	2,651	48	14
Total	1,970	2,651	48	14

5. Expenses related to acquisition
Expenses related to acquisition are 89 million yen and included in “other expenses” on quarterly consolidated statements of income.

6. Revenue and net income of acquired company
The information of the revenue and net income of the acquired company from the acquisition date to on December 31, 2016 is not disclosed because it has no material impact on the consolidated financial statements.

7. Revenue and net income of the group assuming that the business combination is completed at the beginning of the fiscal year
Revenue and net income of the group assuming that the business combination is completed at the beginning of the fiscal year are 525,885 million yen and 5,397 million yen respectively.

(Assets held for sale)

Details of assets held for sale and liabilities related to asset held for sale are as follows:

(Millions of Yen)

	Third quarter As of Dec. 31, 2016	Previous fiscal year-end As of Mar. 31, 2016
Assets held for sale		
Cash and cash equivalents	195	-
Trade receivables	5,575	-
Inventories	9,458	-
Property, plant and equipment	2,679	-
Intangible assets	385	-
Other assets	805	-
Total	19,097	-
Liabilities related to assets held for sale		
Trade and other payables	9,894	-
Other liabilities	891	-
Total	10,785	-

Assets held for sale and liabilities related to assets held for sale as of December 31, 2016 are assets and liabilities mainly held by Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. ("HSC") that is a subsidiary of the company. On December 27, 2016, the company executed a memorandum of understanding with Sumitomo Heavy Industries, Ltd. ("SHI") concerning the transfer of a portion of HSC shares owned by the company to SHI and HSC is to be an equity-method affiliate of the company. The effective date of transferring HSC shares is scheduled on March 31, 2017.